

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

## Corporate Governance Report

**Last update: December 22, 2023**

**JAPAN TOBACCO INC.**

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Securities Code Number: 2914

<https://www.jti.co.jp/>

**The Company's status of corporate governance is described below.**

### **I. Basic Concept on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information**

#### **1. Basic Concept**

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

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

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

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

URL of "JT Corporate Governance Policy":

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

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

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

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

The Principles and Supplementary Principles are referenced from the Corporate Governance Code published by Tokyo Stock Exchange, Inc.

#### **[Supplementary Principle 1.2.4: Adoption of an electronic voting system]**

The Company adopted electronic voting, which allows shareholders to exercise their voting rights through a dedicated website that the Company designates and provides English translations of the Japanese Notice of Convocation for Ordinary General Meetings of Shareholders (hereinafter Annual General Meetings) on its website simultaneously, considering the number of institutional and foreign shareholders. The Company also uses the Electronic Voting Platform, which is operated by ICJ, Inc., for institutional shareholders.

#### **[Principle 1.4: Strategic shareholdings]**

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

- The Company owns equities as strategic shareholdings only when determined beneficial to the sustainable profit growth and increase of corporate value in the mid- to long- term.
- The Board of Directors examines all shareholdings each year to determine whether they are appropriate in terms of their objectives and the risks and benefits are commensurate with the capital cost.
- The Company appropriately sells equities that are no longer considered beneficial to hold as a result of this examination.
- The Company exercises its voting rights upon comprehensively determining the purpose of possession and potential detriments to the equity value of the subject company.

The number and purpose of each equity that the Company owns, etc. are as described in the Annual Securities Report.

#### **[Principle 1.7: Transactions among Associated Interested Parties]**

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

#### **[Supplementary Principle 2.4.1: Ensuring diversity including in the promotion to core human resources]**

The Company’s policies on ensuring diversity and other matters are as described in “III. 3. [Measures to Ensure Due Respect for Stakeholders]” in this report.

#### **[Principle 2.6: Roles of corporate pension funds as asset owners]**

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

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

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

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

#### **[Principle 3.1: Proactive provision of information]**

- (1) The Company’s management principle, etc. are as described in “Chapter 1. 2. Management Principle and Purpose.” in the JT Corporate Governance Policy.

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

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

- (2) The Company’s basic concept and basic policies on corporate governance are as described in “I. 1. Basic Concept” in this report.
- (3) The Board of Directors appropriately decides on remuneration for Members of the Board (hereinafter Directors) according to the following policies and procedures, as described in “Chapter 4. 2. (3) Members of the Board and Executive Officers’ Remuneration” in the JT Corporate Governance Policy.
  - In order to ensure objectivity and transparency, the Board of Directors establishes the Advisory Panel on Nomination and Compensation as a voluntary advisory panel towards the Board of Directors. All

members of the Panel are Directors who do not serve as Executive Officers in which more than half of its members are independent Outside Directors. The Panel responds to consultation, discusses and recommends policies, systems, etc., concerning remuneration for the Company's Directors and Executive Officers, as well as monitors the situation of remuneration of Directors at the Company.

- The Board of Directors adopts a performance-linked remuneration system and a stock remuneration system; adopts remuneration composition corresponding to the nature of each Director and Executive Officer's services; and determines each Director and Executive Officer's remuneration based on the following basic principles.
  - Set the remuneration at an adequate level to retain personnel with superior capabilities.
  - Link the remuneration to company performance so as to motivate executives to achieve their performance targets.
  - Link the remuneration to company value in the mid- to long- term.
  - Ensure transparency by implementing an objective and quantitative framework.

Details for the policies and procedures for deciding on remuneration for Directors as described in "II. 1.[Remuneration for Directors]" in this report.

- (4) The Company conducts the nomination of candidates for Directors and Audit & Supervisory Board members as well as the dismissal of designated Directors and Directors also serving as Executive Officers, under the appropriate supervision of the Board of Directors, according to the following policies and procedures as described in "Chapter 4. 2. (2) Nomination of Candidates for Member of the Board" in the JT Corporate Governance Policy.

- The Company works on expanding, in terms of quality and quantity, the group of executive candidates with qualities for assuming sustainable profit growth and increase of corporate value in the mid- to long- term by pursuing the 4S model. Specifically, the Company intends to enhance the development of a group of executive candidates and improve the substance of succession plans, along with the process for formulating such plans, while referring to opinions from outside at the Advisory Panel on Nomination and Compensation comprised entirely of Directors who do not serve as Executive Officers, in which more than half of whose members being independent Outside Directors.
- Candidates for Directors are nominated by resolution of the Board of Directors. The resolution is made after securing opportunities to receive appropriate advice from independent Outside Directors by having the Advisory Panel on Nomination and Compensation deliberate on a candidate proposal formed by the President and report the content and results of its deliberations to the Board of Directors. Candidates for the Audit & Supervisory Board members are nominated by resolution of the Board of Directors as persons who are expected to perform their duties appropriately from a position independent of the Board of Directors. The resolution is made after securing opportunities to receive appropriate advice from independent Outside Directors by having the Advisory Panel on Nomination and Compensation deliberate on a candidate proposal formed by the President and report the content and results of its deliberations to the Board of Directors, upon receiving prior consent from the Audit & Supervisory Board.
- Dismissal of designated Directors and Directors also serving as Executive Officers in the cases where they do not meet the required qualifications or have become unable to perform their duties is made by resolution of the Board of Directors after securing opportunities to receive appropriate advice from independent Outside Directors by having those Directors who are not subject to dismissal request the Advisory Panel on Nomination and Compensation to deliberate on the proposal for dismissal and then having the Panel report the content and results of its deliberations to the Board of Directors.

Further, when bringing up the agenda item on the appointment of candidates for Directors and Audit & Supervisory Board members at shareholders' meetings, and when the Board of Directors has resolved to dismiss a designated Director or a Director also serving as an Executive Officer, the Company discloses the reasons for the appointment of individual candidates and for the dismissal.

- (5) The individual reasons for the nomination of candidates for Directors and Audit & Supervisory Board members are described in the Notice of Convocation for Annual General Meetings when this matter to be discussed.

**[Supplementary Principle 3.1.2: Disclosure and provision of information in English]**

The Company discloses and provides information in English including the Annual Securities Reports, the Notice of Convocation for Annual General Meetings, and the Corporate Governance Reports, considering the composition ratio of foreign shareholders.

**[Supplementary Principle 3.1.3: Initiatives on sustainability and other matters]**

The Company's initiatives on sustainability and other matters are as described in "III. 3. [Measures to Ensure Due Respect for Stakeholders]" in this report.

**[Supplementary Principle 4.1.1: Scope of matters delegated from the Board of Directors and management]**

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

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

**[Principle 4.8: Effective use of independent directors]**

The Company's policy on effective use of independent directors is as described in "Chapter 4. 2. (1) Composition of the Board of Directors" in the JT Corporate Governance Policy.

- The Board of Directors includes at least one-third of independent Outside Directors with qualifications conducive to the Company's sustainable profit growth and increase of corporate value in the mid- to long-term in order to strengthen the supervisory functions and make management transparent.

**[Principle 4.9: Independence criteria for independent directors]**

The independence criteria for the Company's independent executives is as described in "II. 1. [Independent Directors/Audit & Supervisory Board Members]" in this report.

**[Supplementary Principle 4.10.1: Appropriate involvement and advice from independent outside directors by establishing an independent nomination committee and remuneration committee]**

The Company's concept on independence of an independent nomination committee and remuneration committee as well as its authority and roles are as described in "II. 1. [Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Compensation Committee]" in this report.

**[Supplementary Principle 4.11.1: Concept on the appropriate balance of knowledge, experience and skills, as well as diversity and size of the Board]**

The concept concerning the composition of the Board of Directors, including the balance of knowledge, experience and skills inside the Board as well as its diversity and number of members, is set forth as described in "Chapter 4. 2. (1) Composition of the Board of Directors" in the JT Corporate Governance Policy in order for the Board of Directors to determine the Group management strategies and important matters and to fulfill its roles and responsibilities effectively as the body exercising supervision over all business activities.

- The Board of Directors has as many members as necessary and appropriate, up to a maximum of fifteen (15). It is comprised of diverse professionals with a high sense of ethics and integrity as well as knowledge, experience and skills, taking into consideration such factors as gender, nationality, country of origin, work experience, race, ethnicity, cultural background, along with necessary skills for the Members of the Board.
- The Board of Directors includes at least one-third of independent Outside Directors with qualifications conducive to the Company's sustainable profit growth and increase of corporate value in the mid- to long- term in order to strengthen the supervisory functions and make management transparent.

The skills matrix of the Directors and Members of Audit & Supervisory Board is as described in the latest Notice of Convocation for Annual General Meeting and the Company's website (<https://www.jt.com/about/officer/index.html>).

**[Supplementary Principle 4.11.2: Concurrent posts assumed by Directors and Audit & Supervisory Board members]**

The significant concurrent positions of Directors and Audit & Supervisory Board members are as described in the Annual Securities Report.

### **[Supplementary Principle 4.11.3: The Board's effectiveness]**

The Company annually evaluates its Board of Directors' effectiveness through a multi-step process. First, all Directors and Audit & Supervisory Board members complete a self-assessment questionnaire with regards to factors including the Board's operations, oversight function and dialogues with shareholders and investors. Second, the Board's administrative staff interview the Directors and Audit & Supervisory Board members individually as necessary to delve deeper into their questionnaire responses and compile the evaluation results. Lastly, the Board reviews and analyzes the self-assessment results in the aim of further improving its effectiveness.

For FY2022, the questionnaire was administered as outlined below.

The Company takes advice from external consultants for drafting the questionnaire and analyzing the results in order to ensure objectivity and further improve the evaluation process.

- Questionnaire drafting period: Sept. – Nov. 2022
- Period for evaluation: 2022 (Jan. 2022 – Dec. 2022)
- Response period: Nov. 25, 2022 – Dec. 9, 2022
- Participants: Total of 15 Directors and Audit & Supervisory Board members
- Summary: Evaluation of each question (5 grades) and open-ended response entry
- Discussion by the Board of Directors: Feb. 22, 2023

Main evaluation items are as follows:

1. Role, function and composition of the Board of Directors (6 questions)
2. Operation of the Board of Directors (8 questions)
3. Collaboration with auditing organizations and risk management (3 questions)
4. Relationships with shareholders and investors (3 questions)
5. Voluntary committees (2 questions)
6. Issues for enhancing deliberation and sharing (1 question)

Evaluation items were also properly reviewed to ensure they cover matters that require continued verification. In addition, questions were formulated to confirm the status of improvements concerning issues raised in FY2021.

In FY2022, the following initiatives were conducted for issues identified in the effectiveness evaluation pertaining to FY2021.

#### Key issues

- Initiatives to further improve the quality of deliberations and discussions
- More robust discussions from a long-term perspective

#### Initiatives in detail

- Continued improvements in the 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.

As in FY2021, the Board effectiveness evaluation for FY2022 yielded generally positive results across all evaluation items. It confirmed that the Board is functioning not only effectively but increasingly so. In particular, the permeation of the 4S model as the guiding principle to which the Board of Directors strives to conform itself is considered one of the Board's strengths. From the standpoint of improvements since FY2021, the Board was especially highly rated for the sharing of information regarding mid- to long-term strategies and progress on significant measures, etc., in a bid to improve business understanding and the exchange of opinions with executives.

For FY2023 and beyond, the Board is pursuing initiatives focused on addressing the issues identified below, in order to continuously enhance the Board's effectiveness.

Key issues

- Further enhancement of the supervisory functions of the Board of Directors
- More effective and efficient operations of the Board of Directors

The Company's action plans going forward

- Creation of more robust opportunities to share mid- to long-term strategies, key issues, the status of discussions at voluntary committees, etc.
- Continued improvements in the Board of Directors operations, including smoother proceedings

The Company will continue to implement the necessary improvements, including the above-mentioned initiatives in the aim of further improving the effectiveness.

**[Supplementary Principle 4.14.2: Training policies for Directors and Audit & Supervisory Board members]**

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

**[Principle 5.1: Policy for constructive dialogue with shareholders]**

The Company's policies concerning the maintenance of a system and measures to promote constructive dialogue with shareholders are as described in "Chapter 3. 2. (3) Dialogue with Shareholders" in the JT Corporate Governance Policy. The Directors, Executive Officers and Audit & Supervisory Board members respond, as necessary, to shareholders' requests for dialogue, depending on the purport and intention of such dialogue.

**[Status of dialogue with shareholders and other information]**

The status of dialogue with shareholders in FY2022 is disclosed on the Company Website (Message from the CFO "IR activities") and in the Integrated Report 2022 (pages 53 to 54). Please refer to the information posted at the following URLs.

- The Company Website: [https://www.jt.com/investors/results/integrated\\_report/report/2022/strategy/message-cfo/index.html](https://www.jt.com/investors/results/integrated_report/report/2022/strategy/message-cfo/index.html)
- Integrated report: [https://www.jt.com/investors/results/integrated\\_report/index.html](https://www.jt.com/investors/results/integrated_report/index.html)

**[Measures to realize management with an awareness of capital costs and share prices] [English disclosure available]**

In drawing up a business plan, we calculate and examine our capital costs and report them to the Board of Directors. We check and confirm that our return on equity is well above capital costs. We set up a hurdle rate, taking into consideration risks associated with each country in which we operate, as well as inflation and other external risks, and use that as our baseline for profitability. By maintaining that discipline, we make sure our ROE is always above capital costs. The JT Group uses adjusted operating profit at constant currency as a key performance indicator, which excludes the effects of exchange rate fluctuations that can be substantial due to temporary factors, as well as depreciation costs related to M&A activities for the previous year. We work to grow profit, including for the current term, by achieving mid to high single digit growth in the KPI over the medium and long terms. We also believe it leads to improved ROE.

A comparison of our total shareholder returns, including dividends, with the TOPIX (total return) shows that ours were below the TOPIX over the long term due to the trend followed by our share prices, but they outperformed the TOPIX during the period between pre-pandemic late 2019 and the end of 2022, thanks to profit growth during the period and a higher dividend for 2022. Continuous profit growth is important to the medium- and long-term stability of our equity value. We also believe that increasing quantitative corporate value through profit growth, while fostering an understanding of the JT Group through enhanced information disclosure from a qualitative perspective, will lead to higher TSR.

The above information, etc. on management with an awareness of capital costs and share prices is disclosed on the Company Website (Message from the CFO "Profitability of capital and market evaluation") and in the Integrated Report (page 53). Please refer to the information posted at the following URLs.

- The Company Website: [https://www.jt.com/investors/results/integrated\\_report/report/2022/strategy/message-cfo/index.html](https://www.jt.com/investors/results/integrated_report/report/2022/strategy/message-cfo/index.html)
- Integrated report: [https://www.jt.com/investors/results/integrated\\_report/index.html](https://www.jt.com/investors/results/integrated_report/index.html)

## 2. Capital Structure

<b>Foreign Shareholding Ratio</b>	10% to 20%
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### [Status of Major Shareholders]

<b>Name</b>	<b>Number of Shares Owned</b>	<b>Ratio (%)</b>
Minister of Finance	666,925,200	37.58
The Master Trust Bank of Japan, Ltd. (Trust Account)	176,102,300	9.92
Custody Bank of Japan, Ltd. (Trust Account)	64,286,400	3.62
SMBC Nikko Securities Inc.	46,559,021	2.62
STATE STREET BANK WEST CLIENT – TREATY 505234	23,290,941	1.31
SSBTC CLIENT OMNIBUS ACCOUNT	20,568,543	1.16
JAPAN SECURITIES FINANCE CO., LTD.	18,279,700	1.03
Barclays Securities Japan Limited BNYM	18,088,600	1.02
JT Group Employee' Shareholding Association	11,665,343	0.66
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	11,211,542	0.63

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

### Supplementary Explanation

The Japan Tobacco Inc. Act (hereinafter JT Act) obligates the Japanese Government to hold the Company's shares. As of the end of December 2022, the government holds 33.35% of all issued shares of the Company. The ratio presented in "Status of Major Shareholders" above is 37.58% as it is calculated by deducting treasury shares (225,146,463 shares as of the end of December 2022) from the number of shares issued.

## 3. Corporate Attributes

<b>Listed Stock Exchange and Market Segment</b>	Tokyo Stock Exchange Prime Market
<b>Fiscal Year-End</b>	December
<b>Business Sector</b>	Foods
<b>Number of Employees (Consolidated basis)</b>	More than 1,000 employees

<b>as of the End of the Previous Fiscal Year</b>	
<b>Net Sales (Consolidated basis) for the Previous Fiscal Year</b>	More than 1 trillion yen
<b>Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year</b>	More than 100 and less than 300 companies

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

N/A

#### 5. Other Significant Circumstances Which May Have Material Impact on Corporate Governance [updated]

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

##### Policies on the Group management

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

##### Purposes of having listed subsidiary

The Company has a publicly listed subsidiary, namely Torii Pharmaceutical Co., Ltd. (Torii), in light of the management benefits of owning a subsidiary, including capital market discipline and enhancement of engagement of human capital by utilizing stock remuneration. Another motivation is for Torii to acquire increased competitive advantage in its business through factors, such as credibility building, securing excellent human capital and increasing motivation, all of which are important in the pharmaceutical business.

In December 1998, the Company welcomed Torii as a member of the Group after acquiring a majority of Torii's total number of shares issued, and it has worked to strengthen the Group's business base in the pharmaceutical business. Together with Torii, the Company built an integrated value chain to collaborate efficiently with each other. Specifically, the Company conducts R&D while Torii handles manufacturing, sales and promotional activities. In addition, both companies not only achieve efficiency through the division of functions, they also generate Group synergy in various aspects through mutual utilization of technology and knowledge, such as cooperation for joint development and effective medical representative (MR) activities, and through personnel exchanges. Although the revenue of the Group's entire pharmaceutical business continues to increase, this is being achieved amid a continuing gradual decrease in overseas royalty revenue, and the Group owes such increase to the continuous growth in net sales of Torii. In the medium-/long-term business vision "VISION2030" that Torii announced in February 2022, Torii has set goals of achieving record-high net sales and achieving record-high operating profit by 2030. Accordingly, the Group can also expect Torii to further contribute to increasing profitability in the Group's pharmaceutical business in the future.



In addition, Torii maintains a collaborative relationship with the Company and is able to increase its corporate value while engaging in business based on independent judgment as a listed company. For example, backed by a system in which the Company mainly bears the expenses and risks related to R&D, Torii effectively utilizes the synergy with the Company, such as by focusing on building a high-quality information provision and collection system, including the highest level of MR development in the industry, and strengthening its R&D pipeline by independently expanding its network of collaboration partners for introducing drugs, and also steadily strengthens its competitiveness in fields not dependent on the Company. In addition, Torii, with over 150 years of history in the pharmaceutical industry that requires a high level of expertise, has independently acquired highly specialized human resources and knowledge, which are not always available within the Group alone, owing to its social credibility and recognition in that industry.

As for the Company, Torii's autonomous corporate management as a listed company contributes to credibility building, securing excellent human capital and increasing motivation as mentioned above, and because this will lead to further strengthening of competitiveness and securing growth opportunities through Torii's independent business activities, the Company believes that it will not only enhance the corporate value of Torii, but will also contribute to sustainable profit growth and improvement in the corporate value of the entire Group over the mid- to long- term that is the aim of the Company. The Company is confident that these benefits outweigh the costs associated with Torii's listing, and recognizes the significant importance to have Torii as a listed subsidiary.

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

In regard to owning a listed subsidiary, the Company believes it is an indispensable prerequisite for the subsidiary to maintain independence in terms of management and to duly protect its minority shareholders' interests in order for, not only the subsidiary, but also for the Group to grow in value. Therefore, the Company is striving to build an appropriate governance regime for Torii as a listed subsidiary. The Company has instituted the Group's Responsibility and Authority Regulations as an internal decision-making regulation. Torii has opted to adopt these regulations, thereby gaining autonomy in terms of decision-making authority. Such autonomy ensures its independence as a listed subsidiary.

The Company recognizes that Torii's examination of the appointment of its directors is conducted through a process independent from the Company that is proper and transparent as a listed Company, from the perspective of contributing to the improvement of corporate value and the interest of its shareholders. Additionally, Torii is upgrading its governance regime's effectiveness by transitioning to a majority-independent Board of Directors, which was approved at its ordinary general meeting of shareholders on March 26, 2020, and announcing its plans to transition to a company with an audit and supervisory committee in November 2023, thereby effectively utilizing independent outside directors. When the Company exercises its rights with regard to the appointment and removal of independent outside directors of Torii, the Company shall be empathetic to Torii's corporate vision and understanding of its business while giving sufficient consideration to the interests of ordinary shareholders, and judge appropriately for each proposal on whether the candidate is capable of offering appropriate advice to management from medium and long term perspectives while supervising management from wide-ranging viewpoints and further enhancing transparency and fairness of such management.

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

### 1. Organizational Composition and Operation

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

<b>Maximum Number of Directors Stipulated in Articles of Incorporation</b>	Fifteen members
<b>Term of Office Stipulated in Articles of Incorporation</b>	One year
<b>Chairperson of the Board</b>	Chairperson
<b>Number of Directors</b>	Nine members
<b>Appointment of Outside Directors</b>	Appointed
<b>Number of Outside Directors</b>	Four members
<b>Number of Independent Outside Directors</b>	Four members

#### Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*										
		a	b	c	d	e	f	g	h	i	j	k
Main Kohda	From another company											
Yukiko Nagashima	From another company								Δ			
Masato Kitera	From another company								Δ			
Tetsuya Shoji	From another company								Δ			

\* Categories for "Relationship with the Company"

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

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

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

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

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

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

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

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

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

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

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

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

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

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

k. Others

Outside Directors' Relationship with the Company (2)

Name	Independent Executive	Supplementary Explanation	Reasons for Appointment
Main Kohda	○	<p>No items to report.</p> <p>However, she previously served as a member of the Board of Governors of Japan Broadcasting Corporation (NHK), and now concurrently serves as an outside director of Japan Exchange Group, Inc. Although the Company has business relationships with both organizations including payments, these positions of hers are not indicated in "Relationship with the Company" in the table above as she was/is a non-executive director in these positions. The payments to both organizations accounted for less than 0.001% of NHK's ordinary business income in FY2021, and for less than 0.005% of Japan Exchange Group, Inc.'s consolidated operating revenue in FY2021, respectively. The payments also accounted for less than 0.001% of the Company's consolidated revenue in FY2022. Therefore, the Company has determined these relationships do not affect her independence.</p> <p>The payment for NHK is not to be negotiated as this contract is stipulated under the Broadcast Act, that is to say, the Company is not in place to interfere with this contract. Thus, this payment cannot be defined as a transactional relationship.</p>	<p>She has reflected in the Company's management her in-depth knowledge of international finance; her broad experience gained from serving on government committees and similar positions; and her deep insight and objective point of view that she has demonstrated through her activities as a novelist. Additionally, she has made significant contributions to the supervision of business execution from her independent and fair vantage point as Chairperson of the Advisory Panel on Nomination and Compensation.</p> <p>The Company has appointed her as independent executive as it believes she is qualified to serve as an Outside Director, considering that her diverse experience and expansive knowledge will remain essential to Group management, and she can be expected to contribute to improving the Group's corporate governance through the active recommendations and advice she continues to provide at meetings of the Board of Directors and as a member of the Advisory Panel on Nomination and Compensation. Her appointment is also based on the Company's assessment that there is no risk of conflict of interests with ordinary shareholders.</p>

<p>Yukiko Nagashima</p>	<p>○</p>	<p>She previously served in Recruit Holdings Co., Ltd., and now concurrently serves as a Standing Audit and Supervisory Board member of the said company as well as Recruit Co., Ltd. She is, however, a non-executive director in this position at both companies. Although the Company has business relationships with both companies, the transaction amount accounted for less than 0.01% of Recruit Holdings Co., Ltd.'s consolidated revenue and less than 0.001% of the revenue of Recruit Co., Ltd. in FY2021, and for less than 0.01% of the Company's consolidated revenue in FY2022, respectively. Therefore, the Company has determined these relationships do not affect her independence.</p> <p>She also concurrently serves as an outside member of the Audit and Supervisory Board in Sumitomo Corporation. Although the Company has business relationships with the said corporation, she is a non-executive director in this position. The transaction amount accounted for less than 0.001% of the said corporation's consolidated revenue in FY2021, and for less than 0.001% of the Company's consolidated revenue in FY2022, respectively. Therefore, the Company has determined the relationship does not affect her independence.</p>	<p>She has reflected in the Company's management her objective perspective rooted in her experience in business execution and corporate management in areas such as emerging business and staffing services, as well as her experience as an auditor. Additionally, she has made significant contributions to the supervision of business execution from her independent and fair vantage point.</p> <p>The Company has appointed her as independent executive as it believes she is qualified to serve as an Outside Director, considering that her experience from the standpoints of both management and audit and her in-depth knowledge gained from that experience will remain essential to Group management, and she can be expected to contribute to improving the Group's corporate governance through the active recommendations and advice she continues to provide at meetings of the Board of Directors and as a member of the Advisory Panel on Nomination and Compensation. Her appointment is also based on the Company's assessment that there is no risk of conflict of interests with ordinary shareholders.</p>
<p>Masato Kitera</p>	<p>○</p>	<p>His relationship with the Company is as indicated in "Relationship with the Company" in the table above as he had received compensation as the Company's part-time advisor from April 30, 2020 until March 24, 2021. The compensation was paid in return for his advisory services regarding the Company's management and business and was commensurate with his experience and knowledge; the amount of the compensation was compliant with the Company's internal independence criteria (being not more than ten million yen per year). Therefore, the Company has determined the relationship does not affect his independence.</p> <p>He concurrently serves as an outside director of Marubeni Corporation.</p>	<p>As the Group develops its business globally amid rising geopolitical risks, he has reflected in its management his abundant international experience and knowledge concerning international affairs, gained through his long diplomatic career including his important positions as a government officer mostly in the Minister of Foreign Affairs. Additionally, he has made significant contributions through advice and supervision that have led to further enhancement of corporate governance.</p> <p>The Company has appointed him as independent executive as it believes he is qualified to serve as an Outside Director, considering that his diverse experience and expansive knowledge on a global basis will remain essential to Group management, and he can be</p>

		<p>Although the Company has business relationships with the said corporation, he is a non-executive director in this position. The transaction amount accounted for less than 0.001% of the said corporation's consolidated revenue in FY2021, and for less than 0.001% of the Company's consolidated revenue in FY2022, respectively. Therefore, the Company has determined the relationship does not affect his independence.</p>	<p>expected to contribute to improving the Group's corporate governance through the active recommendations and advice he continues to provide at meetings of the Board of Directors and as a member of the Advisory Panel on Nomination and Compensation. His appointment is also based on the Company's assessment that there is no risk of conflict of interests with ordinary shareholders.</p>
Tetsuya Shoji	○	<p>He previously served in NTT Communications Corporation and now, he concurrently serves as its corporate advisor, and is a non-executive director in this position. Although the Company has business relationships with the said corporation, the transaction amount accounted for less than 0.1% of the said corporation's consolidated revenue in FY2021, and for less than 0.05% of the Company's consolidated revenue in FY2022, respectively. Therefore, the Company has determined the relationship does not affect his independence.</p> <p>He also concurrently serves as an outside director of Mitsubishi Logistics Corporation. Although the Company has business relationships with the said corporation, he is a non-executive director in this position. The transaction amount accounted for less than 0.05% of the said corporation's consolidated revenue in FY2021, and for less than 0.001% of the Company's consolidated revenue in FY2022, respectively. Therefore, the Company had determined the relationship does not affect his independence.</p>	<p>As the Group develops its business globally and considers IT/information security to be increasingly important parts of its management base, he has reflected in its management his abundant experience regarding business execution and corporate management cultivated during his tenure as president of a telecommunications company, coupled with broad knowledge in fields such as planning, human resource management, global expansion and driving digitalization. Additionally, he has made significant contributions to the supervision of business execution from his independent and fair vantage point.</p> <p>The Company has appointed him as independent executive as it believes he is qualified to serve as an Outside Director, considering that his abundant experience and expansive knowledge related to corporate management will remain essential to Group management, and he can be expected to contribute to improving the Group's corporate governance through the active recommendations and advice he continues to provide at meetings of the Board of Directors and as a member of the Advisory Panel on Nomination and Compensation. His appointment is also based on the Company's assessment that there is no risk of conflict of interests with ordinary shareholders.</p>

<b>Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Compensation Committee</b>	Established
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Committee's Name, Composition, and Attributes of Chairperson

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**Voluntary committee corresponding to nomination committee**

Name			Advisory Panel on Nomination and Compensation			
Number of committee members	Number of standing committee members	Number of inside directors	Number of outside directors	Number of external experts	Number of others	Committee Chair
6	0	2	4	0	0	Outside director

**Voluntary committee corresponding to compensation committee**

Name			Advisory Panel on Nomination and Compensation			
Number of committee members	Number of standing committee members	Number of inside directors	Number of outside directors	Number of external experts	Number of others	Committee Chair
6	0	2	4	0	0	Outside director

**Supplementary Explanation**

The Advisory Panel on Nomination and Compensation was established as a voluntary advisory arm of the Board of Directors. It merges the former Meeting for Talent Development and Compensation Advisory Panel’s respective functions into a single entity. Its purpose is to render the Board’s decision-making more objective and transparent and to upgrade the Board’s oversight functions by having the Board deliberate on executive appointment and remuneration in accordance with the results of the 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 the deliberation on remuneration of Directors and Executive Officers. In order to ensure its independence and objectivity, 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. Chaired by an independent Outside Director, the Panel has six members, and meets at least once a year. In FY2022, the Panel met seven times with a 100% attendance rate, with the exception of one meeting in which Mr. Mutsuo Iwai was not present. In FY2022, the Panel met to discuss changes to decision making regarding the selection of a chairperson for the Panel from among the independent outside directors based on mutual election; review remuneration levels; review executive candidates; decide on candidates for the Board of Directors and Audit & Supervisory Board nominations and discuss the development of a skills matrix; discuss revisions to remuneration for directors; and review the key performance indicators (KPIs) for the executive bonus and performance share units for FY2023.

**[Member of Audit & Supervisory Board]**

<b>Establishment of Audit &amp; Supervisory Board</b>	Established
<b>Maximum Number of Audit &amp; Supervisory Board Members Stipulated in Articles of Incorporation</b>	Five members
<b>Number of Audit &amp; Supervisory Board Members</b>	Five members

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

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

<b>Appointment of Outside Audit &amp; Supervisory Board Members</b>	Appointed
<b>Number of Outside Audit &amp; Supervisory Board Members</b>	Three members
<b>Number of Independent Audit &amp; Supervisory Board Members</b>	Three members

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

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Shigeru Taniuchi	From another company										△			
Nobuo Inada	From another company													
Hiroko Yamashina	From another company													

\* Categories for "Relationship with the Company"

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

m. Others

Outside Audit & Supervisory Board Members' Relationship with the Company (2)

Name	Independent Executive	Supplementary Explanation	Reasons for Appointment
Shigeru Taniuchi	○	<p>He previously served in the Ministry of Finance, which is one of the Company's major shareholders. The Company believes that he is qualified to serve as an outside Audit &amp; Supervisory Board Member, as he meets all requirements for being appointed as independent director prescribed by the financial instruments exchange. It has been a prescribed number of years since he resigned from an important position in the Ministry of Finance, which complies with the internal criteria that stipulates that five years must pass after leaving the relevant positions in order to be appointed as independent executive.</p>	<p>The Company has appointed him as independent executive as it believes he is qualified to serve as an outside Audit &amp; Supervisory Board Member, considering his deep knowledge of such fields as finance and law through his extensive experience over many years of serving in a wide range of important positions in ministries and bureaus.</p> <p>The Company determined that his wide-ranging vision and high vantage point, backed by abundant experience, will contribute significantly to the Group's effectiveness in a highly uncertain operating environment. In addition, the Company considers that his roles as an Outside Audit &amp; Supervisory Board Member will enable steps toward enhancing audits from an objective standpoint, which will further improve the Group's corporate governance. His appointment is also based on the Company's assessment that there is no risk of conflict of interests with ordinary shareholders.</p>



Nobuo Inada	○	<p>No items to report.</p> <p>However, he concurrently serves as an Outside Audit &amp; Supervisory Board Member of Nomura Securities Co., Ltd. The said company owns the Company's issued shares, which accounts for less than 0.04% of the total Company's shares. Although the Company has business relationships with the said company, this position of his is not indicated in "Relationship with the Company" in the table above as he is a non-executive director in this position. The transaction amount accounted for less than 0.001% of the said company's consolidated revenue in FY2021, and for less than 0.001% of the Company's consolidated revenue in FY2022. Therefore, the Company has determined this relationship does not affect his independence.</p>	<p>The Company has appointed him as independent executive as it believes he is qualified to serve as an Outside Audit &amp; Supervisory Board Member, considering his extensive experience and depth of knowledge regarding legal affairs and compliance, reflecting key positions held in legal circles and various ministries and bureaus.</p> <p>The Company determined that his wide-ranging vision and high vantage point, backed by abundant experience, will contribute significantly to the Group's effectiveness in a highly uncertain operating environment. In addition, the Company considers that his appointment will lead to further improvements in the Group's corporate governance. His appointment is also based on the Company's assessment that there is no risk of conflict of interests with ordinary shareholders.</p>
Hiroko Yamashina	○	<p>No items to report.</p>	<p>The Company has appointed her as independent executive as it believes she is qualified to serve as an Outside Audit &amp; Supervisory Board Member, considering her extensive experience and expansive knowledge of corporate management and business operations etc, gained through important positions held as an executive director for a comprehensive financial services company and as president of a subsidiary for said company.</p> <p>The Company determined that her wide-ranging vision and high vantage point, backed by abundant experience, will contribute significantly to the Group's effectiveness in a highly uncertain operating environment. In addition, the Company considers that her appointment will lead to further improvements in the Group's corporate governance. Her appointment is also based on the Company's assessment that there is no risk of conflict of interests with ordinary shareholders.</p>

## [Independent Directors/Audit & Supervisory Board Members]

<b>Number of Independent Directors/Audit &amp; Supervisory Board Members</b>	Seven members
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### Matters relating to Independent Directors/Audit & Supervisory Board Members

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

The Board of Directors establishes a set of independence criteria, based on those set forth by the relevant financial instruments exchange.

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

#### NOTES:

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

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

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

## [Incentives]

<b>Incentive Policies for Directors</b>	Performance-linked remuneration and others
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### Supplementary Explanation

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 Company introduced restricted stock remuneration plan and performance share unit (PSU) plan in 2020 for the purpose of strengthening initiatives conducive to the increase of corporate value over the mid- to long- term and sharing more value with shareholders. The composition and component of executive remuneration are as follows.

#### (1) Composition of executive remuneration

- Directors who also serve as Executive Officers

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

- Directors who do not serve as Executive Officers (excluding Outside Directors)

The 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.

- Outside Directors

Remuneration for the Outside Directors is composed of “base salary” alone and does not include performance-linked compensation to ensure their independence. A resolution was adopted at the Board meeting held on February 14, 2022, that from the Advisory Panel on Nomination and Compensation meeting on March 23, 2022, the Chairperson of the Panel shall be elected from among independent Outside Directors by themselves, and that an Outside Director who serves as the Chairperson of the Panel shall receive the remuneration at a level of the amount corresponding to the duty, in addition to the remuneration level of other Outside Directors.

- Audit & Supervisory Board members

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

#### (2) Components of executive remuneration

- Base salary

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

- Executive bonus

Executive bonus for Directors who also serve as Executive Officers will be paid as monetary remuneration reflecting the performance of a fiscal year. Core revenue\*1 at constant FX\*2, adjusted operating profit (AOP) \*3at constant FX, adjusted operating profit on a reported basis, profit results, and an RRP-related index\*4, which will be used to measure the performance of the business itself, will be the

key performance indicators (KPI) for the calculation of executive bonuses, from the viewpoint of providing with shareholders shared value of the performance of the business itself, which is the foundation of sustainable profit growth, as well as the achievement rate of profit growth; and setting indices conducive to sustainable profit growth over the mid- to long- term. In calculating the amounts of executive bonuses, 15% accounts for core revenue at constant FX, 35% for AOP at constant FX, 25% for adjusted operating profit on a reported basis and 25% for profit. The ratio that performance on a reported basis accounts for on the KPIs used to determine executive bonuses has been set to 50%. Performance-linked payout is based on the KPI achievement in the range of 0% to 190% and either -10%, 0% or +10% is added/deducted to results depending on evaluations of the RRP-related index. In a case where a Director who is a recipient of executive bonus has carried out certain wrongful behavior, the officer involved will be required to refund a part of the executive bonus already paid.

\*<sup>1</sup> Core revenue is the sum of revenues in the pharmaceutical business, processed food business, and others, as well as the core revenue in the tobacco business.

\*<sup>2</sup> Constant FX is a financial measurement that excludes foreign exchange effects calculated and translated using the foreign exchange rates of the same period of the previous fiscal year and the increase in revenue or profit caused by inflation in some markets calculated using certain method, from adjusted operating profit for the current period in the Tobacco Business, group core revenue, or core revenue from the Tobacco Business

\*<sup>3</sup> Adjusted operating profit is calculated by totaling operating profit, amortization cost of acquired intangibles arising from business acquisitions, and adjustment items (income and costs). Adjustment items (income and costs) are impairment losses on goodwill, restructuring income and costs, and other items.

\*<sup>4</sup> RRP stands for “Reduced-Risk Products,” which are products with the potential to reduce the risks associated with smoking such as heated tobacco sticks (HTS), E-Vapor and others. The RRP-related index is a qualitative index that captures the degree of enactment of strategies and achievement pertaining to RRP, a key field of focus.

- Restricted stock remuneration plan

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

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

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

- Performance share unit plan

Performance share unit plan is a performance-linked stock compensation system that aims to strengthen the shared value with shareholders, to enhance the company value over the mid- to long- term and to commit to achieving business results over the mid-term. Performance share unit plan offers monetary remuneration claims and cash to the Directors who also serve as Executive Officers during the first year of the performance evaluation period\*, as a 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).

The monetary compensation towards the purchase of the Company's shares is decided based on the closing price of the Company's share at the Tokyo Stock Exchange as of the previous day of the resolution by the Board of Directors. However, if the Company share does not trade at the Tokyo Stock Exchange on the day prior to the resolution of the Board of Directors, the closing price of the immediately-preceding trading day is used. This share price is decided by the Board of Directors within a scope that is not particularly advantageous to the eligible directors who receive the performance share units. Eligible directors receive cash and monetary claims towards the purchase of the Company's shares depending on attainment rates of aforementioned targets. Therefore, the eligibility nor the amount of remuneration, including the number of shares, for the Directors to receive the cash and monetary claims are undecided until the performance evaluation period has ended.

The Company determines necessary indices to calculate the number of shares given to the 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 for 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, in order to share value with its shareholders. For the evaluation period starting in 2022, the Company has decided to introduce an ESG-related index on top of profit, in order for the Company and shareholders to seek an agreement on a mutual perspective of evaluating and being evaluated. The decision was made to enact this same change for the evaluation period starting in 2023. In 2022 and 2023, the Company has adopted its progress on initiatives to realize net zero as an ESG-related index, specifically the target attainment rates to reduce GHG emissions. 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 and 2023, 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 case the Company acknowledges certain wrongful behavior that the Board of Directors sets and any other illegal acts have been done by a Director during the performance evaluation period, the Director is disqualified from receiving all or a part of the cash and monetary claims that are planned to be paid.

\* The first performance share unit plan is effective from FY2020 until the end of FY2022, with a three-year evaluation period. The performance share unit plan for 2021 is effective for three years starting from FY2021 until the end of FY2023. The performance share unit plan for 2022 is effective for three years starting from FY2022 until the end of FY2024. From 2023 onwards, the Company plans to offer performance-linked performance share unit plans to Directors who also serve as Executive Officers during first fiscal year of each three-year performance evaluation period. The maximum amount is approved at the Annual General Meetings.

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

More details on executive remuneration are as described in the Annual Securities Report.

<b>Recipients of Stock Options</b>	N/A
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Supplementary Explanation
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**[Remuneration for Directors]**

<b>Disclosure of Individual Director's Remuneration</b>	Selected Directors
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Supplementary Explanation
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Total amount of remuneration for the Directors (excluding Outside Directors) in the fiscal year ended December 31, 2022 is 1,399 million yen, including base salary of 511 million yen, executive bonuses of 514 million yen, restricted stock remuneration of 194 million yen and performance share units of 180 million yen.

Total amount of remuneration for Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members) is 82 million yen.

Total amount of remuneration for Outside Directors and outside Audit & Supervisory Board members is 148 million yen.

The amounts of performance share units are the amounts booked as expenses for 2022.

The Directors whose consolidated remunerations are no less than 100 million yen are disclosed individually in the Annual Securities Report.

<b>Policies on Determining Remuneration Amounts and Calculation Methods</b>	Established
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Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods
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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 the 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, the Company's basic concept on executive remuneration is as follows:

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

The amount of remuneration for each Director is benchmarked 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 (benchmark corporate group) 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 the 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 the 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 2022, 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 the deliberation among the Audit & Supervisory Board members within the maximum amount approved at the Annual General Meeting.

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

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

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



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

Names, etc. of Counselors/Advisors who are Former Presidents and Representative Directors, etc.

Name	Title	Duties	Working Form/Conditions (Full-time/Part-time, Paid/Unpaid, etc.)	Resignation Date from President, etc.	Term
Katsuhiko Honda	Company Fellow	Activities in other company/association and CSR activities. (Not involved in the Company management)	Working form: N/A Compensation: N/A	June 23, 2006	N/A
Hiroshi Kimura	Company Fellow	Activities in other company/association and CSR activities. (Not involved in the Company management)	Working form: N/A Compensation: N/A	June 22, 2012	N/A
Mitsuomi Koizumi	Company Fellow	Activities in other company/association and CSR activities. (Not involved in the Company management)	Working form: N/A Compensation: N/A	March 27, 2018	N/A

<b>Total Number of Counselors/Advisors who are Former President and Representative Directors, etc.</b>	Three members
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Others

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

The Company believes that it fits the Group's management principle, the 4S model, and enhances its reputation that talents nurtured by the Company fulfill certain roles at the social end by, for instance, assuming positions in other companies and associations.

[Company fellow]

The Company occasionally provides minimum services that are necessary, such as private rooms, to accomplish duties for those who are former presidents and representative Directors, only when they fulfill certain roles at the social end in positions such as outside director in another company or key post in business associations. In this case, the Company provides a title corresponding their external activities. It is a prerequisite that there is never a case where said former Presidents/Representative Directors directly or indirectly exercise their influence over the Company's management or business operations.

## **2. Functions of Business Execution, Audit, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)**

The Company chooses to have a fair and independent Audit & Supervisory Board. The Company is striving to enhance its corporate governance through utilizing voluntarily established structures such as the Advisory Panel on Nomination and Compensation comprised entirely of the Directors who do not serve as Executive Officers, in which more than half of whose members being independent Outside Directors, and the JT Group Compliance Committee whose key members are outside experts, in order to build an effective corporate governance regime.

The Board of Directors meets once monthly as a general rule and meets promptly whenever necessary. The Board of Directors makes decisions on matters requiring Board approval under the relevant laws and regulations and other material matters; oversees the business operations; and receives reports on the updates on operations from the Directors. The Chairperson of the Board concentrates on oversight of management as a non-Executive Director. From the standpoint of effective oversight and management transparency, the Board includes at least one-third of independent Outside Directors with qualifications conducive to the Company's sustainable profit growth and corporate value. The Board of Directors has set forth matters to be discussed at the Board under the Board of Directors Regulations. In addition, for the purpose of realizing swift decision-making and high-quality business execution, the Board of Directors has set forth a clear decision-making process based on Company internal rules on the allocation of responsibilities and authorities (hereinafter the Responsibility and Authority Regulations) concerning material business matters. The Company also delegates authority as necessary to each Executive Officer based on the Group management strategies. In 2022, the Board met thirteen times with a 100% attendance rate, with the exception of three times in which Mr. Mutsuo Iwai was not present. In addition to the aforementioned Board meetings, there was one document-based resolution viewed as equivalent to a resolution of the Board of Directors in accordance with Article 370 of the Companies Act and Article 24, paragraph 4 of the Articles of Incorporation.

The Advisory Panel on Nomination and Compensation was established as a voluntary advisory arm of the Board of Directors. It merges the former Meeting for Talent Development and Compensation Advisory Panel's respective functions into a single entity. Its purpose is to render the Board's decision-making more objective and transparent and upgrade the Board's oversight functions by having the Board deliberate on executive appointment and remuneration in accordance with the results of the deliberation in the Panel. Its specific roles include supporting the growth of executive candidates, including succession plans; 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 the deliberation on remuneration of Directors and Executive Officers. In order to ensure its independence and objectivity, 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. Chaired by an independent Outside Director, the Panel has six members, and meets at least once a year. In 2022, the Panel met seven times with a 100% attendance rate, with the exception of one meeting in which Mr. Mutsuo Iwai was not present. In 2022, the Panel met to discuss changes to decision making regarding the selection of a chairperson for the Panel from among the independent outside directors based on mutual election; review remuneration levels; review executive candidates; decide on candidates for the Board of Directors and Audit & Supervisory Board nominations and discuss the development of a skills matrix; discuss revisions to remuneration for directors; and review the key performance indicators (KPIs) for the executive bonus and performance share units for FY2023.

As an organization that reports directly to the Board of Directors, the JT Group Compliance Committee deliberates on the status of the annual Compliance Action Plan's implementation; the establishment/revisions of compliance-related rules and the code of conduct; and matters relating to compliance of the entire JT Group in order to foster awareness and to ensure thorough compliance among employees. Chaired by the Chairperson of the Board, the committee consists mainly of outside members. The Company appoints an Executive Officer in charge of compliance who oversees the Legal and Compliance Division and strives to establish/promote a crossover system on a group-wide basis as well as to grasp the issues. The compliance promotion departments of the Company and of its subsidiaries (namely, the Legal and Compliance Division in the Company, and corresponding departments in subsidiaries) distribute materials including the "JT Group Code of Conduct," which explains the code of conduct to

Directors and employees of the Company as well as Directors, employees and others of subsidiaries (Directors, employees and others of the Company and subsidiaries hereinafter collectively called Directors and employees). The compliance promotion departments also work on enhancing the effectiveness of the compliance system by enlightening Directors and employees about compliance through training and other programs. In 2022, the JT Group Compliance Committee met three times with a 100% attendance rate.

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

The Audit & Supervisory Board, which meets as necessary, is composed of members with abundant experiences in the fields of management, law, finance, accounting and others. The standing Audit & Supervisory Board member, Mr. Hideaki Kashiwakura, is eligible as an Audit & Supervisory Board member as he has served as General Manager of the Accounting Department, Vice President of the M&S Management Department of Tobacco business division, Deputy Chief Financial Officer, and President of subsidiary JT Business Com Co., Ltd., and has extensive experience and wide-ranging knowledge incorporate management and business development, financial accounting, and domestic and international business operations. Another standing Audit & Supervisory Board member, Mr. Tsutomu Hashimoto, has served as the chairperson of the Audit & Supervisory Board, and has extensive experience and wide-ranging knowledge in areas such as risk management and information security cultivated through audits conducted in Japan and overseas. Both individuals have been appointed at the 38<sup>th</sup> Annual General Meeting scheduled for March 24, 2023. In 2022, the Audit & Supervisory Board convened fifteen times with a 100% attendance rate.

For internal auditing, the Company's Operational Review and Business Assurance Division (nine-teen members as of the end of December 2022) conducts internal audits from an objective standpoint independent of organizational units involved in operational execution and reports directly to the Group CEO. This division maintains company property and strives to enhance the efficiency of management through its examination and assessment of controlling/operating systems which relate to all business activities as well as the status of business execution from the perspectives of legality and rationality. To fulfill its responsibilities, it has unrestricted authority to observe all activities, inspect all records and question all personnel on a group-wide basis. The Operational Review and Business Assurance Division formulates/implements the Group's internal auditing and policies as well as complements subsidiaries' internal auditing functions in coordination with their internal auditing organizations. Its head mandatorily reports internal audit results to the Group CEO, and reports annually to the Board of Directors.

The Company, in order to ensure the independent auditor's appropriate audit, secures sufficient time for enabling high-quality audit; provides the independent auditor with opportunities to contact Directors and Executive Officers; and provides appropriate auditing environment enabling sufficient cooperation among the independent auditor, the Audit & Supervisory Board members, the internal auditing divisions and Outside Directors. Further, in the event that the independent auditor indicates a deficiency or problem or discovers misconduct, the Company appropriately takes measures correspondingly.

While the Audit & Supervisory Board members, internal audit divisions including the Operational Review and Business Assurance Division, and the independent auditor conduct audits individually, they endeavor to enhance their cooperation in order to ensure appropriate audits, for example by sharing information on the results of their respective audits. Also, the Audit & Supervisory Board members, internal audit divisions including the Operational Review and Business Assurance Division, and the independent auditor cooperate with the Company's internal control division to ensure appropriate implementation of business by exchanging information when necessary.

The Company's independent auditor (Deloitte Touche Tohmatsu LLC) has conducted audits in accordance with the Companies Act and the Financial Instruments and Exchange Act. The certified public accountants who audited the Company's financial statements for fiscal year ended December 31, 2022 and the persons who assisted the accounting audit work are as follows.

Certified public accountants

Yukitaka Maruchi, Koji Ishikawa, Yoichi Matsushita

Assistants for the accounting audit work

Certified public accountants: 16 persons, Persons who have passed the Certified Public

Accountants Examination: 7 persons, Others: 38 persons

The Company has entered into an agreement with the Directors (excluding Directors who also serve as Executive Officers) and all members of the Audit & Supervisory Board with respect to the liability set forth in Article 423, paragraph 1 of the Companies Act, by which the liability for damages of each member is limited to the minimum amount set forth in Article 425, paragraph 1 of the same Act, provided they perform their duties without knowledge of such damages and without gross negligence.

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

The Company strengthens objective and impartial management oversight functions by positioning an independent and fair Audit & Supervisory Board that appropriately oversees the job performance of Directors and Executive Officers. The Company has built an effective corporate governance regime under the Audit & Supervisory Board's oversight. It includes the JT Group Compliance Committee and 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, in which more than half of its members are independent Outside Directors. The Company has also streamlined the Board of Directors and expedited operational execution by delegating authority to Executive Officers. The Company continuously seeks to improve corporate governance and to increase management transparency and objectivity through, for instance, 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, the Company settled upon its current corporate governance regime as the Company believes it functions effectively with respect to operational execution and oversight.

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

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

	<b>Supplementary Explanation</b>
<b>Early Notification of Annual General Meetings</b>	The Company sent the Notices of Convocation on March 1, 2022, and on March 3, 2023. The notices were also published on the Company's website prior to the dispatch of printed copies.
<b>Scheduling AGMs Avoiding the Peak Days</b>	The Company held the Annual General Meetings on March 23, 2022 and on March 24, 2023. Neither of them was on days when meetings were the most concentrated.
<b>Allowing Electronic Exercise of Voting Rights</b>	The Company allows electronic exercise of voting rights via the website designated by the Company (E-Voting).
<b>Use of Electronic Voting Platform</b>	The Company uses the Electric Voting Platform, operated by ICJ, Inc., for institutional investors to exercise their voting rights.
<b>Providing Convocation Notice in English</b>	The Notice of Convocation and its English translation are published on the Company's website and on the electronic platform for institutional investors.
<b>Other</b>	The Company has been implementing a hybrid participatory virtual shareholders' meeting since 2021.

## 2. IR Activities

	<b>Supplementary Explanation</b>	<b>Briefing by the Representative Directors</b>
<b>Regular Investor Briefings for Individual Investors</b>	The Company holds online investor briefings and facilities tours for its shareholders. Additionally, it discloses business performances and other matters on the web pages exclusively for individual investors. The Company shelved a tour for its shareholders in 2022, as it did in 2021, considering the COVID-19 pandemic.	Yes
<b>Regular Investor Briefings for Analysts and Institutional Investors</b>	The Company holds briefing sessions mainly by means of telephone conference after the announcement of earnings. One-on-one meetings are also held regarding both performance and ESG-related matters. Telephone and web conference tool are used as meeting methods considering the COVID-19 pandemic.	Yes
<b>Regular Investor Briefings for Overseas Investors</b>	In addition to the aforementioned briefings following announcement of earnings, the Company situationally holds briefing sessions for overseas institutional investors and one-on-one meetings by telephone or web conference regarding both performance and ESG-related matters.	Yes
<b>Publication of IR Materials on the Company Website</b>	The Company publishes earnings reports, other timely disclosure materials, materials used at earnings briefings, as well as the Annual Securities Reports or quarterly securities reports, and the Notice of Convocation for Annual General Meetings.	N/A
<b>Establishment of Division and/or Manager in charge of IR</b>	The Company has appointed an IR contact personnel at the Media & Investor Relations Division who reports to the Senior Vice President, Corporate Communications.	N/A
<b>Other</b>	Although the Company already has been practicing fair information disclosure to all investors including shareholders, it has established necessary regulations and others as well as informed relevant officers and employees of these regulations since the introduction of the rules of Article 27-36 of the Financial Instruments and Exchange Act (so-called Fair Disclosure Rules.)	N/A

### 3. Measures to Ensure Due Respect for Stakeholders

	<b>Supplementary Explanation</b>
<p><b>Establishment of Internal Rules for Due Respect for Stakeholders</b></p>	<p><u>Management Principle</u></p> <p>The Group management principle pursues the “4S model.” Under the “4S model,” the Group strives to fulfill its responsibilities to its valued consumers, shareholders, employees and the wider society, carefully considering the respective interests of these four key stakeholder groups and exceeding their expectations wherever the Group can.</p> <p>The Group intends to attain sustainable profit growth over the mid- to long-term through the pursuit of the “4S model.” Since attaining sustainable profit growth requires us to continue to provide new value and satisfaction to consumers, we believe it is essential to steadily make business investments for future mid- to long- term profit growth.</p> <p>The Group believes that the pursuit of the “4S model” will lead to a consistent increase in corporate value in the mid- to long- term and therefore that it is the best approach to serve the interests of our four stakeholders, including shareholders.</p> <p><u>JT Group Purpose</u></p> <p>The Group operates in a business environment that has ever increasing levels of uncertainty and complexity due to discontinuous changes occurring on a wide range of scales, be it the nature, society or the individual. In response to this, the JT Group has formulated the JT Group Purpose to clarify the direction for being a sustained entity. Specifically, we identified the area in which we will be needed by the society for the future and in which we should provide value over the long term as “human enrichment” and defined “Fulfilling Moments, Enriching Life” as the JT Group Purpose based on the idea that we want to continue to be entrusted with and contribute to the area.</p> <p>The area of “human enrichment” undergo changes in various ways with the times and the people, and the JT Group strives to evolve constantly so that we can continue to be entrusted by society and make valuable contributions to the area in the future.</p> <p>For more information on JT Group Purpose, please refer to the JT Group Purpose section on the company's website.</p> <p>[JT Group Purpose URL]  <a href="https://www.jti.co.jp/corporate/mission/index.html">https://www.jti.co.jp/corporate/mission/index.html</a></p>
<p><b>Environmental Activities, CSR Activities and Others</b></p>	<p>The Company identifies issues related to sustainability through the dialogue with stakeholders; promotes proactively the initiative to solve issues; and discloses its progress and details on the integrated reports and the website appropriately and timely, based on its recognition that it is essential for the Company to contribute to the sustainable development of society through its business activities derived from its management principle, the 4S model, for its own sustainable growth.</p> <p>The Board of Directors, understanding that addressing and taking measures towards domestic and foreign issues on sustainability are essential business challenges – which would lead to not only risk mitigation but also profit-earning opportunities – in order to increase corporate value in the mid- to long- term, shall formulate basic policies for such measures and proactively work on such issues mainly through receiving reports from and holding discussions with the Directors in charge of sustainability as necessary.</p>

### Investments in human capital and intellectual properties

#### - Human capital

The Group's aspirational goal is to be the employer of choice by investing in people. In order to achieve this goal, the Group fulfills the following responsibilities towards its employees over the mid- to long- term on a high level.

1. Treat all employees fairly and respectfully
2. Ensure transparency of rules and standards
3. Provide all JT Group employees with growth opportunities

As a responsible employer, employees engagement is crucial, and the Group communicates with its staff through multiple channels. To evaluate the effectiveness of its programs and the level of engagement of its employees, and to identify areas for improvement, the Group carries out an Employee Engagement Survey (EES) every three years across the Group. Additional employee-related surveys are available, so that the Group can always be mindful of employees' concerns and quickly implement relevant measures. For instance, each office in JT International, its subsidiary, (the Company's tobacco business outside Japan) regularly conducts a survey called 'PULSE' to check their progress towards key challenges identified via EES. As a result of these initiatives, JT International has been recognized as a Global Top Employer by Top Employer Institute for the ninth consecutive year.

Further, the Group considers that it is its responsibility to provide a safe and healthy work environment in order to protect all employees from work-related injuries and illness. The Group aligns its health and safety standards with ISO 45001 (OHSAS 18001) and always meets or exceeds legal requirements.

#### - Intellectual properties

The Group regards R&D capabilities in each business segment as a source of long-term competitiveness and business growth. In order to appropriately protect and utilize intellectual properties that have been created through R&D activities, the Group establishes a department in charge of it in each business segment and takes measures corresponding to each business environment and strategy. In the tobacco business, for instance, the Group proactively and globally develops activities of application and rights acquisitions in areas such as element technology of its own Reduced-Risk Products (RRP) and self-developed technology in order to strengthen the patent portfolio in RRP category. These activities are based on the Group's strategy to reinforce competitiveness of the RRP category, which is the pillar of the business's future growth. In terms of intellectual property management structure, Japanese-domestic and overseas divisions in charge of intellectual properties cooperate and take measures in an integrated manner.

Under the concept of respecting intellectual property rights of other companies, the Group implements thorough risk management not to have its own products violate third-party rights. It also responds rigorously to imitation of its own products or violation of intellectual property rights by a third party.

### Initiative to reduce environmental impacts

As social awareness in environmental issues rises year by year, the Company has set goals/initiatives to reduce environmental impacts as its group-wide foundation. It especially acknowledges that climate change associated with global warming would have a significant impact on



	<p>society and the Group’s value chain. As a result, the Company officially endorsed the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and began conducting climate scenario analysis in reference to the recommendations. Two main risk factors were identified as a result of the scenario analysis: ‘potential cost increases due to governments raising carbon taxes to further reduce Greenhouse Gas (GHG) emissions’ as a risk in transitioning to a decarbonized society, and a physical risk from ‘the impact on leaf tobacco growing due to changes in environmental conditions.’ These risk factors possibly deteriorate its group’s performance.</p> <p>The Company has set out the JT Group Environment Plan 2030 toward reducing environmental impacts. The plan particularly identifies ‘Energy and Emissions’ as one of its focus areas. To fulfill its social responsibility toward constructing decarbonized society on a global scale, the Company is pursuing initiatives to meet its target of realizing net-zero GHG emissions across its entire value chain by 2050. In terms of targets for 2030 pertaining to Scope 1 and 2, established as intermediate targets, the Company acquired SBT certification in November 2022 regarding the SBTi (Science Based Targets initiative) ‘1.5° standard,’ which is an international initiative. The Company is striving to minimize the negative impact of climate change by promoting initiatives including the expanded use of electrical power from renewable sources and diversification of tobacco leaf procurement. The Company continues to aim to accurately identify the impacts that climate change would give on its business, establish structures to deal with them appropriately, reflect them on its business strategies and optimize the way it discloses the information.</p> <p>For more information on the Company’s initiatives for sustainability, visit its website and integrated report,  Website: <a href="https://www.jt.com/sustainability/index.html">https://www.jt.com/sustainability/index.html</a>  Integrated report:  <a href="https://www.jt.com/investors/results/integrated_report/index.html">https://www.jt.com/investors/results/integrated_report/index.html</a></p>
<p><b>Policies on Providing Information for Stakeholders</b></p>	<p>The Company strives to disclose information in a timely and appropriate manner and stipulates the regulations concerning information disclosure in order to clarify the authorities and responsibilities regarding the handling of various corporate information.</p>
<p><b>Other</b></p>	<p><u>Diversity in the workplace</u></p> <p>The Group recognizes establishing a diverse and inclusive workplace is a top priority to achieve sustainable profit growth and increase corporate value in the mid- to long- term. The Group respects different backgrounds and values, such as age, gender, self-identification, sexual orientation, disability, ethnicity, religion, and nationality, as well as experience and expertise. The Group works on enriching various trainings and seminars and other initiatives to create an environment where diverse employees can perform to the best of their abilities.</p> <p><u>Gender equality – women in leadership</u></p> <p>One of the Group’s commitments to diversity &amp; inclusion is to promote gender equality in the workplace. To further empower women, the Group holds workshops for top management and line managers, as well as training and seminars for female employees. The Group has been also expanding its support system to help employees balance work and family life. The new group-wide target, specifically representation of women in</p>

leadership, is to reach 25% by 2030. The Group finds it desirable that this should be more than 40% over time.

The proportion of female managers in the Group is 16.9% (575 women) as of the end of December 2022. (The proportion in the Company alone is 7.7% (72 women)). Three out of 14 members of the Board and Audit & Supervisory Board are women.

Promotion of foreign nationals and midcareer hires to middle managerial positions

Products of the Group are distributed in over 130 countries/regions and employees representing more than 100 nationalities work with the Group, not being differentiated by their nationalities, genders, ages or experiences. The Group appropriately promotes foreign nationals and midcareer hires to middle managerial positions, which means that the Group does not differentiate candidates to promote based on nationality or recruitment category. Therefore, the Company does not set any specific targets regarding this subject.

The proportion of foreign-national managers in the Group is approximately 30% as of the end of December 2022. The appointment rate of midcareer hires to middle managerial positions is on the same level as recruitments of new graduates in 2022. The Group continuously hires and appoints qualified persons to positions including ones which require a high standard of expertise and knowledge. The aggregated data is based on the rate in the Company (JT) alone, as it is not familiar for overseas consolidated subsidiaries to distinguish the differences between new graduates and midcareer hires. (The proportion of midcareer-hire managers in the Company alone is approximately 10%.)

The Group continues to hire foreign nationals and midcareer hires as well as promote them to middle managerial positions appropriately. It also endeavors to ensure diversity to generate new perspectives leading to new ideas and business solutions, to ultimately drive the business forward.

Policies for human capital development and internal environment development

Employees are assets to the Group, and their skills and spirit are the driving force behind everything it achieves. The Group endeavors to be an employer of choice, and to cultivate workplace culture and environment to help it attract, retain, and develop talented individuals. The Group also strives to create a diverse and inclusive culture where employees can continue to be motivated thereby be able to enhance their performance.

For a KPI to measure this, the Group aims to be a certified employer of choice every year in at least 60 countries by focusing on talent management, rewards, and empowerment. In 2022, the Group was certified as Top employer in 66 countries, of which 19 countries hold more than one certification.

The Group offers employees various global and regional learning programs as part of talent development. For instance, the Group provides all employees including management with trainings which enable them to acquire the necessary skills respective to each of their positions. In 2020, the Company refreshed its learning programs for employees in the Japanese operations. Now grouped into five stages of development, each employee can participate in training programs on topics such as capability development, understanding roles and responsibilities, and inner reflection respective of their stage. In addition, the Company tries to boost

	<p>human resources development by linking off-the-job training with on-the-job training.</p> <p>The Group also takes various initiatives to further realize better workplace environments for its employees. These initiatives include establishing policies which support diverse ways of working to realize each work-life balance, promoting diversity, and conducting awareness activities on human rights.</p> <p><u>LGBT+ Inclusion</u></p> <p>Supporting the Group's LGBT+ employees is vital to create a more equal JT Group, where everyone is empowered to be themselves. All job vacancies in its tobacco business outside Japan are now published on myGwork, a global networking hub for LGBT+ professionals and graduates. The Company has made positive progress in its Japanese operations too, achieving the highest-ranking Gold status in the PRIDE Index 2022 for the seventh consecutive year.</p> <p>For more information on the Company's initiatives for human capital management, visit its website: <a href="https://www.jt.com/sustainability/people/human_resources/index.html">https://www.jt.com/sustainability/people/human_resources/index.html</a></p>
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## **IV. Matters regarding the Internal Control System**

### **1. Basic Concept on Internal Control System and Progress of System Development**

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

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

Under the internal reporting system (whistle-blower system), the Company and each of its subsidiaries has a desk through which employees and others may consult or report, in case they detect any conduct that may violate laws and regulations. Each division responsible for the promotion of compliance of the Company and its subsidiaries that receive a consultation request or whistle-blowing report shall investigate the reported cases and implement company-wide measures to prevent the recurrence of misconduct after holding consultations with the departments and divisions concerned. The Company establishes a consultation and reporting desk which is independent of business operations and is handled by Audit & Supervisory Board members, separate from those handled by the Legal & Compliance Division. An Audit & Supervisory Board member who receives a consultation or a report investigates its content, and the Company carries out necessary measures and tries to prevent the recurrence. The Company brings matters of particular importance involving the JT Group to the JT Group Compliance Committee, and requests for deliberation or reports on the issue.

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

For details about the system for excluding antisocial forces, refer to the section below, IV. 2. Basic Policies on Eliminating Antisocial Forces.

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

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

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

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

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

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

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

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

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

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

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

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

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

The Group has set ‘Fulfilling Moments, Enriching Life’ as the JT Group Purpose, a consensus that is shared group-wide. The Company has specified the common functions and rules necessary for group management, in order to optimize the operations of the entire Group. Moreover, the Company has been putting in place systems for compliance (including the internal reporting system), internal audits, financial affairs management, etc. in cooperation with its subsidiaries.

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

The Company has allocated sufficient employees (five employees as of December 31, 2022) to the Audit & Supervisory Board Member’s Office as an office, supporting Audit & Supervisory Board members in executing their duties. In addition, the Company makes sure to review and reform the employees’ allocation structure as necessary, based on consultations with the Audit & Supervisory Board.

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

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

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

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

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

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

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

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

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

When an Audit & Supervisory Board member has made claim to the Company for a prepayment of expenses, etc. in accordance with Article 388 of the Companies Act, the Company promptly handles the

relevant expenses or debt, except in cases in which the Company deems the claimed expenses or debt to be unnecessary for the Audit & Supervisory Board members to execute their duties.

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

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

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

## **2. Basic Policies on Eliminating Antisocial Forces**

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

## **V. Others**

### **1. Takeover Defense Measure**

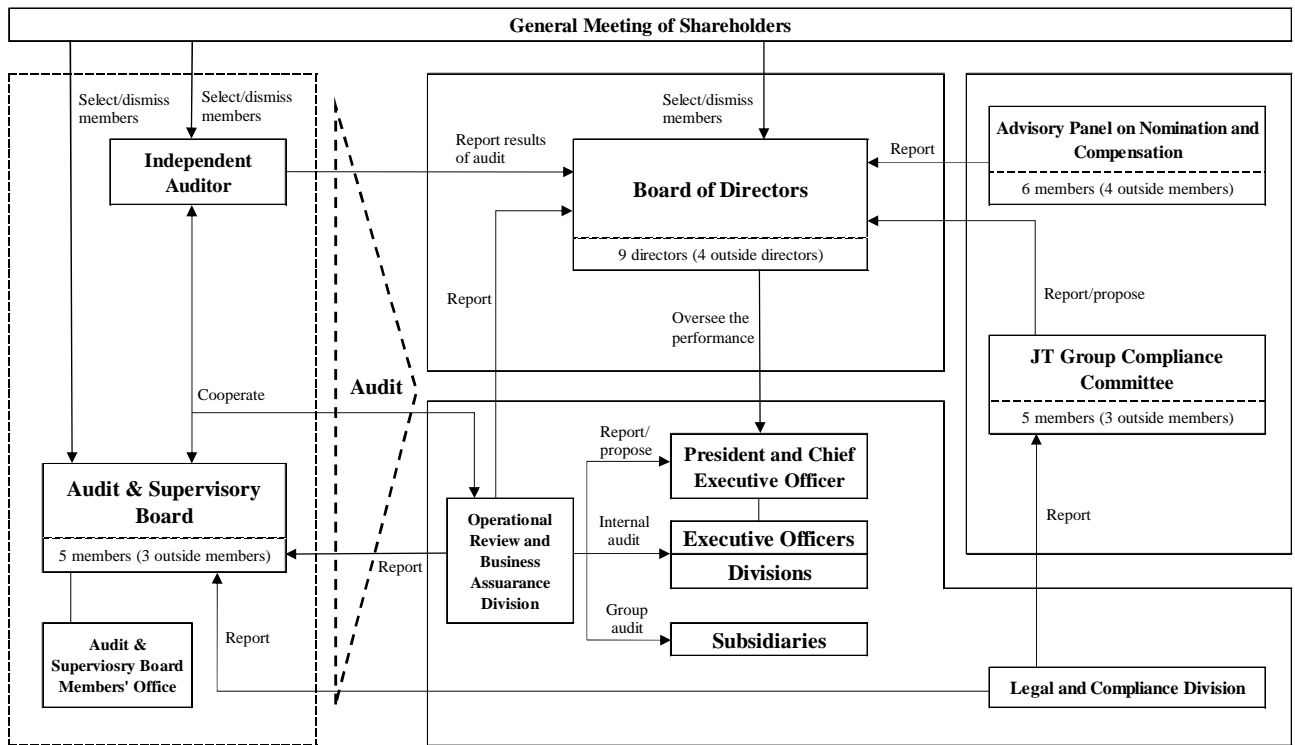
Nothing to report

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

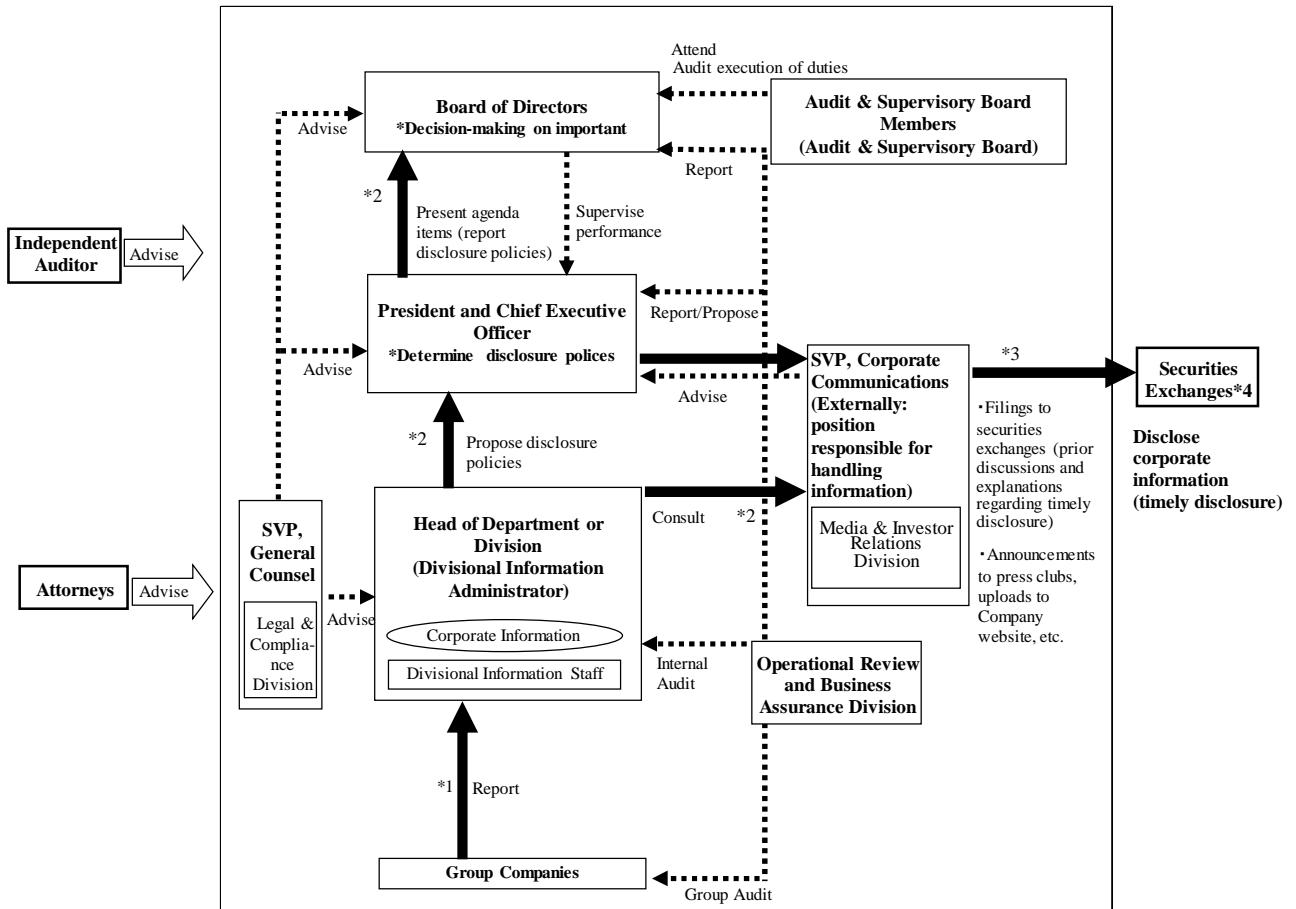
The following is the schematic depiction of the Company's corporate governance system and timely disclosure system.



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



## Overview of Timely Disclosure System



Refer to '2. Determination of disclosure policies and timely disclosure' below for the footnote \*1~\*3.  
 \*4 Ref. Listed exchanges Tokyo Stock Exchange

## 1. Position responsible for handling information and other matters

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

## 2. Determination of disclosure policies and timely disclosure

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

## 3. Internal controls

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

## 4. Participation of the independent auditor and attorneys

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