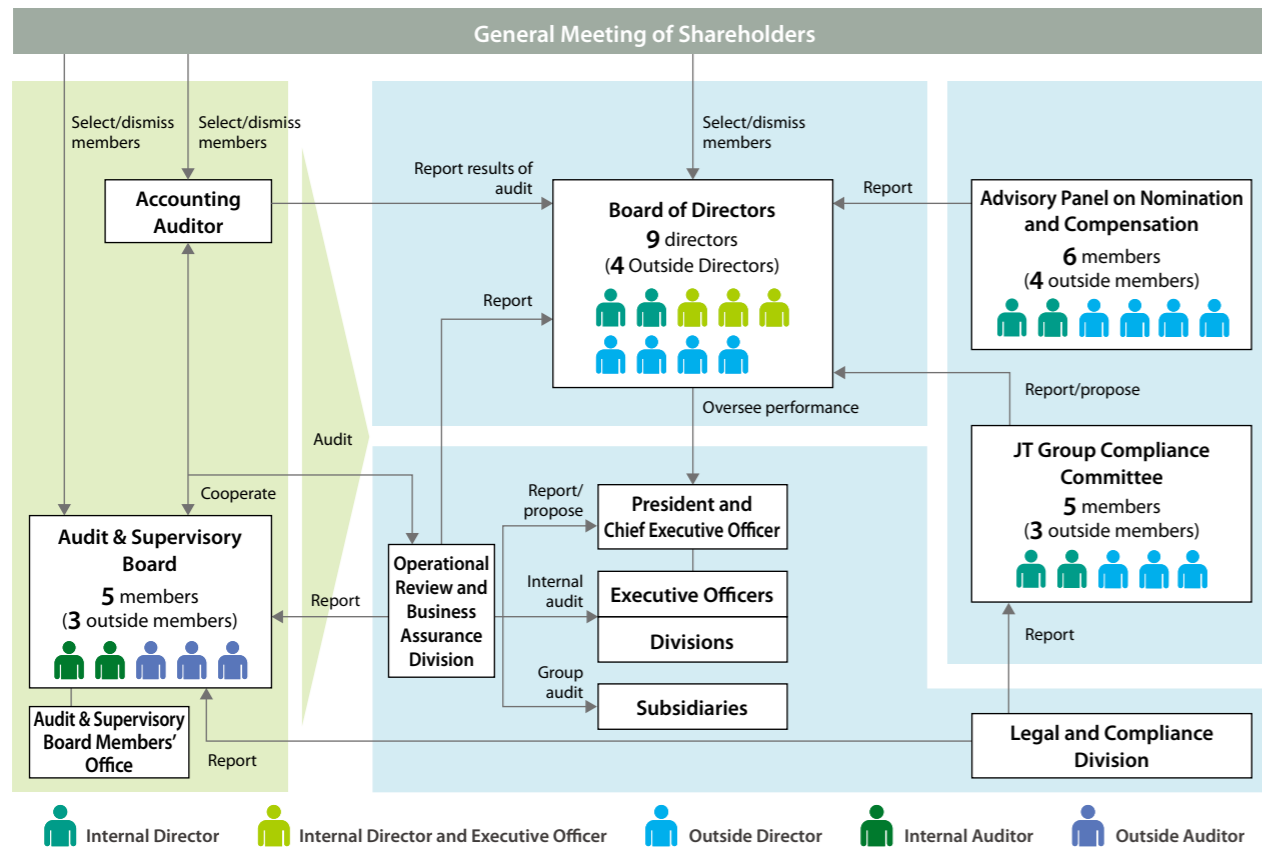


# Corporate governance

## Corporate governance structure

Our corporate governance system



### Basic policy

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

We have established the JT Corporate Governance Policy in recognition that improvement in corporate governance is conducive to sustainable profit growth and corporate value

over the medium and long terms, benefits our stakeholders and, in turn, helps to move the economy and society forward. We believe that the Corporate Governance Code has high affinity with the 4S model, and fully comply with the principles of the Corporate Governance Code, which includes the principles of the Prime Market.

We will endeavor to continuously enhance our corporate governance as a key management priority.

Please visit [our website](#) for more on the JT Corporate Governance Policy.

### Rationale behind current governance regime

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

We have built an effective corporate governance regime under the Audit & Supervisory Board's oversight. It includes the JT Group Compliance Committee and the Advisory Panel on Nomination and Compensation, both established voluntarily. The former has outside experts serving in key roles; the

latter is comprised entirely of Directors who do not serve as Executive Officers, and more than half of its members are Independent Outside Directors. We have also streamlined our Board of Directors and expedited operational execution by delegating authority to Executive Officers.

We continuously seek to improve corporate governance and increase management transparency and objectivity through,

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

### Board of Directors (met 13 times with 98% attendance rate in fiscal 2022)

Our Board of Directors is responsible for setting JT Group management strategies, making decisions on important matters and overseeing all operations. The Board meets once monthly as a general rule, and meets promptly whenever necessary, in order to make a decision with regard to the important matters, including those specified by laws and regulations, and to supervise business execution. It also receives reports on the state of operational execution from the Directors. It includes at least one-third of Independent Outside Directors with qualifications conducive to sustainable profit growth and the increase of corporate value in the medium and long terms in order to strengthen the

supervisory functions and make management transparent.

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

### Advisory Panel on Nomination and Compensation (met 7 times with 97% attendance rate in fiscal 2022)

The Advisory Panel on Nomination and Compensation's purpose is to render the Board's decision-making more objective and transparent, and to upgrade the Board's oversight functions by having the Board deliberate on executive appointment and remuneration in accordance with results of deliberation in the Panel. Its specific roles include supporting the growth, including succession plans, of executive candidates; deliberating on selection of nominees for seats on the Board of Directors and Audit & Supervisory Board and dismissal of designated Directors and Directors also serving as Executive Officers; and reporting the results of deliberation on remuneration of Directors and Executive Officers. In order to ensure its independence and objectivity, the Panel is comprised entirely of Directors who do not serve

as Executive Officers, in which more than half of its members are Independent Outside Directors. The Panel determined to elect a member from the Independent Outside Directors as its Chairperson starting March 2022. Ms. Main Kohda was elected as the Chairperson for 2023. 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 unit plan for 2023.

### Audit & Supervisory Board (met 15 times with 100% attendance rate in fiscal 2022)

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

meetings and other important meetings as well as actively inspecting business sites. In addition, they also conduct audits appropriately from an objective viewpoint in accordance with the characteristics of the duties of the independent outside/standing Audit & Supervisory Board Members. In 2022, the Audit & Supervisory Board discussed issues including auditing policies and preparation of Audit Report.

## Corporate governance

### Evaluation of effectiveness of the Board of Directors

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

For 2022, the questionnaire was administered as outlined below.

We take advice from external consultants in drafting the questionnaire and analyzing the results in order to ensure objectivity and further improve the evaluation process.

- Questionnaire drafting period: Sept.–Nov. 2022
- Period for evaluation: 2022 (Jan. 2022–Dec. 2022)
- Response period: Nov. 25, 2022–Dec. 9, 2022

In 2022, the following initiatives were conducted for issues identified in the effectiveness evaluation pertaining to 2021.

Key issues	Initiatives in detail
<ul style="list-style-type: none"> <li>• Initiatives to further improve the quality of deliberations and discussions</li> <li>• More robust discussions from a long-term perspective</li> </ul>	<ul style="list-style-type: none"> <li>• Continued improvements in the Board of Directors operations</li> <li>• Further expansion of opportunities to discuss medium- and long-term strategies, etc.</li> <li>• Further expansion of progress reporting and information sharing on key measures, etc.</li> </ul>

As in 2021, the Board effectiveness evaluation for 2022 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

- 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 2021.

Board's strengths. From the standpoint of improvements since 2021, the Board was especially highly rated for the sharing of information regarding medium- and long-term strategies and progress on significant measures, etc., in a bid to improve business understanding and the exchange of opinions with executives.

For 2023 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	The Company's action plans going forward
<ul style="list-style-type: none"> <li>• Further enhancement of the supervisory functions of the Board of Directors</li> <li>• More effective and efficient operations of the Board of Directors</li> </ul>	<ul style="list-style-type: none"> <li>• Creation of more robust opportunities to share medium- and long-term strategies, key issues, the status of discussions at voluntary committees, etc.</li> <li>• Continued improvements in Board of Directors operations, including smoother proceedings</li> </ul>

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

### Succession planning

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

To develop a steady stream of highly skilled, highly qualified leaders capable of excelling in the global arena, we select future executive candidates from each hierarchy through Group-wide open recruitment and nomination by top management. Our CEO, along with other senior management, are deeply involved in these selections.

Our CEO participates in meetings held to support the next-generation executives. In these meetings, participants discuss which candidates receive support to become the next-generation executives based on several factors. The first factor is based on close examination of whether they have an excellent mind of ownership, corresponding to a high sense of ethics, integrity and a broad perspective. The second factor is based on their qualifications in terms of their abilities to accomplish achievements through our Group's growth strategies as an executive or executive officer. Other factors include the consideration of objective, external evaluation and competitiveness in markets. We also formulate development programs, which provide a variety of challenging business experiences; review statuses of development based on the programs; and hold regular

discussions on identification of the medium- and long-term challenges the candidates are facing and the policies we provide to support their growth.

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

As one example, our JT-Next Leaders Program, launched in 2013, aims to continuously cultivate young executives who will spearhead the JT Group globally.

It is open to employees in their 40s or younger who fulfil the conditions, including new recruits not yet officially onboarded. Applicants are screened objectively based on an integrated assessment with internal/external evaluation, such as human assessment, 360-degree surveys, and interviews with Executive Officers. We preferentially support the successful applicants' personal growth on a Group-wide basis over multiple years. Through such programs, we are expanding our talent pool from the bottom up age-wise as we continue to pursue reinforcement of our human resources.

### Our policy pertaining to listed subsidiary's governance

We have a publicly listed subsidiary, namely Torii Pharmaceutical Co., Ltd. (hereinafter Torii), in light of the management benefits of owning a subsidiary, including capital market discipline and enhancement 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 and recruitment of excellent human capital, both of which are important in the pharmaceutical business.

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

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

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

## Corporate governance

### Executive remuneration

#### Executive remuneration policy

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

executive remuneration is as follows:

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

#### Executive remuneration setting process

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

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

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

#### Composition of executive remuneration

Executive remuneration comprises of (1) monthly "base salary," (2) "executive bonus" linked to the Company's business performance in a fiscal year, as well as (3) "restricted stock remuneration plan" and (4) "performance share unit plan," both of which are linked to the corporate value in the medium and long terms. The composition of executive remuneration is as follows.

#### 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.

From 2023, as for the medium- and long-term incentives that consist of restricted stock remuneration plan and performance share unit plan, we will increase the ratio of mid- to long-term incentives further in the executive remuneration composition, as stated above, seeking to further promote aggressive management from a medium- and long-term perspective. The illustration in the next page shows specific ratios after revision.

	Composition	Monetary remuneration	Monetary remuneration (Performance-linked)	Stock remuneration	Stock remuneration (Performance-linked)
2022	Ratio*1	Base salary 33-42%	Executive bonus 31-35%	Restricted Stock Remuneration Plan*2	PSU*2
				25-33%	
2023	Ratio*1	Base salary 29-34%	Executive bonus 28-29%	Restricted Stock Remuneration Plan*2	PSU*2
				38-43%	

\*1 The composition ratios vary depending on the duties of Members of the Board and the ranges are indicated in the illustration

\*2 The ratio of restricted stock remuneration plan and performance share unit plan is about 3 to 1

\*3 Under performance share unit plan, 50% is paid as cash towards tax payment

\*4 The above illustration shows the ratio of remuneration composition if the "executive bonus" and "performance share unit plan" are paid at the standard amount. The above ratios could fluctuate depending on the Company's performance, share price, remuneration levels of benchmark companies, etc

#### Internal Directors and non-executive officers

Internal Directors and non-executive officers 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 medium- and long-term growth strategies, and others.

#### Outside Directors

Remuneration for Outside Directors is composed of "base salary" alone and does not include performance-linked

compensation to ensure their independence. An Outside Director who serves as the Chairperson of the Advisory Panel on Nomination and Compensation receives 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.

#### Components of executive remuneration

##### Base salary

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

##### Executive bonus

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 at constant currency, adjusted operating profit (AOP) at constant currency, adjusted operating profit on a reported basis, profit results, and an RRP-related index, which will be used to measure the performance of the business itself, will be the key performance indicators (KPIs) 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 medium and long terms. In calculating the amounts of executive bonuses, 15% accounts for core revenue at constant currency, 35% for AOP at constant currency, 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 an executive bonus has carried out certain wrongful behavior, the officer involved will be required to refund a part of the executive bonus already paid.

##### Restricted stock remuneration plan

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



## Corporate governance

the resolution of the Board of Directors (the allotment being made from treasury shares). The Company enters into an agreement with the eligible directors with regards to the allotment of the shares. Although the restriction period is thirty years, in cases where any eligible director retires due to expiration of the term or resigns due to reasons deemed reasonable by the Board of Directors, from a position as Director or any other positions separately specified by the Board of Directors during the restriction period, the transfer restrictions are removed on all of the allotted shares that the eligible director owns.

In the event that we acknowledge wrongful behavior as determined by the Board or any other wrongful act by a Director who was allotted restricted stock remuneration plan during the restriction period, all or a part of the allotted shares are acquired by the Company without any compensation.

### Performance Share Unit Plan (PSU)

PSU is a performance-linked stock compensation system that aims to strengthen shared value with shareholders, to enhance company value over the medium and long terms and to commit to achieving business results over the midterm. PSU offers monetary remuneration claims and cash to the Directors who also serve as Executive Officers during the first year of the performance evaluation period, as performance-linked stock compensation. After a three-year performance evaluation period ends, attainment rates of numeric targets including earnings are determined following a review by the Advisory Panel on Nomination and Compensation. As a general rule, eligible directors receive the cash and

monetary claims after the end of each performance evaluation period. Eligible directors receive monetary remuneration claims towards the purchase of Company shares and receive the Company's common shares (the allotment is made from the treasury shares).

We determine necessary indices to calculate the number of shares given to eligible directors including each numeric target used in this compensation system and performance-linked factors following a review by the Advisory Panel on Nomination and Compensation. Profit (attributable to the owners of the parent company) has been set as a performance share unit plan KPI for the evaluation periods starting in 2020 and 2021. For the evaluation period starting in 2022, 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. 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 the event that we acknowledge wrongful behavior as determined by the Board or any other wrongful act by a Director during the performance evaluation period, the Director is disqualified from receiving all or a part of the cash and monetary claims that were planned to be paid.

### KPIs for executive remuneration

We have introduced indices such as one on a reported basis and non-financial to design a more multifaceted system for assessing our performance. We aim to evaluate our initiatives

conducive to medium- and long-term growth and further strengthen shared value with shareholders.

#### Executive bonus

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

PSU		
KPI	Purpose/Details	Ratio
Profit	Introduced to share attainment rate of profit growth with shareholders	100%
ESG-related index	Introduced in order for us (evaluatee) and shareholders (evaluator) to seek agreement on what is conducive to corporate value For 2023, indicator for evaluation will be based on efforts to realize Net-Zero, specifically, the degree of achievement for GHG emissions reduction target.	±10%

### Total amount of remuneration in 2022

Category	Total amount (JPY MM)	Total amount by component (JPY MM)				Number of eligible persons
		Base salary	Executive bonus	Restricted stock remuneration	PSU	
Directors (excluding Outside Directors)	1,399	511	514	194	180	7
Audit & Supervisory Board Members (excluding outside members)	82	82	—	—	—	2
Outside Directors	148	148	—	—	—	7
<b>Total</b>	<b>1,629</b>	<b>741</b>	<b>514</b>	<b>194</b>	<b>180</b>	<b>16</b>

- Notes: 1. The amount of PSU in the diagram is the amount booked as expenses for 2021  
2. Executive bonus and PSU are categorized as performance-linked remuneration  
3. Restricted stock remuneration plan and PSU are categorized as non-monetary compensation  
4. The diagram above includes a Director who retired on March 23, 2022

### Maximum amount of executive remuneration

The maximum total amount of executive remuneration for all Directors has been changed as follows with effect from 2023, as resolved at the Ordinary General Meeting of Shareholders. The Company's Audit & Supervisory Board Members are eligible only for base salary and the maximum amount of remuneration in total is set as 240 million yen per annum.

	Before revision	After revision	Internal Directors		Outside Directors
			Executive Officers	Non-executive officers	
Base salary	Within 1,100 million yen (100 million yen for Outside Directors)	Within 800 million yen (160 million yen for Outside Directors)	○	○	○
Executive bonus		Up to 0.3% of profit (profit attributable to owners of the parent company)	○	—	—
Restricted stock remuneration plan	Total amount of monetary remuneration	Within 210 million yen	○	—	—
	Number of shares distributed	Within 115,200 shares			
PSU	Total amount of monetary remuneration and cash for tax payment	Within 130 million yen	○	—	—
	Number of shares distributed	Within 76,800 shares			

\*1 Number of base share units (determined by the Board of Directors based on the duties, etc., of respective eligible Members of the Board) x Offering ratio (within a range of 0-200% based on the degree of achievement of targets)

\*2 After the performance evaluation period ends, based on the closing price of the ordinary shares of the Company on the TSE on the preceding business day of the date of the resolution by the Board of Directors concerning the allotment of the ordinary shares of the Company under the plan (or the closing price on the immediately preceding business day, if transactions are not executed on that day), the amount shall be determined by the Board of Directors of the Company within the range not particularly favorable to eligible Members of the Board