

Executive roundtable



Mutsuo Iwai
Chairperson of the Board

Main Kohda
Independent Outside Director

Yukiko Nagashima
Independent Outside Director

Masato Kitera
Independent Outside Director

Tetsuya Shoji
Independent Outside Director

In a recent roundtable talk, our chairperson and Outside Directors discussed what JT can do for the future of the Group and society from the standpoint of governance. Here are some highlights.

How do we view the JT Group's governance?

Corporate governance in pursuit of the 4S model, our management principle

Iwai As a corporation with an Audit & Supervisory Board, JT manages its organization and businesses with objectivity and neutrality, and has been enhancing its supervisory functions. In addition to slimming down the Board of Directors and introducing an Executive Officer system, in 2012 we brought in Outside Directors, which now hold four of the nine Board of Directors' seats. We have built an effective corporate governance system through measures including the establishment of the Advisory Panel on Nomination and Compensation, comprised entirely of directors who do not serve as Executive Officers, more than half of them Independent Outside Directors.

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 core management principle. Good governance is a priority issue in the recently revised JT Group materiality, and we are working to further enhance governance to ensure that we remain a corporation that can fulfill and win the trust of our many stakeholders.



Kohda I have had the pleasure of working with the JT Group as an Outside Director since June 2012, when the office was first established, and I've enjoyed many opportunities to visit Group operations and tobacco sourcing regions in several countries. Most recently I visited a subsidiary in Brazil, where I was impressed with how well and consistently the organization has absorbed the 4S model. The plant makes and demonstrates the policy of worker safety first, and the growers are treated as the center of leaf-tobacco production. In multiple situations I have been able to experience how much the Company cherishes its people.

At JT, every discussion, decision-making processes and response to negative events refers to the 4S model, with its focus on four kinds of stakeholders. I can't think of another company in which these management principles have so thoroughly penetrated. I think this is a JT Group strength.

Nagashima I feel the 4S model has become the very flesh and blood of the JT Group, to a surprising degree. I think we can fairly attribute this to the great deal of time the Company has allowed for the model to become established as part of its mission to do the tobacco business right. I think the 4S model has permeated the organization through the daily practice of doing business right in accordance with the 4S model.

Kitera I feel JT has learned and come to embrace the important aspects of governance through years of challenge in the tobacco business. I'm confident that the organization has integrated good governance practices due to the broad understanding that unless good governance reaches across the entire Group, not just the head office, this business would not be possible.

Shoji For good governance to reach throughout an organization, I think the diversity and inclusion of its board means a lot, which we see in the Outside Directors on the JT board. With different backgrounds and specialties, each of you views and handles things differently. In not accommodating your views or concerns to suit JT practices, you each bring unique experience and ideas to the table in making decisions. I believe our ability to discuss matters from diverse viewpoints leads to more effective advice and support for decision makers. I feel strongly that the Company seriously considers the opinions and perspectives we offer.

Iwai We created the 4S model when JT first went public, thinking what the Company should be moving forward. Having been personally involved in the work of making and promoting the model over the years, I'm delighted to know that our effort has successfully reached those on the production floors and work fronts. In Japanese the word "governance" is usually translated to mean "management and oversight," but its original meaning is to grasp the helm and steer. So I think that within JT, governance should mean paying close attention to the JT Group Purpose we've just established and applying the 4S model in steering the JT Group ship on the right course. As we move forward we make it a rule to follow only the correct course and avoid shortcuts, even if there is one, and given that conviction we are able to take some risks along the way. It's my job to build an environment where you, the Outside Directors, can speak frankly to help JT on a successful voyage.

What do you think are the main challenges for JT governance?

Nagashima If there is an illness called "overserious governance," we'd better check to be sure that JT doesn't have it from time to time. I say this because JT's culture is to do everything seriously, and the flip side of that is overdoing it and harming ourselves, which we have to watch for. If governance is steering the ship, as Mr. Iwai has said, we have to keep building our helmsmanship skills. That by itself, I think, indicates self-evolution, and to do that we have to continually ask why we're doing it and maintain a balanced view.



Kitera In Japanese society the means to the goal often becomes the goal. When I ask people in other companies why they are doing a given thing, for example, I often hear, "doing it is meaningful by itself." This is my second year at JT as an Outside Director, and I've yet to see the means to the goal become the goal itself here. This I think is a strength of JT in operating globally. I have no doubt that here at JT, goals are set in pursuit of what is essential.

Executive roundtable

Shoji Ensuring that the 4S model and the new JT Group Purpose spread throughout the organization will remain a continuing challenge. As our Tokyo head office manages our operations, including the large-scale tobacco business, we have to be sure we are steering in the right direction, with the right touch. At the same time our domestic and international tobacco businesses are now operating under a unified team, with head office functions moved to Geneva, and a range of functional shifts are moving forward, including the delegation of authority. As this progresses I understand we are taking a fresh look at how we govern international operations from Japan. With the JT Group Purpose and 4S model as shared touchstones, I think they will generally guide our decisions.



Kohda Taking a bird's-eye view, JT has what we might call "square" DNA, because it began as a government corporation with exclusive rights to market tobacco products. Our people are serious, nearly to a fault, and the agenda items that come up in board meetings are perfectly prepared. That said, JT people are not satisfied with perfection. Their DNA demands constant improvement. When I need something explained and ask a tricky question, they look into it seriously and take specific action. I think that may be an important driver that's brought JT to where it is today. While I think seriousness is an important quality, being too square can make us inflexible or overcautious, leading to missing good opportunities.

JT is a global company, making active social contributions through taking leadership in Japan in promoting diversity and inclusion in workplaces, but from my perspective JT has sometimes been too modest. I'd like JT to further show the

world how it is embracing these challenges and pushing for excellence. We may need to work harder to communicate that about ourselves.

Iwai Ms. Kohda often tells me JT should work harder on more PR. (laughs)

In deciding between perfection and speed, JT seems to be biased toward perfection. That said, it can sometimes make big decisions surprisingly fast. From the governance standpoint it would help with the evolution of our decision-making if we on the board undertake more frequent and precise reviews of major investments. In that context my personal challenge is to eliminate, even if imperfectly, the asymmetric distribution of information between Outside Directors and Executive Officers. I'd like to encourage you to engage in discussions while actively exchanging opinions with regular employees.

JT is reliably functioning as a corporation with an Audit & Supervisory Board. In the medium term, I think it's also important to regularly examine whether JT's governance system is reliably functioning, while deepening our understanding of what society demands of us, such as the Corporate Governance Code.

What is your hope for the JT Group Purpose, and what role should the Board of Directors play in actualizing that Purpose?

Fulfilling Moments, Enriching Life

Kitera I think the recently established JT Group Purpose is brilliant in ways that no other company has shown. This has a lot to do with the difficulty of the tobacco business, which we cannot overcome without this Purpose. If we were to take what the Company does now for granted and write it down as the Purpose, we wouldn't need it. The Purpose is there to help us to go beyond what we're doing now. Executive Officers should use the JT Group Purpose as a guiding star in promoting internal discussion that leads to real action.

Shoji You're right on point there. Now we have a way to be clearer that what we offer society, markets and consumers as we do business serves the purposes of what we do. I think we're ready with ways to increase the value of our people, while allowing everyone in the firm to confirm the meaning of their personal commitment to our business.

Kohda I take the JT Group Purpose to be an immensely deep theme. Roughly speaking it's about something at the root of capitalism and human life. People have been pushing straight toward affluence. There is justified concern, however, that we have sacrificed a lot to get there. JT raises this question and is prepared to rise to the challenge. It encourages its employees to explore this kind of awareness for themselves and go deeper. I want JT to take its time in cultivating and extending the Purpose.



Nagashima In creating the Purpose I didn't ask the project team to make something pretty, but rather I emphasized the importance of maintaining a process in which everyone feels ownership of the result and can proudly say, "This is our Purpose." I'm very happy to know that so much time went into that process. It did take time, but I think it's wonderful that each person involved is able to own it and give it life.

Iwai In discussing the Purpose we went deeper on two points: how society will change and what we can do. In a society where, following various developments, efficiency is given too much value, we projected that bringing our humanity back would be more important

than ever. We thought the "fulfilling moments" that tobacco products offer, much as luxury products do, would be meaningful to future society rather than just useful, and thus would continue to be highly valuable. That thinking led to the Purpose.

Because the ability to enjoy such moments is a subjective concept, different for each person, we know we can't make them happen for everyone. What we can do may be limited given such diversity in the concept, in addition to different time frames and various life situations. In discussing existing and future business and new products and making decisions in board meetings, I don't think of the Purpose as all-encompassing or almighty. I think it would be great, though, if we can, within its limitations, discuss the points connecting what JT can do with what society wants.

Kohda I think that JT is an organization in which people, including us directors, put lots of enthusiasm into discussions that might seem naive to outsiders. I think it's a good quality, in any case.

Shoji Every person sees and interprets this concept differently. But the Purpose clarifies the grounds for our decisions as we work to be a company that suggests ways to experience fulfilling moments. We four Outside Directors each have different metrics for them. Board meetings are forums for discussing that kind of difference in viewpoint, where what you called "naive" discussions are practical, I think. We need to always look back to the beginning. Given that the definition of what the Purpose embodies will change with time and technologies, how can we incorporate it in our products and services? It's sobering to think about our responsibility to evolve the board to support this kind of visioning from the viewpoints of consumers, markets and society.

Kitera When you mention naive discussions, I recall that I felt much the same in the diplomatic community I was part of before. Whenever we discuss what or how to do things, if we don't begin with naive discussion, we may get off on the wrong foot. So now I feel I'm up for a lot of naive discussion to help find our best path.

Executive roundtable

Nagashima Count me in for naive discussion as well. At the same time, I want to help measure up to market expectations, with a certain urgency in mind.

Attitudes toward board discussions

Kohda Before each board meeting JT provides us with detailed explanations of the agenda items. Recently it's become regular practice for the four of us to attend the briefings together. Those sessions ahead of the meetings are important opportunities for sharing information and exchanging views, and I am allowed to ask pointed questions. I always get detailed feedback from the Executive Officers. In any discussions I feel well-informed, not just of the specific subject but of the related risks and actions involved as well. That's why I strongly feel that JT maintains a fair discussion practice.



Shoji This is only my second year as an Outside Director, so there's a gap between you three and me in terms of the information I have, of course. In briefings ahead of board meetings I'm able to check the historical background of a given topic, and I can also catch up with the others when I get private briefing time. So my knowledge on agenda topics is deeper by the time the board meeting happens. In the board meetings of other companies, I often see agenda items that are not fully explained, obviously showing the desire of the Executive Officers to push them through. JT's fair approach to raising agenda items and more transparent discussions are very helpful.

Nagashima The asymmetric distribution of information that Chairperson Iwai mentioned is an important difference between us and those who have been Executive Officers at JT. We can't bridge that gap, and we mustn't try to bridge it by force. I think it's important to stay aware that the value Outside Directors can contribute is all the greater for that asymmetry.

Transparency of information is also important. A given fact can be seen from different perspectives, but the fact itself must not be omitted. At JT, this is assured.

Kitera I don't think the functions of Outside Directors are the same for all corporations; they vary depending on each situation. At JT I feel a good breathing balance between Outside Directors and Executive Officers. There are times when we Outside Directors have to oversee Executive Officers to fulfill our intended function. At JT I feel that's handled successfully, by both parties breathing together rather than unilaterally, dominated by "supervisors."

Dialogue with capital markets

Kohda When I came in as an Outside Director in 2012 there were 51,000 JT shareholders. By the end of 2022 that grew to over 700,000. Despite divestment by institutions, I understand that JT remains trusted by individual shareholders because it maintains a rock-solid financial base and reliable shareholder returns.

In watching what some individual investors abroad have been doing, totally disregarding what's happening to the corporations they invest in, I strongly feel that we should communicate with individual investors, from the PR standpoint in addition to IR, to inform them fully and accurately. I think this is one of the major challenges JT will have to embrace. I'm aware that JT is able to operate with the support of individual investors, so I've been stressing the importance of communication, which boils down to how we respond to that fact.

Nagashima Looking back over the year I notice a record-high percentage of individuals among JT investors. On the markets institutional investors are more active, and we have to conduct higher-quality and more active dialogue with them. So we're running a study group focusing on this. Taking a fresh look at where JT stands now, Executive Officers are discussing how to approach investors for dialogue as well, as a high priority. We Outside Directors have been given opportunities to get updated on what's been decided by the Executive Officers, including examination to determine whether a decision is truly the right one. On those occasions we can take advantage of the differences in viewpoint between Executive Officers and Outside Directors. I think it would be wonderful if we can use the energy those differences generate as opportunities to improve our knowledge.

Iwai We are working to increase the satisfaction of the capital markets and shareholders in accordance with the 4S model with a sense of great responsibility. Through deep discussions about specifically how we should express that responsibility, we continue to clearly inform them about our capital policies, investment priorities and shareholder returns.

The new Purpose clarifies the direction JT should take for the long term, so we should follow through on what we promise with specific actions and return the results to our stakeholders—in other words, deliver value to our shareholders, investors, consumers and employees. We will face various challenges along the way, but we're committed to discussing with the board how to overcome them and evolve our strategies for the better.

