

[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.]

Securities Code: 2914  
February 28, 2020

To Our Shareholders

Masamichi Terabatake  
Representative Director and President  
**Japan Tobacco Inc.**  
2-1, Toranomom 2-chome, Minato-ku, Tokyo

## NOTICE OF CONVOCATION OF THE 35TH ORDINARY GENERAL MEETING OF SHAREHOLDERS

You are cordially invited to attend the 35th Ordinary General Meeting of Shareholders of Japan Tobacco Inc. (“JT” or the “Company”) to be held as set forth below.

**If you cannot attend the meeting, you may exercise your voting rights in written form or by electromagnetic means including the Internet. Please see the “Reference Documents for the General Meeting of Shareholders” hereinafter described and exercise your voting rights by 6:00 p.m., on Wednesday, March 18, 2020, in accordance with “Instructions for Exercising Your Voting Rights If You Are Unable to Attend the Meeting in Person” on pages 3 to 4.**

### Particulars

**1. Date and Time of the Meeting:** Thursday, March 19, 2020 at 10:00 a.m.

**2. Place of the Meeting:** The Prince Park Tower Tokyo  
Second basement, Ballroom  
8-1, Shibakoen 4-chome, Minato-ku, Tokyo

**3. Purpose of the Meeting:**

**Matters to be Reported:**

1. Report on the Business Report, the Consolidated Financial Statements, and the Independent Auditors’ Report and JT’s Audit & Supervisory Board Report on the Consolidated Financial Statements for the 35th Business Term (From January 1, 2019 to December 31, 2019)
2. Report on the Non-Consolidated Financial Statements for the 35th Business Term (From January 1, 2019 to December 31, 2019)

**Matters to be Resolved:**

**Item 1:** Appropriation of Surplus  
**Item 2:** Partial Amendment to the Articles of Incorporation  
**Item 3:** Election of Nine (9) Members of the Board  
**Item 4:** Determination of Remuneration for Granting Restricted Stock and Performance Share Units to Members of the Board Who Also Serve as Executive Officers, and Revision of Remuneration Amount for Members of the Board

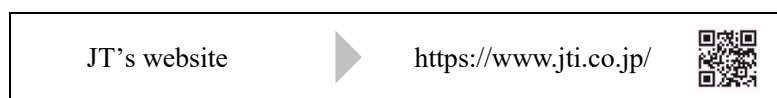
## Information on Matters Posted on JT's Website

1. Among the documents to be provided upon release of this Notice of Convocation of this Ordinary General Meeting of Shareholders, the items below are posted on our website (<https://www.jti.co.jp/>) in accordance with laws and regulations, and the provision in Article 17 of the Articles of Incorporation. Therefore, they are not included in this Notice of Convocation of this Ordinary General Meeting of Shareholders.

- “Overview of the Resolutions on the Development of Systems Necessary to Ensure the Properness of Operations and the Operating Status of the Systems” on the Business Report
- “Consolidated Statement of Changes in Equity” and “Notes to Consolidated Financial Statements” on the Consolidated Financial Statements
- “Non-Consolidated Statement of Changes in Net Assets” and “Notes to Non-Consolidated Financial Statements” on the Non-Consolidated Financial Statements

In addition, these items are included in the Consolidated and Non-Consolidated Financial Statements audited by the Accounting Auditors in the course of preparing Accounting Auditors' Report, and in the Business Report, and Consolidated and Non-Consolidated Financial Statements audited by Audit & Supervisory Board Members in the course of preparing Audit Report.

2. If there is any amendment to the Reference Documents for the General Meeting of Shareholders, Business Report (available in Japanese), or Non-Consolidated and Consolidated Financial Statements (available in Japanese), it will be published on our website (<https://www.jti.co.jp/>).



### Guidance to our shareholders attending the General Meeting of Shareholders

- \* If you are attending in person, please present the Voting Rights Excise Form at the reception desk on arrival at the venue. In addition, please bring this Notice of Convocation of this Ordinary General Meeting of Shareholders.
- \* It is expected to be crowded immediately before the meeting begins. If meeting room No.1 becomes full, you will be ushered to meeting room No.2. We sincerely ask you to come to the meeting at your earliest convenience.
- \* In case an agent attends the meeting, your agent must bring a letter of attorney along with the Voting Rights Exercise Form. Only one other shareholder who can exercise the voting rights at this Ordinary General Meeting of Shareholders is supposed to be eligible to serve as your agent.
- \* Please note that the meeting will be conducted in Japanese only. An interpreter, including a sign language interpreter, may accompany you. If you would like to have an interpreter accompany you, please tell so at the reception desk. It is also possible for us to arrange a Japanese sign language interpreter for you. If you are in need of this service, please inquire us in writing by March 12 (Thursday) (your letter of inquiry must reach us by this date).
- \* Please note that gifts will not be provided to those attending the General Meeting of Shareholders. We ask for your understanding in this matter.

## Instructions for Exercising Your Voting Rights When You Cannot Attend the General Meeting of Shareholders

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### When Exercise the Voting Rights via the Internet

Access the Voting Rights Exercise Website from your computer or smartphone as follows and indicate whether you are for or against each of the items.

Exercise due date



No later than 6:00 p.m., on Wednesday, March 18, 2020

### Log in from your smartphone

1. Scan the QR Code at the lower right-hand side of the Voting Rights Exercise Form.
  - ✓ It is not necessary to fill in or mail the usual form.
  - ✓ It is not necessary to turn on your computer or type the Voting Rights Exercise Website address.
  - ✓ It is not necessary to type a burdensome ID or password.
- \* You can exercise your voting rights only one time by scanning the QR Code to log in.  
If exercising voting rights more than once, use the instructions in “Log in from your computer, etc.”
  - \* Depending on the smartphone model being used, it may not be possible to log in using the QR Code.
  - \* Depending on the app used to scan the QR Code, some additional operations may be necessary.
  - \* QR Code is a registered trademark of DENSO WAVE INCORPORATED.
2. Then, please indicate whether you are for or against each of the items following the directions on the website.

### Log in from your computer, etc.

Voting Rights Exercise Website: <https://evote.tr.mufg.jp/>

1. Access the Voting Rights Exercise Website.
2. Fill in the “Log-in ID” and the “Temporary Password” described on the lower right-hand side of the Voting Rights Exercise Form, and click the “Log-in” button.
3. Register a new password.
4. Then, please indicate whether you are for or against each of the items following the directions on the website.

If you have any enquiries, please contact Help Desk shown below.

Enquiries on systems, etc.



Mitsubishi UFJ Trust and Banking Corporation  
Corporate Agency Division  
Help Desk  
Tel: 0120-173-027 (Japanese-language only)  
(Business hours: 9:00 to 21:00, Toll-free)

To institutional  
investors

JT participates in the electronic voting rights exercise platform operated and administered by ICJ, Inc.

### **When Exercise the Voting Rights by Mail**

Please indicate whether you are for or against each of the items on the Voting Rights Exercise Form and return it to us. If there is no indication of for or against on each proposal, it shall be deemed that you have voted for the proposal.

Exercise due date



To be returned to us no later than 6:00 p.m., on  
Wednesday, March 18, 2020

#### Guide to filling in the Voting Rights Exercise Form

Please indicate for or against about each item.

Items 1, 2 and 4

When you are for the proposed item, mark  in the “for” box, and when you are against the item, mark  in the “against” box.

Item 3

When you are for all of the proposed persons in the item, mark  in the “for” box, and when you are against all in the item, mark  in the “against” box.

If you are against certain candidates, mark  in the “for” box, and also write the candidate number for each candidate you are against inside the parentheses.

- \* In the event voting rights are exercised more than once:
  - (1) If the voting right is exercised both by mailing the Voting Rights Exercise Form and via the Internet, only the exercise of the voting right via the Internet shall be valid.
  - (2) If the voting right is exercised more than once via the Internet, only the last exercise of the voting right shall be valid.

## REFERENCE DOCUMENTS FOR THE GENERAL MEETING OF SHAREHOLDERS

### Item 1: Appropriation of Surplus

The Company has adopted a management resources allocation policy, under which the Company will continue to place a high priority on making business investments that contribute to sustainable mid- to long-term profit growth as well as to value the balance between profit growth through business investments and shareholder returns. In this context, the Company is pursuing enhanced shareholder returns in proportion to the mid- to long-term profit growth, while maintaining a solid balance sheet<sup>(Note)</sup>.

In accordance with these policies, year-end dividends for the 35th Business Term will be paid as described below.

(Note) As its financial policy, JT will maintain a strong financial base that secures stability in case of changes in business environment such as economic crises and flexibility enabling expeditious responses to business investment opportunities.

#### Year-end dividends

##### (1) Type of assets to be paid as dividends:

Cash

##### (2) Allotment of assets to be paid as dividends and their aggregate amount:

¥77 per share of ordinary shares of JT

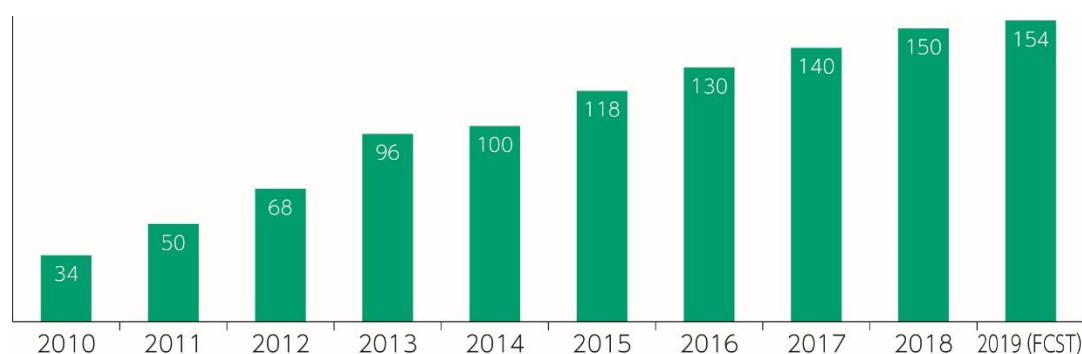
Aggregate amount: ¥136,582,864,418

Together with the interim dividends of ¥77 per share paid in September 2019, the annual dividends for the 35th Business Term will be ¥154 per share, a ¥4 increase year on year.

##### (3) Effective date for distribution of surplus:

March 23, 2020

#### Reference: Trends in dividend per share<sup>(Note)</sup> (yen)

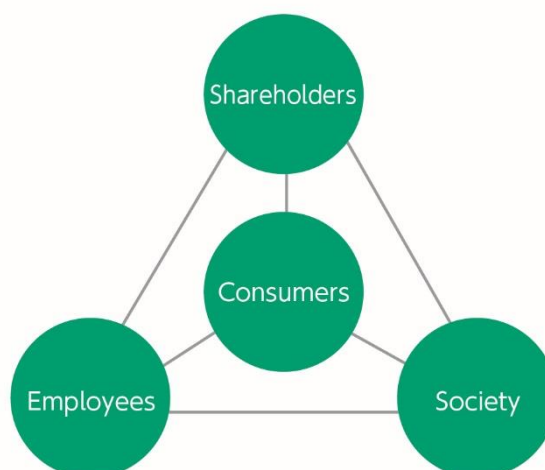


(Note) A 200 for 1 share split was effectuated as of July 1, 2012. The above numbers are calculated on the assumption that the share split was retroactively effective.

## Reference

### Management Principles

We 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.



In accordance with the “Business Plan 2020,” the Group will continue to pursue mid to high single digit<sup>(Note 1)</sup> annual average growth rate over the mid- to long-term in adjusted operating profit at constant rates of exchange<sup>(Note 2)</sup>. The Group’s management resources allocation policy is as follows.

#### Management resources allocation policy

Execute management resources allocation, based on the “4S model” that underlies the Group’s management principles.

- Prioritize business investments that lead to sustained profit growth over the mid- to long-term
- Emphasize a balance between profit growth through business investments and returns to shareholders

#### Business investments

- Aim for high-quality expansion in the top line by continuously providing new value and satisfaction to customers
- Prioritize investment in tobacco business

#### Returns to shareholders

- Improve returns to shareholders in agreement with mid- to long-term profit growth, while maintaining a solid balance sheet
  - Work toward stable and consistent growth in dividend per share<sup>(Note 3)</sup>
  - Consider whether to execute the acquisition of treasury shares in view of factors including the medium-term outlook on business environment and financial positions
  - Continue to monitor a trend in shareholder returns of global FMCG<sup>(Note 4)</sup> companies

(Notes) 1. mid to high single digit: mid to high single digit-percentage

2. Adjusted operating profit is calculated by deducting amortization cost of acquired intangibles and adjustment items (income and costs) from operating profit (loss). Adjustment items (income and costs) are impairment losses on goodwill, restructuring income and costs, and other items. Adjusted operating profit growth rate at constant rates of exchange is a financial measurement that excludes foreign exchange effects by translating and calculating adjusted operating profit for the current fiscal year in the International Tobacco Business using the foreign exchange rates of the previous fiscal year.

3. Based on the mid- to long-term outlook of the growth rate of adjusted operating profit at constant rates of exchange, the Group will also take into account the Group’s level of profit.

4. A Fast-Moving Consumer Goods (daily consumer goods) company is a company that achieves a high-growth business by adopting a stakeholder model.

**Item 2: Partial Amendment to the Articles of Incorporation**

1. Purpose of the Amendment

The JT Group’s business environment is changing at an unprecedented scale and speed and becoming ever more challenging. Under such circumstances, for sustainable profit growth over the mid- to long-term and maximization of the Group’s company value, it has become essential to further enhance its management foundation, including corporate governance. Thus, the Company will amend the Article relating to Executive Director.

2. Details of the Amendment

The contents of the amendment are as follows.


(Underline indicates amended portions)

Current	Proposed Amendment
<p><b>Article 23. (Representative Director, Executive Director, Etc.)</b></p> <p>2. The Company shall elect, as the needs arise, one Chairman of the Board from among the Members of the Board by the resolution of the Board of Directors.</p>	<p><b>Article 23. (Representative Director, Executive Director, Etc.)</b></p> <p>2. The Company shall elect, as the needs arise, one Chairman <u>and a number of Deputy Chairmen of the Board</u> from among the Members of the Board by the resolution of the Board of Directors.</p>

**Item 3: Election of Nine (9) Members of the Board**


The terms of office of all nine (9) present Members of the Board will expire at the conclusion of this Ordinary General Meeting of Shareholders. Accordingly, the election of nine (9) Members of the Board is proposed.

The candidates for the office of Member of the Board are as follows.


Candidate Number <b>1</b>	<b>Yasutake Tango</b>	(Born March 21, 1951)	Number of the Company's Shares Held	13,800																		
 <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 10px auto;">Reappointed</div>	<b>Brief Personal History, Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company</b>			<p><b>Reasons for nomination as a candidate for Director</b></p> <p>Yasutake Tango assumed the position of Chairman of the Board of the Company in June 2014. In addition to a career history that includes such important positions as Administrative Vice Minister of the Ministry of Finance in his long-standing experience in ministries and bureaus, he also possesses abundant knowledge and experience on topics that include corporate governance, gained through diverse networking not limited to the public or private sectors. We therefore propose his reelection as he currently serves as Chairman of the Board, chairman of the Advisory Panel on Nomination and Compensation and chairman of the Compliance Committee of the Company and we believe his broad outlook and high standing in his field will be essential to the improvement of the governance of the Group going forward.</p>																		
	<table border="0"> <tr><td>April 1974</td><td>Entered Ministry of Finance</td></tr> <tr><td>October 2006</td><td>Director-General of the Financial Bureau</td></tr> <tr><td>July 2007</td><td>Deputy Vice Minister</td></tr> <tr><td>July 2008</td><td>Director-General of the Budget Bureau</td></tr> <tr><td>July 2009</td><td>Administrative Vice Minister</td></tr> <tr><td>July 2010</td><td>Retired from the office of Administrative Vice Minister</td></tr> <tr><td>December 2010</td><td>Corporate Auditor, The Yomiuri Shimbun Holdings (Resigned in December 2012)</td></tr> <tr><td>December 2012</td><td>Special Advisor to the Cabinet (Resigned in April 2014)</td></tr> <tr><td>June 2014</td><td>Chairman of the Board of the Company (Current Position)</td></tr> <tr><td>June 2015</td><td>Outside Director, The Ogaki Kyoritsu Bank, Ltd. (Current Position)</td></tr> </table>	April 1974	Entered Ministry of Finance		October 2006	Director-General of the Financial Bureau	July 2007	Deputy Vice Minister	July 2008	Director-General of the Budget Bureau	July 2009	Administrative Vice Minister	July 2010	Retired from the office of Administrative Vice Minister	December 2010	Corporate Auditor, The Yomiuri Shimbun Holdings (Resigned in December 2012)	December 2012	Special Advisor to the Cabinet (Resigned in April 2014)	June 2014	Chairman of the Board of the Company (Current Position)	June 2015	Outside Director, The Ogaki Kyoritsu Bank, Ltd. (Current Position)
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<b>(Significant Concurrent Positions outside the Company)</b>																						
Outside Director, The Ogaki Kyoritsu Bank, Ltd.																						

- (Notes)
1. No conflict of interest exists between the Company and Yasutake Tango.
  2. The Company has entered into an agreement with Yasutake Tango to limit his liabilities stipulated in Article 423, paragraph 1 of the Companies Act to the extent permitted by the laws and regulations. Should his election be approved, the Company intends to extend the agreement.



Candidate Number					
2		Mutsuo Iwai		(Born October 29, 1960) Number of the Company's Shares Held 27,000	
 <div style="border: 1px solid black; padding: 2px; display: inline-block;">Reappointed</div>		<b>Brief Personal History, Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company</b>			
		<p>April 1983      Joined the Company (Japan Tobacco and Salt Public Corporation)</p> <p>June 2003      Vice President, Corporate Planning Division</p> <p>July 2004      Vice President, Corporate Strategy Division</p> <p>June 2005      Senior Vice President and Vice President, Food Business Division, Food Business</p> <p>June 2006      Member of the Board and Executive Vice President, President, Food Business</p> <p>June 2008      Executive Vice President, Chief Strategy Officer</p> <p>June 2010      Member of the Board and Senior Vice President, Chief Strategy Officer and Assistant to CEO in Food Business</p> <p>June 2011      Member of the Board Executive Vice President, JT International S.A.</p> <p>June 2013      Senior Executive Vice President, Chief Strategy Officer</p> <p>January 2016    Executive Vice President, President, Tobacco Business</p> <p>March 2016      Representative Director and Executive Vice President, President, Tobacco Business</p> <p>January 2020    Member of the Board (Current Position)</p>	<p><b>Reasons for nomination as a candidate for Director</b></p> <p>Mutsuo Iwai assumed the position of Representative Director and Executive Vice President of the Company in March 2016. Despite unclear and uncertain operating environments, his forceful execution of business, backed by accurate decision-making, has been a driver of the core Tobacco Businesses. The broad and deep knowledge and insights he has cultivated through wide-ranging experience both in Japan and overseas, in areas such as the Tobacco Business, the Food Business, and Corporate Strategy, will be essential to the improvement of the governance and the strengthening of relationships with stakeholders, which are needed for the promotion of the business of the Group, for which reason we propose his reelection as a Member of the Board.</p>		

- (Notes)
1. No conflict of interest exists between the Company and Mutsuo Iwai.
  2. Mutsuo Iwai took office as Member of the Board without Representative rights from January 1, 2020.
  3. The Company has entered into an agreement with Mutsuo Iwai to limit his liabilities stipulated in Article 423, paragraph 1 of the Companies Act to the extent permitted by the laws and regulations. Should his election be approved, the Company intends to extend the agreement.

Candidate Number		
3	Masamichi Terabatake (Born November 26, 1965)	Number of the Company's Shares Held 21,400
 <div style="border: 1px solid black; padding: 2px; width: fit-content; margin: 10px auto;">Reappointed</div>	<b>Brief Personal History, Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company</b>	
	<p>April 1989      Joined the Company</p> <p>July 2005      Vice President, Secretary's Office</p> <p>July 2008      Vice President, Corporate Strategy Division</p> <p>June 2011      Senior Vice President, Chief Strategy Officer and in charge of Food Business</p> <p>June 2012      Senior Vice President, Chief Strategy Officer</p> <p>June 2013      Member of the Board</p> <p>Executive Vice President, JT International S.A.</p> <p>January 2018    President and Chief Executive Officer</p> <p>March 2018    Representative Director and President, Chief Executive Officer (Current Position)</p>	<p><b>Reasons for nomination as a candidate for Director</b></p> <p>Masamichi Terabatake was appointed President and Chief Executive Officer of the Company in January 2018, and then Representative Director and President in March of the same year. He has used the extensive experience and his knowledge and powerful leadership in relation to global business management, accumulated in a range of duties such as the drawing up and execution of management strategy both in Japan and overseas, and the execution of the business of the International Tobacco Business in his role as Executive Vice President of JT International S.A., and in doing so has been a driver of the growth of the Group. We judge that his extraordinary insights and wide-ranging outlook, together with his enhanced reforming capabilities, are indispensable for the management of the Group going forward, and hence we propose his reelection as a Member of the Board.</p>
	<p><b>(Significant Concurrent Positions outside the Company)</b></p> <p>Managing Director, JT International Group Holding B.V.</p>	

- (Notes)
1. No conflict of interest exists between the Company and Masamichi Terabatake.
  2. Masamichi Terabatake has served concurrently as President, Tobacco Business since January 1, 2020.
  3. Masamichi Terabatake is expected to become Chairman and Managing Director of JT International Group Holding B.V., following a meeting of the Managing Board of that company scheduled for May 2020.

4

Naohiro Minami

(Born January 21, 1964)

Number of the Company's Shares Held

14,800

**Brief Personal History, Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company**

April 1986	Joined the Company
December 2005	Controller
July 2010	Deputy Financial Officer and Controller
June 2012	Senior Vice President, Chief Financial Officer and Controller
July 2012	Senior Vice President, Chief Financial Officer
January 2018	Executive Vice President, Chief Financial Officer and Communications
March 2018	Representative Director and Executive Vice President, Chief Financial Officer and Communications (Current Position)



Reappointed

**Reasons for nomination as a candidate for Director**

Naohiro Minami was appointed Executive Vice President of the Company in January 2018, and then Representative Director and Executive Vice President in March of the same year. He has fully leveraged the wide-ranging and deep knowledge that he cultivated during his service as Controller, and Senior Vice President, Chief Financial Officer, particularly in the field of accounting and finance, to play a key role in the management of the Company and contribute to its growth. We judge that his accurate decision-making and strategic thinking, and the diverse experience on which they are based, make a contribution to maintaining and broadening the management base that provides the support for the expansion of the Group's business, and will be indispensable in driving the Group's management further forward, for which reason we propose his reelection as a Member of the Board.

**(Significant Concurrent Positions outside the Company)**

Supervisory Board member, JT International Holding B.V.

(Note) No conflict of interest exists between the Company and Naohiro Minami.


 <div style="border: 1px solid black; padding: 2px; width: fit-content; margin: 10px auto;">Reappointed</div>	<b>Brief Personal History, Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company</b>	
	<p>April 1989      Joined the Company</p> <p>July 2010      Vice President, Legal Division</p> <p>June 2012      Senior Vice President, Chief Legal Officer and Vice President, Legal Division</p> <p>July 2014      Senior Vice President, Chief Legal Officer</p> <p>January 2015    Senior Vice President, Head of Tobacco Business Planning Division, Tobacco Business</p> <p>January 2017    Senior Vice President, Human Resources</p> <p>January 2018    Executive Vice President, Compliance, General Affairs, Legal, Corporate Strategy, IT, CSR, Human Resources and Operation Review &amp; Business Assurance</p> <p>March 2018     Representative Director and Executive Vice President, Compliance, General Affairs, Legal, Corporate Strategy, IT, CSR, Human Resources and Operation Review &amp; Business Assurance</p> <p>January 2019    Representative Director and Executive Vice President, Legal, Corporate Strategy, Digitalization, Human Resources, Operation Review &amp; Business Assurance, Pharmaceutical Business and Food Business (Current Position)</p>	<p><b>Reasons for nomination as a candidate for Director</b></p> <p>Kiyohide Hirowatari was appointed Executive Vice President of the Company in January 2018, and then Representative Director and Executive Vice President in March of the same year. He has acquired leadership and wide-ranging knowledge in such areas of company law, business management and HR during his time serving in diverse and important roles, including Senior Vice President, Chief Legal Officer, Head of Tobacco Business Planning Division, Tobacco Business, and Senior Vice President, Human Resources, and has utilized them to maintain a foundation for the Company's sustainable growth and to draw up strategy. We judge that his keen discernment and accurate decision-making, which is based on the knowledge and experience he has cultivated in a broad range of fields, will prove indispensable in the Group's management going forward, for which reason we propose his reelection as a Member of the Board.</p>

(Note) No conflict of interest exists between the Company and Kiyohide Hirowatari.


Brief Personal History, Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company		Reasons for nomination as a candidate for Director
April 1986	Joined the Company	
May 2007	Vice President, Corporate, Scientific & Regulatory Affairs Division, Tobacco Business Headquarters	
July 2009	Vice President, Corporate Affairs Division, Tobacco Business Headquarters	
June 2010	Senior Vice President, Chief Corporate, Scientific & Regulatory Affairs Officer, Tobacco Business	
January 2015	Senior Vice President, Head of China Division, Tobacco Business	
January 2019	Senior Vice President, Chief Sustainability Officer, Compliance and General Affairs	
March 2019	Member of the Board and Senior Vice President, Chief Sustainability Officer, Compliance and General Affairs (Current Position)	

Reappointed

(Note) No conflict of interest exists between the Company and Kazuhito Yamashita.

Candidate Number		Number of years as Outside Director	7 years and 9 months																					
7	<b>Main Kohda</b>	(at the conclusion of this Ordinary General Meeting of Shareholders)																						
	(Born April 25, 1951)	Number of the Company's Shares Held	0																					
 <div style="border: 1px solid black; padding: 5px; margin: 5px; width: fit-content; margin: 5px;">Reappointed</div> <div style="border: 1px solid black; padding: 5px; margin: 5px; width: fit-content; margin: 5px;">Outside Director</div> <div style="border: 1px solid black; padding: 5px; margin: 5px; width: fit-content; margin: 5px;">Independent Director</div>	<b>Brief Personal History, Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company</b>																							
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%;">September 1995</td> <td>Started independently as Novelist (Current Position)</td> <td rowspan="10" style="vertical-align: top; padding: 5px;"> <b>Reasons for nomination as a candidate for Outside Director</b>  Main Kohda assumed the position of Outside Director of the Company in June 2012. We have benefited from her in-depth knowledge of international finance, her broad experience gained from serving on government examination committees and similar positions, and her deep insight and objective point of view that she has demonstrated through her activities as a novelist being reflected in the management of the Company and she has worked tirelessly to supervise business execution from a fair and independent standpoint. She has also contributed enormously to improving corporate governance in the Group through actively providing proposals and advice to the Board of Directors and the Advisory Panel on Nomination and Compensation of the Company. We therefore propose her reelection as Outside Director of the Company as we believe her wide-ranging experience and broad knowledge are essential for the Company's Group management going forward. </td> </tr> <tr> <td>January 2003</td> <td>Member of Financial System Council, Ministry of Finance Japan</td> </tr> <tr> <td>April 2004</td> <td>Visiting professor, Faculty of Economics, Shiga University</td> </tr> <tr> <td>March 2005</td> <td>Member of the Council for Transport Policy, Ministry of Land, Infrastructure, Transport and Tourism</td> </tr> <tr> <td>November 2006</td> <td>Member of the Tax Commission, Cabinet Office, Government of Japan</td> </tr> <tr> <td>June 2010</td> <td>Member of the Board of Governors, Japan Broadcasting Corporation (Resigned in June 2013)</td> </tr> <tr> <td>June 2012</td> <td>Outside Director of the Company (Current Position)</td> </tr> <tr> <td>June 2013</td> <td>Outside Director, LIXIL Group Corporation (Resigned in June 2019)</td> </tr> <tr> <td>June 2016</td> <td>Outside Director, Japan Exchange Group, Inc. (Current Position)</td> </tr> <tr> <td>June 2018</td> <td>Outside Director, MITSUBISHI MOTORS CORPORATION (Current Position)</td> </tr> </table>	September 1995	Started independently as Novelist (Current Position)	<b>Reasons for nomination as a candidate for Outside Director</b> Main Kohda assumed the position of Outside Director of the Company in June 2012. We have benefited from her in-depth knowledge of international finance, her broad experience gained from serving on government examination committees and similar positions, and her deep insight and objective point of view that she has demonstrated through her activities as a novelist being reflected in the management of the Company and she has worked tirelessly to supervise business execution from a fair and independent standpoint. She has also contributed enormously to improving corporate governance in the Group through actively providing proposals and advice to the Board of Directors and the Advisory Panel on Nomination and Compensation of the Company. We therefore propose her reelection as Outside Director of the Company as we believe her wide-ranging experience and broad knowledge are essential for the Company's Group management going forward.	January 2003	Member of Financial System Council, Ministry of Finance Japan	April 2004	Visiting professor, Faculty of Economics, Shiga University	March 2005	Member of the Council for Transport Policy, Ministry of Land, Infrastructure, Transport and Tourism	November 2006	Member of the Tax Commission, Cabinet Office, Government of Japan	June 2010	Member of the Board of Governors, Japan Broadcasting Corporation (Resigned in June 2013)	June 2012	Outside Director of the Company (Current Position)	June 2013	Outside Director, LIXIL Group Corporation (Resigned in June 2019)	June 2016	Outside Director, Japan Exchange Group, Inc. (Current Position)	June 2018	Outside Director, MITSUBISHI MOTORS CORPORATION (Current Position)		
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- (Notes)
1. No conflict of interest exists between the Company and Main Kohda.
  2. The Company has entered into an agreement with Main Kohda to limit her liabilities stipulated in Article 423, paragraph 1 of the Companies Act to the extent permitted by the laws and regulations. Should her election be approved, the Company intends to extend the agreement.
  3. Main Kohda satisfies the Criteria for Evaluating the Independence of Outside Executives of the Company and the requirements of an independent director prescribed by the Tokyo Stock Exchange, Inc.  
The Company pays a certain level of receiving fees to Japan Broadcasting Corporation (“NHK”) under a broadcast receiving contract concluded, pursuant to the Broadcast Act, with NHK, where Main Kohda was assigned as a Member of the Board of Governors until June 2013, but the amount paid in receiving fees in fiscal 2019 came to less than 0.001% of NHK’s consolidated total operating income in the fiscal year ended March 2019, and less than 0.001% of the Company’s consolidated revenue in fiscal 2019, and was therefore negligible. Payment of the receiving fees is based on the Broadcast Act, and are non-negotiable, and are not therefore categorized as business transactions. Excluding payment of the receiving fees, the Company has no transactional business relationship with NHK.  
In addition, the Company pays listing-related fees, etc. to Tokyo Stock Exchange, Inc., a subsidiary of Japan Exchange Group, Inc., where Main Kohda serves as an Outside Director. However, in fiscal 2019 the amount paid in listing-related fees, etc. came to less than 0.005% of consolidated operating revenue for Japan Exchange Group, Inc. in the fiscal year ended March 2019, and less than 0.001% of the Company’s consolidated revenue in fiscal 2019, and was therefore negligible.  
We judge that this relationship has no impact on her independence.
  4. The Company has designated Main Kohda as an independent director as prescribed by the Tokyo Stock Exchange, Inc. and intends to designate her as such again, should her election be approved.

Candidate Number	<b>8 Koichiro Watanabe</b>	Number of years as Outside Director (at the conclusion of this Ordinary General Meeting of Shareholders)	2 years	
	(Born April 16, 1953)	Number of the Company's Shares Held	0	
  <div style="border: 1px solid black; padding: 2px; width: fit-content; margin: 5px auto;">Reappointed</div>  <div style="border: 1px solid black; padding: 2px; width: fit-content; margin: 5px auto;">Outside Director</div>  <div style="border: 1px solid black; padding: 2px; width: fit-content; margin: 5px auto;">Independent Director</div>	<b>Brief Personal History, Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company</b>			
	April 1976	Joined The Dai-ichi Mutual Life Insurance Company	<b>Reasons for nomination as a candidate for Outside Director</b> Koichiro Watanabe assumed the position of Outside Director of the Company in March 2018. We have benefited from his high degree of knowledge and outstanding experience in corporate management which, over the course of many years, he has used to drive business operations that successfully combined both healthy financials and high profitability, being reflected in the management of the Company, and he has worked tirelessly to supervise business execution from a fair and independent standpoint. He has also contributed enormously to improving corporate governance in the Group through actively providing proposals and advice to the Board of Directors and the Advisory Panel on Nomination and Compensation of the Company. He has abundant experience in working to strengthen the governance structure, is deeply familiar with capital markets, and has objective, wide-ranging insight from an investor's perspective. These attributes are expected to remain indispensable for the Group going forward, for which reason we propose his reelection as Outside Director of the Company.	
	July 2001	Director, The Dai-ichi Mutual Life Insurance Company		
	April 2004	Managing Director, The Dai-ichi Mutual Life Insurance Company		
	July 2004	Managing Executive Officer, The Dai-ichi Mutual Life Insurance Company		
	July 2007	Director and, Managing Executive Officer, The Dai-ichi Mutual Life Insurance Company		
	April 2008	Director and, Senior Managing Executive Officer, The Dai-ichi Mutual Life Insurance Company		
	April 2010	Representative Director and President, The Dai-ichi Life Insurance Company, Limited		
	October 2016	Representative Director and President, Dai-ichi Life Holdings, Inc.		
	April 2017	Representative Director and Chairman of the Board, Dai-ichi Life Holdings, Inc. (Current Position) Representative Director and Chairman of the Board, The Dai-ichi Life Insurance Company, Limited (Current Position)		
March 2018	Outside Director of the Company (Current Position)			
May 2019	Vice Chair, Director, KEIDANREN (Japan Business Federation) (Current Position)			
<b>(Significant Concurrent Positions outside the Company)</b>				
Representative Director and Chairman of the Board, Dai-ichi Life Holdings, Inc. Representative Director and Chairman of the Board, The Dai-ichi Life Insurance Company, Limited Vice Chair, Director, KEIDANREN (Japan Business Federation)				

- (Notes)
- No conflict of interest exists between the Company and Koichiro Watanabe.
  - The Company has entered into an agreement with Koichiro Watanabe to limit his liabilities stipulated in Article 423, paragraph 1 of the Companies Act to the extent permitted by the laws and regulations. Should his election be approved, the Company intends to extend the agreement.
  - Koichiro Watanabe satisfies the Criteria for Evaluating the Independence of Outside Executives of the Company and the requirements of an independent director prescribed by the Tokyo Stock Exchange, Inc.  
 The Dai-ichi Life Insurance Company, Limited, of which he is Representative Director and Chairman of the Board, holds shares of the Company, but this constitutes less than 1% of the total shares.  
 Although the Company has a business relationship with The Dai-ichi Life Insurance Company, Limited, of which he is Representative Director and Chairman of the Board, in relation to pension fund management etc., but the value of the business in fiscal 2019 was negligible, coming to less than 0.001% of ordinary revenues for The Dai-ichi Life Insurance Company, Limited in the fiscal year ended March 2019, and less than 0.002% of the Company's consolidated revenue in fiscal 2019.  
 The Company pays membership fees etc. to the Keidanren (Japan Business Federation), where Koichiro Watanabe serves as Vice Chair, Director, but the amount paid in membership fees, etc. in fiscal 2019 came to less than 0.4% of the ordinary income of the Keidanren in the fiscal year ended March 2019, and less than 0.001% of the Company's consolidated revenue in fiscal 2019, and was therefore negligible.  
 We judge that this relationship has no impact on his independence.

4. At Dai-ichi Life Holdings, Inc., where Koichiro Watanabe serves as Representative Director and Chairman of the Board, Yasushi Shingai, who was a Member of the Board of the Company until March 2018 and who had also served in the past as a person who executes business, assumed the role of Outside Director of Dai-ichi Life Holdings, Inc. in June 2019, but Koichiro Watanabe fulfills the Criteria for Evaluating the Independence of Outside Executives established by the Company, as well as the requirements for independence prescribed by the Tokyo Stock Exchange, Inc. Moreover, Yasushi Shingai resigned as a Director of the Company at the conclusion of the Ordinary General Meeting of Shareholders held on March 27, 2018, since which time he has had no involvement in the management or execution of business of the Company.
5. The Company has designated Koichiro Watanabe as an independent director as prescribed by the Tokyo Stock Exchange, Inc. and intends to designate him as such again, should his election be approved.



Candidate Number	9	Yukiko Nagashima (Born April 4, 1961)	Number of years as Outside Director (at the conclusion of this Ordinary General Meeting of Shareholders)	1 year
			Number of the Company's Shares Held	0
<b>Brief Personal History, Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company</b>				
	April 1985	Joined Recruit Co., Ltd. (Current Recruit Holdings Co., Ltd.)	<b>Reasons for nomination as a candidate for Outside Director</b>  Yukiko Nagashima assumed the position of Outside Director of the Company in March 2019. We have benefited from her experience in corporate management and execution of business in a wide range of fields, such as emerging businesses and temporary staffing and objective point of view based on her experience as a Member of the Audit and Supervisory Boards being reflected in the management of the Company and she has worked tirelessly to supervise business execution from a fair and independent standpoint. She has also contributed enormously to improving corporate governance in the Group through actively providing proposals and advice to the Board of Directors and the Advisory Panel on Nomination and Compensation of the Company. We judge that her experience from the perspectives of both management and audit, and the high degree of knowledge she has cultivated thereby will be indispensable in the Group's management going forward, for which reason we propose her reelection as Outside Director of the Company.	
	April 2006	Corporate Executive Officer, Recruit Co., Ltd.		
	January 2008	President and Representative Director, Recruit Staffing Co., Ltd. (Resigned in March 2016)		
	October 2012	Corporate Executive Officer, Recruit Holdings Co., Ltd.		
	June 2016	Standing Audit and Supervisory Board Member, Recruit Holdings Co., Ltd. (Current Position)		
	April 2018	Standing Audit and Supervisory Board Member, Recruit Co., Ltd. (Current Position)		
	March 2019	Outside Director of the Company (Current Position)		
<div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 5px auto;">Reappointed</div> <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 5px auto;">Outside Director</div> <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 5px auto;">Independent Director</div>				
<b>(Significant Concurrent Positions outside the Company)</b>				
Standing Audit and Supervisory Board Member, Recruit Holdings Co., Ltd.				
Standing Audit and Supervisory Board Member, Recruit Co., Ltd.				

- (Notes)
- No conflict of interest exists between the Company and Yukiko Nagashima.
  - The Company has entered into an agreement with Yukiko Nagashima to limit her liabilities stipulated in Article 423, paragraph 1 of the Companies Act to the extent permitted by the laws and regulations. Should her election be approved, the Company intends to extend the agreement.
  - Yukiko Nagashima satisfies the Criteria for Evaluating the Independence of Outside Executives of the Company and the requirements of an independent director prescribed by the Tokyo Stock Exchange, Inc. Although the Company has business relationships with both Recruit Holdings Co., Ltd. and Recruit Co., Ltd., of which she is Standing Audit and Supervisory Board Member, in relation to recruitment etc., the value of the business in fiscal 2019 was negligible, coming to less than 0.01% of consolidated revenue for Recruit Holdings Co., Ltd. in the fiscal year ended March 2019, and less than 0.02% of the Company's consolidated revenue in fiscal 2019. We judge that this relationship has no impact on her independence.
  - The Company has designated Yukiko Nagashima as an independent director as prescribed by the Tokyo Stock Exchange, Inc. and intends to designate her as such again, should her election be approved.
  - Recruit Holdings Co., Ltd. and Recruit Co., Ltd., where Yukiko Nagashima serves as a standing Audit and Supervisory Board Member, have received a recommendation in May 2019 from the Japan Fair Trade Commission for actions alleged to infringe the Act Concerning Special Measures for Correcting Practices Impeding Consumption Tax Pass-on, etc. with the Aim to Ensure Smooth and Proper Pass-on of Consumption Tax, in relation to payment of consignment fees to the consignee company. In addition, at Recruit Career Co., Ltd., a subsidiary of Recruit Co., Ltd. where she serves as a standing Audit and Supervisory

Board Member, and which had concluded a business outsourcing contract with Recruit Co., Ltd., a service called “Rikunabi DMP Follow,” which indicated the possibility of students withdrawing from their selections or provisional agreement to join companies, was the subject of a recommendation and directive in December 2019 from the Personal Information Protection Commission for alleged infringements of the Act on the Protection of Personal Information, etc., while in December 2019 the Tokyo Labour Bureau issued an administrative directive on the basis that there had been an infringement of the Employment Security Act and the guidelines of said Act. In both cases Yukiko Nagashima was unaware of the circumstances in question until the above events came to light, but at meetings of the Board of Directors she has frequently shared her opinions from the viewpoint of legal compliance. After the above events came to light, in both cases she worked to gather information from the internal audit division, and to offer opinions and confirmation in relation to measures to prevent the recurrence.

**Reference: Composition of the Board of Directors after election (Plan)**

Name		Positions and Responsibilities in the Company	Attendance at meetings of the Board of Directors	Number of years as Member of the Board	Number of significant concurrent positions	Advisory Panel on Nomination and Compensation
[Reappointed]	Yasutake Tango	Chairman of the Board	14/14 (100%)	5 years and 9 months	1	●
[Reappointed]	Mutsuo Iwai	Deputy Chairman of the Board	14/14 (100%)	4 years	-	-
[Reappointed]	Masamichi Terabatake	Representative Director and President, Chief Executive Officer	14/14 (100%)	2 years	1	-
[Reappointed]	Naohiro Minami	Representative Director and Executive Vice President, Chief Financial Officer and Communications	14/14 (100%)	2 years	1	-
[Reappointed]	Kiyohide Hirowatari	Representative Director and Executive Vice President, Legal, Corporate Strategy, Digitalization, Human Resources, Operation Review & Business Assurance, Pharmaceutical Business and Food Business	14/14 (100%)	2 years	-	-
[Reappointed]	Kazuhito Yamashita	Member of the Board and Senior Vice President, Chief Sustainability Officer, Compliance and General Affairs	10/10 (100%)	1 year	-	-
[Reappointed]	Main Kohda [Outside Director] [Independent Director]	Outside Director	14/14 (100%)	7 years and 9 months	3	●
[Reappointed]	Koichiro Watanabe [Outside Director] [Independent Director]	Outside Director	14/14 (100%)	2 years	3	●
[Reappointed]	Yukiko Nagashima [Outside Director] [Independent Director]	Outside Director	10/10 (100%)	1 year	2	●

(Notes) 1. Attendance at meetings of the Board of Directors held in fiscal 2019 is presented.

2. The numbers of years as Member of the Board at the conclusion of this Ordinary General Meeting of Shareholders are presented.
3. Representative Director and President, Chief Executive Officer Masamichi Terabatake also serves as President, Tobacco Business.

**【Reference】 Evaluation of Effectiveness of the Board of Directors of the Company**

With regard to the effectiveness of the Board of Directors, in addition to annual questionnaire-based self-evaluations by Members of the Board and Audit & Supervisory Board Members from the standpoint of such themes as business operation systems and supervisory functions of the Board of Directors, and dialogue with shareholders and investors, before compiling the results the Board of Directors Secretariat also conducts individual interviews with the aim of supplementing the results of the evaluations.

The results of the self-evaluations are assessed and analyzed at the Board of Directors, leading to further improvements in its effectiveness.

In the evaluation of effectiveness conducted for fiscal 2018, the items undergoing evaluation obtained good results on the whole, allowing the Company to confirm that the effectiveness of the Board of Directors is improving and the Board of Directors is functioning effectively. Conversely, because issues were identified with regard to the further strengthening of cooperation between Outside Directors and Audit & Supervisory Board Members, and better sharing of information that could contribute to further enhancements in the quality of decision-making at the Board of Directors, various improvements were undertaken in fiscal 2019, such as increasing the number of meetings to exchange opinions between the Outside Directors and the Audit & Supervisory Board Members, and providing more and better information sharing / advance explanation in relation to items on the Board of Directors agenda.

Also, in fiscal 2020 and beyond, the Company will give priority to the initiatives of planning opportunities for information sharing that will further enhance the supervisory functions of the Board of Directors, selecting the matters to be shared and the level of detail and depth of that information, which were specific issues identified in the fiscal 2019 effectiveness evaluation.

The Company will continue to implement improvements required to further enhance effectiveness, including the above-mentioned activities.

**【Reference】 Criteria for Evaluating the Independence of Outside Executives**

The Company has established a Criteria for Evaluating the Independence of Outside Executives and Independent Directors/Audit & Supervisory Board Members must not fall under any of the following categories.

- 1 A person who belongs or belonged to JT or an affiliate or sister company of JT
- 2 A person who belongs to a company or any other form of organization of which JT is a major shareholder
- 3 A person who is a major shareholder of JT or who belongs to a company or any other form of organization which is a major shareholder of JT
- 4 A person who is a major supplier or customer of JT (if the supplier or customer is a company or any other form of organization, a person who belongs thereto)
- 5 A major creditor of JT including a major loan lender (if the creditor is a company or any other form of organization, a person who belongs thereto)
- 6 A certified public accountant who serves as an accounting auditor or an audit advisor of JT, or a person who belongs to an auditing firm which serves as an accounting auditor or an audit advisor of JT
- 7 A person who receives a large amount of fees from JT in exchange for providing professional services for legal, financial and tax affairs or business consulting services (if the recipient of such fee is a company or any other form of organization, a person who belongs thereto)
- 8 A person who receives a large amount of donation from JT (if the recipient of such donation is a company or any other form of organization, a person who belongs thereto)
- 9 A person who has fit any of the descriptions in 2 to 8 above in the recent past
- 10 A close relative of a person who fits any of the following descriptions:
  - (1) A person who fits any of the descriptions in 2 to 8 above (if such descriptions apply to a company or any other form of organization, a person who performs important duties thereof)
  - (2) A member of the board, audit & supervisory board member, audit advisor, executive officer or employee of JT or an affiliate or sister company of JT
  - (3) A person who has fit the descriptions in (1) or (2) in the recent past

**【Reference】 Nomination of Member of the Board Candidates**

In “JT Corporate Governance Policy,” the Company prescribes the following.

Nomination of Member of the Board candidates and Audit & Supervisory Board Member candidates, dismissal of Executive Directors and Members of the Board who execute the business and related matters shall be conducted under the appropriate supervision of the Board of Directors, according to the following policies and procedures.

- JT shall work 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, JT aspires 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 mainly of Independent Outside Director.

- Member of the Board candidates shall be nominated by resolution of the Board of Directors. The resolution shall be made after securing opportunities for receiving appropriate advice from Independent Outside Director 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. Audit & Supervisory Board Member candidates shall be nominated by resolution of the Board of Directors as persons who is expected to perform their duties appropriately from a position independent of the Board of Directors. The resolution shall be made after securing opportunities for receiving appropriate advice from Independent Outside Director 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, and receiving prior consent from the Audit & Supervisory Board.
- Dismissal of Executive Directors and Members of the Board who execute the business in the cases where they do not meet the required qualifications or have become unable to perform their duties shall be made by resolution of the Board of Directors after securing opportunities for receiving appropriate advice from Independent Outside Director by having those Members of the Board 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 Member of the Board candidates and Audit & Supervisory Board Member candidates at the shareholders’ meeting, and when the Board of Directors has resolved to dismiss a Member of the Board who execute the business, JT shall disclose the reasons for the appointment of individual candidates and for the dismissal.

**Item 4:** Determination of Remuneration for Granting Restricted Stock and Performance Share Units to Members of the Board Who Also Serve as Executive Officers, and Revision of Remuneration Amount for Members of the Board

The remuneration amount for Members of the Board of the Company was approved at an annual level not exceeding ¥1.2 billion annually (including ¥80 million annually for Outside Directors) at the 34th Ordinary General Meeting of Shareholders held on March 20, 2019 and stock option grants were approved at an annual level not exceeding ¥240 million annually and with the total number of subscription rights to shares not exceeding 960 annually at the same General Meeting of Shareholders. Said amounts and number have remained unchanged since.

In order to strengthen the efforts to enhance the mid- to long-term company value and to further promote the shared value with the shareholders, the Company has revised the executive remuneration plan and proposes to abolish the existing stock option plan and introduce the restricted stock remuneration plan (the “Plan I”) and the performance share unit plan (performance-linked stock compensation plan; the “Plan II,” and the Plan I and the Plan II are collectively referred to as the “Plan”) for the Company’s Members of the Board who also serve as Executive Officers (“Eligible Directors”) as follows.

Accordingly, the Company wishes to newly pay the Eligible Directors, under the Plan I, “restricted stock remuneration” that is monetary remuneration claims for the purpose of distributing the Company’s ordinary shares with provisions attached such as lifting a transfer restriction on condition of serving as Member of the Board, etc. of the Company continually for a certain period, and under the Plan II, “performance share units” that are monetary remuneration claims and cash for the purpose of distributing the Company’s ordinary shares as payment corresponding to the rate of achievement, etc. of the targets of operating results, etc. over multiple fiscal years. The amount of monetary remuneration claims or cash to be delivered to the Eligible Directors under the Plan shall not exceed ¥210 million per year for “the restricted stock remuneration” and shall not exceed ¥130 million per year for “the performance share units.”

Specific timing of provision and allocation to each Eligible Director shall be determined by the Company’s Board of Directors. In the event that this proposition is approved, the existing stock option plan will be abolished and new subscription rights to shares will not be allotted as stock options in the future. (Stock options that were already granted will remain in force.)

In order to ensure appropriateness of the remuneration for Members of the Board and transparency of decision-making process, deliberations of the Advisory Panel on Nomination and Compensation of the Company, which is comprised mainly of Independent Outside Director, were conducted on the introduction of the Plan. A recommendation on this plan revision was made based on its view that the Plan has a structure that further enhances the shared value with the shareholders and promotes commitment to sustainable growth over the mid- to long-term and the content is adequate.

In conjunction with the increase of the total amount of remuneration due to the abolition of the current stock option plan and the introduction of the Plan, the Company would like to revise the total amount of remuneration for all Members of the Board, which comprises base salary and executive bonus, from ¥1.2 billion per year (including total remuneration for Outside Directors up to ¥80 million per year) to up to ¥1.1 billion per year (including total remuneration for Outside Directors up to ¥80 million per year). However, subject to the approval of this proposition, the total amount of remuneration (which includes base salary, executive bonus, restricted stock and performance share unit) for all Members of the Board will not exceed ¥1.44 billion. There is no change from the total amount of current remuneration for Members of the Board that also includes stock options.

If Item 3 is approved, there will be nine (9) Members of the Board (including three (3) Outside Directors), which include four (4) Eligible Directors for the Plan.

(Illustration of remuneration for Members of the Board, etc.)

Original				
Remuneration amount		Members of the Board (excl. Outside Directors)		Outside Directors
		Executive Officer	Not an Executive Officer	
Base salary	up to ¥1.2 billion (incl. ¥80 million for Outside Directors)	Applicable	Applicable	Applicable
Executive bonus		Applicable	Not applicable	Not applicable
Stock option grants	up to ¥240 million Subscription rights to shares up to 960 units (192,000 shares equivalent)	Applicable	Applicable	Not applicable

Total remuneration amount	up to ¥1.44 billion
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New				
Remuneration amount		Members of the Board (excl. Outside Directors)		Outside Directors
		Executive Officer	Not an Executive Officer	
Base salary	<b>up to ¥1.1 billion</b> <b>(incl. ¥80 million for Outside Directors)</b>	Applicable	Applicable	Applicable
Executive bonus		Applicable	Not applicable	Not applicable
<b>Restricted stock remuneration</b>	<b>up to ¥210 million</b> <b>(up to 115,200 shares)</b>	Applicable	Not applicable	Not applicable
<b>Performance share units</b>	<b>up to ¥130 million</b> <b>(up to 76,800 shares)</b>	Applicable	Not applicable	Not applicable

Total remuneration amount	up to ¥1.44 billion
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- (Notes)
1. Items indicated in red are those to be approved in this proposition.
  2. Since Members of the Board who do not serve as Executive Officers have a role in fulfilling supervisory functions including monitoring the execution of mid- to long-term growth strategy and focus on governance with more emphasis on objectivity and neutrality, effective from January 1, 2020, they shall not be eligible for the stock option plan as a mid- to long-term incentive and the remuneration for them shall be composed of base salary alone and paid at a fixed amount monthly.
  3. For the Outside Directors, the remuneration shall also be composed of base salary alone and paid at a fixed amount monthly in light of independence and the role to be assumed in the duties.



## Overview of the Plan I (Restricted Stock Remuneration Plan)

The Plan I is a plan under which monetary remuneration claims are provided to each Eligible Director as remuneration associated with restricted stocks in each fiscal year based on resolution of the Company's Board of Directors, and each Eligible Director receives allotment of ordinary shares of the Company by providing all the monetary remuneration claims by means of contribution in kind (the allotment is made by means of disposal of treasury stock). In disposal of ordinary shares of the Company due to the Plan I, a restricted stock allotment agreement shall be concluded between the Company and each Eligible Director. The monetary compensation towards the purchase of the Company's restricted stock will be 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 Company's Board of Directors, the closing price of the immediately preceding trading day will be used. This price of share will be decided by the Company's Board of Directors within a scope that is not particularly advantageous to the Eligible Directors who will receive the restricted stock.

In addition, the allocation of monetary remuneration claims to the Eligible Directors, assumes that such director accepts the compensation as contribution in kind and enters into the restricted stock allotment agreement.

Details of the Plan I are as follows. Any other matters regarding the Plan I shall be determined by the Company's Board of Directors.

Eligible persons	Members of the Board of the Company also serving as Executive Officers *1
Class of shares to be allotted	Ordinary shares (those to which transfer restriction is applied under the allotment agreement)
Amount of monetary remuneration claims to be granted (the upper limit)	¥210 million per year
Upper limit of the number of shares to be allotted	115,200 shares per year in total to all the Eligible Directors *2
Restriction period	30 years from the allotment date
Removal of transfer restrictions	Removed at the time of retirement due to expiration of the term or resignation due to other reasonable reasons
Shares to be distributed under the Plan I as a percentage of the total number of shares issued	0.006% *3

\*1 Members of the Board who do not serve as Executive Officers and Outside Directors are not eligible.

\*2 The total number of shares (upper limit) to be allotted under the Plan I and the Plan II is the same as the number of shares (192,000 shares) corresponding to the upper limit (960 units) of the subscription rights to shares set under the current stock option plan.

\*3 This is the percentage of the total number of shares issued as of December 31, 2019 (excluding treasury stock).

### (1) The total amount of monetary remuneration claims and number of shares under the Plan I

The total amount of monetary remuneration claims for all Eligible Directors together shall not exceed ¥210 million per year or the total number of ordinary shares allotted by the Company shall not exceed 115,200 shares per year. If there is a stock split, stock consolidation, or any other event requiring adjustment to the total number of ordinary shares of the Company to be allocated as restricted stocks after this proposition has been approved, the relevant total number shall be adjusted accordingly within a reasonable range.

(2) Transfer restriction period and details

The restriction period will be 30 years (“Restriction Period”). During this period restrictions will be applied on the allotted shares (“Allotted Shares”), so that each Eligible Director is prohibited to transfer the Allotted Shares, pledge them, mortgage them, or use any arrangement to dispose them.

(3) Removal of transfer restrictions

In case any Eligible Director retires due to expiration of the term or resigns due to reasons deemed reasonable by the Company’s Board of Directors, from a position as Member of the Board or any other positions separately specified by the Company’s Board of Directors during the Restriction Period, the transfer restrictions will be removed on all the Allotted Shares.

(4) Revocation of Allotted Shares without any compensation

Allotted Shares will be revoked by the Company if an Eligible Director violates any laws and regulations or falls under any other event specified by the Company’s Board of Directors during the Restriction Period, the Company retains the right to acquire all or part of the Allotted Shares without any compensation.

(5) Handling in the case of reorganization

During the Restriction Period, if the Company becomes defunct due to merger or organization restructuring, the transfer restrictions for Allotted Shares will be removed following the resolution of the Company’s Board of Directors before the effective date of such reorganization.

**Overview of the Plan II (Performance Share Unit Remuneration)**

The Plan II offers monetary remuneration claims and cash to deliver the Company’s ordinary shares, to the Eligible Directors as a performance-linked stock compensation. The monetary remuneration claims and cash are calculated after the performance evaluation period that is aligned with the duration of the Company’s three-year Business Plan that starts from the fiscal year subject to provision (the “Performance Evaluation Period”) (\*) in accordance with the rate of achievement of performance and other targets during the Performance Evaluation Period, which are determined through deliberations of the Advisory Panel on Nomination and Compensation of the Company. Thus, the monetary remuneration claims to deliver ordinary shares of the Company and cash are provided to Eligible Directors after the Performance Evaluation Period expires, in principle. Each Eligible Director receives allotment of ordinary shares of the Company by providing all the monetary remuneration claims by means of contribution in kind (the allotment is made by means of disposal of treasury stock). The monetary compensation towards the purchase of the Company’s ordinary shares will be 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 Company’s Board of Directors, the closing price of the immediately preceding trading day will be used. This price of share will be decided by the Company’s Board of Directors within a scope that is not particularly advantageous to the Eligible Directors who will receive the performance share units. In addition, since monetary remuneration claims and cash to deliver the Company’s ordinary shares are granted according to the above achievement rate of performance and other targets, the allocation of the monetary remuneration claims and cash to the Eligible Directors, the amount of the claims and cash to deliver the Company’s ordinary shares, and the number of shares delivered are not decided at the time of the introduction of the Plan II.

\* The first fiscal year that will be subject to provision by the performance share unit plan will be 2020, and the first Performance Share Unit Plan will be effective for a three-year evaluation period starting from the fiscal year of 2020 and ending in 2022. This performance share unit plan will be effective beyond 2021 and new evaluation period will start every year, further the remuneration will be decided with the limits approved in this Ordinary General Meeting of Shareholders.

Details of the Plan II are as follows. Any other matters regarding the Plan II shall be determined by the Company's Board of Directors.

Eligible persons	Members of the Board of the Company also serving as Executive Officers *1
Class of shares to be allotted	Ordinary shares
Amount of monetary remuneration claims and cash to be granted (the upper limit)	¥130 million per year
Upper limit of the number of shares to be allotted	76,800 shares per year in total to all the Eligible Directors *2
Performance Evaluation Period	3 years
Shares to be distributed under the Plan II as a percentage of the total number of shares issued	0.004% *3

\*1 Members of the Board who do not serve as Executive Officers and Outside Directors are not eligible.

\*2 The total number of shares (upper limit) to be allotted under the Plan I and the Plan II is the same as the number of shares (192,000 shares) corresponding to the upper limit (960 units) of the subscription rights to shares set under the current stock option plan.

\*3 This is the percentage of the total number of shares issued as of December 31, 2019 (excluding treasury stock).

(1) The upper limit on total amount of monetary remuneration claims and cash and number of shares under the Plan II

The total amount of monetary remuneration claims and cash for all Eligible Directors together shall not exceed ¥130 million per year or the total number of ordinary shares allotted by the Company shall not exceed 76,800 shares per year. If there is a stock split, stock consolidation, or any other event requiring adjustment to the total number of ordinary shares of the Company to be allocated after this proposition has been approved, the relevant total number shall be adjusted accordingly within a reasonable range.

(2) Share allotment and cash calculation methodology

The Company determines performance indicators (in the initial Performance Evaluation Period, the Company plans to use the profit as performance indicator which is one of the key indicators of Business Plan 2020) and others such as performance-linked figures for the Plan II which are necessary to specifically calculate the number of shares to be distributed, reviewed by the Advisory Panel on Nomination and Compensation of the Company. In the specific calculation, the number of shares of the Company to be distributed to each Eligible Director is calculated based on the formula in i) below (however, any fraction of less than one share shall be rounded down), and the amount of cash to be paid as funds for tax payment to each Eligible Director is calculated based on the formula in ii) below. In the case of retirement or new appointment or alike during the Performance Evaluation Period, the number of shares of the Company or the amount of cash to be delivered to the Eligible Director, or his or her heir, may be adjusted reasonably as stipulated by the Company's Board of Directors. In case that the above total number of Company shares allotted to the Eligible Directors is exceeded by allotting the number of shares of the Company calculated based on the formula in i) to each Eligible Director, the number of shares to be allotted to each Eligible Director shall be reduced by a reasonable method specified by the Company's Board of Directors, including a pro-rata basis, within a range not exceeding the maximum number of shares.

i) Number of Company shares to be distributed to each Eligible Director

Basic number of share units (\*1) X ratio of provision (\*2) X 50%

- ii) Amount of monetary benefits to be paid to each Eligible Director

(Basic number of share units (\*1) X ratio of provision (\*2) – number of shares of the Company calculated in i) above) X share price at the time of delivery (\*3)

- \*1 The number is determined by the Company's Board of Directors in accordance with duties of each Eligible Director and other factors.
- \*2 Payment ratio for the KPI is set in the range of 0 - 200% according to the achievement rate of each numerical target during the Performance Evaluation Period.
- \*3 The share price will be set as 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 for the allotment of shares of the Company on the basis of the Plan II after the Performance Evaluation Period expires. However, if the Company share does not trade at the Tokyo Stock Exchange on the day prior to the resolution of the Company's Board of Directors, the closing price of the immediately preceding trading day will be used. This price of share will be decided by the Company's Board of Directors within a scope that is not particularly advantageous to the Eligible Directors.

### (3) Pre-requisites for distribution

The Company shall provide the monetary remuneration claims and cash to Eligible Directors, and Eligible Directors are required to purchase the Company's ordinary shares with all the monetary remuneration claims received as contribution in kind, after the Performance Evaluation Period expires and the following conditions for distribution of Company's ordinary shares are met.

- i) Remaining in his or her term of office as Member of the Board or any other positions separately specified by the Board of Directors during the fiscal year subject to provision
- ii) Non-existence of certain illegal acts
- iii) Other requirements considered necessary, which are stipulated by the Board of Directors

### (4) Handling in the case of reorganization

During the Performance Evaluation Period, if the Company becomes defunct due to merger or organization restructuring, the Company's Board of Directors may, prior to the effective date of the said organizational restructuring, decide to pay towards performance share units in accordance with the duration from the commencement date of the Performance Evaluation Period to the date of approval for the said organizational restructuring. However, in lieu of the aforementioned allocation of the Company's ordinary shares, cash will be reasonably calculated by the Company's Board of Directors as the amount equivalent to the said ordinary shares, within the limit of the remuneration for the performance share unit plan.

### \* Reference

The Plan will be introduced as part of the new remuneration plan for the Company's Members of the Board who also serve as Executive Officers, which is linked to the management strategy and boosts sustainable growth, with the objective to enhance the mid- to long-term company value of the Group. Please refer to page 29 to 31 for Overview of the Company's New Executive Remuneration Plan in the event that Item 4 is approved in its original form.

## 【Reference】 Overview of the Company’s New Executive Remuneration Plan

If Item 4 for this Ordinary General Meeting of Shareholders is approved and adopted in its original form, the overview of the Company’s new executive remuneration plan will be as follows.

### 1. Executive Remuneration Policy

In order to achieve sustainable profit growth and increase of company value over the mid- to long-term by pursuing the management principles of “4S model,” the Advisory Panel on Nomination and Compensation reviews and provides advice on the policy, framework and calculation method for remuneration of the Company’s Members of the Board and Executive Officers in response to inquiries. It also monitors whether our executive remuneration level is reasonable.

Based on the recommendation of the Advisory Panel on Nomination and Compensation, the key policy for the Company’s executive remuneration is as follows:

- 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.

### 2. Executive Remuneration Structure

- Remuneration for the Members of the Board also serving as Executive Officers

Remuneration for the Members of the Board also serving as Executive Officers (“Eligible Directors”) comprises ‘base salary,’ ‘executive bonus,’ ‘restricted stock remuneration’ and ‘performance share unit remuneration’ as they are responsible for the achievement of assigned annual targets through their day-to-day management. On a 100% grant basis, the composition of executive bonus and performance share unit remuneration will be as per the following illustration.

		Base Salary	Short-Term Incentive Plan	Mid- to Long-Term Incentive Plan	
Current	Payment Format	Cash		Subscription Rights to Shares	
	Ratio	Base Salary c. 55%	Executive Bonus c. 27%	Stock Option Grants c. 18%	
				Change	
New	Ratio *1	Base Salary c. 33-42%	Executive Bonus c. 31-35%	Restricted Stock Remuneration *2	Performance Share Unit *2
	Payment Format	Cash		c. 25~33%	
				Shares	Shares & Cash *3

\*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 and performance share units is about 3 to 1.

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

\*4 The above illustration is based on certain assumptions of the Company’s performance and the share price. The above ratios could fluctuate depending on the company performance and the share price.

- Remuneration for the Members of the Board who do not serve as Executive Officers (excluding Outside Directors)

Effective January 1, 2020, remuneration for the Members of the Board who don't serve as Executive Officers is composed of "base salary" alone, as they are responsible for monitoring the execution of mid- to long-term growth strategy in addition to supervision of business and corporate activities.

- Remuneration for the Outside Directors

Remuneration for the Outside Directors is composed of "base salary" alone and does not include performance linked compensation to ensure their independence.

- Remuneration for the Audit & Supervisory Board Members

Remuneration for the Audit & Supervisory Board Members is composed of "base salary" alone in light of their key responsibility to conduct audits.

<Remuneration structure for the Members of the Board and Audit & Supervisory Board Members>

		Base salary	Executive bonus	Plan
Members of the Board (excluding Outside Directors)	Executive Officer	Applicable	Applicable	Applicable
	Not an executive Officer	Applicable	Not applicable	Not applicable
Outside Directors		Applicable	Not applicable	Not applicable
Audit & Supervisory Board Members		Applicable	Not applicable	Not applicable

### 3. Ceiling of the Total Executive Remuneration and Approval Process

If Item 4 for this Ordinary General Meeting of Shareholders is approved and adopted in its original form, the ceiling of the total amount of the annual aggregate remuneration towards all Members of the Board shall be ¥1.1 billion (including ¥80 million for Outside Directors), in addition the ceiling of the total amount of remuneration towards restricted stock and performance share unit applicable for the Eligible Directors shall be ¥210 million (or 115,200 shares) and ¥130 million (or 76,800 shares) respectively.

Further, maximum amount of the annual aggregate remuneration towards all Audit & Supervisory Board Members was approved at our 34th Ordinary General Meeting of Shareholders and will not exceed ¥240 million.

The amount of remuneration for Members of the Board is benchmarked based on a survey of remuneration of directors conducted by third parties, based on the remuneration levels of major domestic manufacturers that are expanding overseas with the similar size and profits. Specifically, after benchmarking the level of base salary of the directors of peer companies and the percentage of variable remuneration for annual bonuses and mid- and long-term incentives, the amount of remuneration for each Member of the Board is decided by a resolution of the Company's Board of Directors, based on the deliberations of the Advisory Panel on Nomination and Compensation and within the maximum remuneration approved at the General Meeting of Shareholders.

The remuneration of 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 remuneration approved at the General Meeting of Shareholder.

#### 4. Executive Remuneration Details

- Base salary

Executives will be remunerated with monthly base salary as per their responsibilities. From January 1, 2020, the Eligible Directors will be individually evaluated for 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 Company's President and Chief Executive Officer at the beginning of the fiscal year and evaluated at the end of year. The base salary for the following fiscal year will be set within certain range reflecting the individual performance evaluations. However, an individual performance evaluation will not be applicable for the Company's President and Chief Executive Officer.

- Executive bonus

Executive bonus for Eligible Directors will be paid as monetary remuneration reflecting the performance of a fiscal year. Adjusted operating profit at constant rates of exchange and profit for the year will be the performance indicators (KPI) to measure the performance of the business itself, which is the foundation for sustainable growth, as well as the achievement rate of profit growth, from the viewpoint of providing shared value with the shareholders. Executive bonus will be comprised of adjusted operating profit at constant rates of exchange and profit in the ratio of 75% and 25% respectively. Performance-linked payout will be based on the KPI achievement in the range of 0% - 200%.

- Restricted Stock Remuneration Plan

Restricted Stock Remuneration Plan is designed to strengthen the shared value with shareholders and to enhance the company value over the mid- to long- term. Eligible Directors receive monetary remuneration claims every fiscal year towards restricted stock and the Eligible Directors will receive the allocation of Company's ordinary share by paying all of the monetary remuneration claims in kind in accordance with the resolution of the Board of Directors (the allotment is made by means of disposal of treasury stock). The transfer restrictions on the allotted shares will be removed upon resignation of such Eligible Director from a position as Member of the Board or any other positions separately specified by the Company's Board of Directors.

- Performance Share Unit Plan

The 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.

The Eligible Directors receive monetary remuneration claims and cash towards the acquisition of ordinary shares after the Performance Evaluation Period, which is comprised of three fiscal years starting from the fiscal year subject to provision, in accordance with the rate of achievement of performance and other multi-year performance targets during the Performance Evaluation Period. The Advisory Panel on Nomination and Compensation deliberates and decides on the achievement rate of such targets for performance and other items during the Performance Evaluation Period. The remuneration for the performance share units will be disbursed after the Performance Evaluation Period expires, in principle, as monetary remuneration claims and cash towards the acquisition of ordinary shares. Each of the Eligible Directors will receive the allocation of Company's ordinary shares by paying all of the monetary remuneration claims in kind in accordance with the resolution of the Board of Directors (the allotment is made by means of disposal of treasury stock). In performance evaluation, indicators linked to the Company's mid-term growth have been set. In the plan starting from 2020, profit for the following three years will be set as a KPI with the aim of providing shared value with shareholders. Performance-linked payout will be based on the KPI achievement in the range of 0% - 200%.

\* At this Ordinary General Meeting of Shareholders, we also plan to introduce the Plan for the Company's Executive Officers, subject to the approval and adoption in its original form.

[For your reference, we have included various graphs and photographs.]

[Attached Documents]

## **Business Report**

(From January 1, 2019 to December 31, 2019)

### **I. Matters Concerning Present State of the Corporate Group**

#### **1. Overview and Results of Operations**

##### **General summary**

##### **• Revenue**

In the International Tobacco Business, unfavorable foreign exchange effects were generally offset by the effects of favorable pricing, but due to a revenue decline in the Japanese Domestic Tobacco Business, Pharmaceutical Business and Processed Food Business, revenue fell by 1.8% from the previous fiscal year to ¥2,175.6 billion.

##### **• Adjusted operating profit, operating profit and profit attributable to owners of the parent company**

Adjusted operating profit at constant rates of exchange, which is one of the Group's management benchmarks, grew by 0.9% from the previous fiscal year, with declines in the Japanese Domestic Tobacco Business and the Pharmaceutical Business being offset by increases in the International Tobacco Business and the Processed Food Business. In addition, adjusted operating profit decreased by 13.4% from the previous fiscal year to ¥515.9 billion, due to the unfavorable foreign exchange effects in the International Tobacco Business.

Operating profit decreased by 11.1% from the previous fiscal year to ¥502.4 billion due to a decrease in adjusted operating profit, a decline in proceeds from sales of real estate assets, a higher trademark amortization arising from business acquisitions, and recognition of restructuring costs related to the transformation in the International Tobacco Business. This was in spite of one-time compensation gains related to the termination of license agreements for six anti-HIV drugs in Japan in the Pharmaceutical Business.

Profit attributable to owners of the parent declined by 9.7% from the previous fiscal year to ¥348.2 billion, due to the decline in operating profit and increase in financing costs. This was partially offset by favorable contributions from one-time factors leading to a lower effective tax rate.

##### **Consolidated performance**

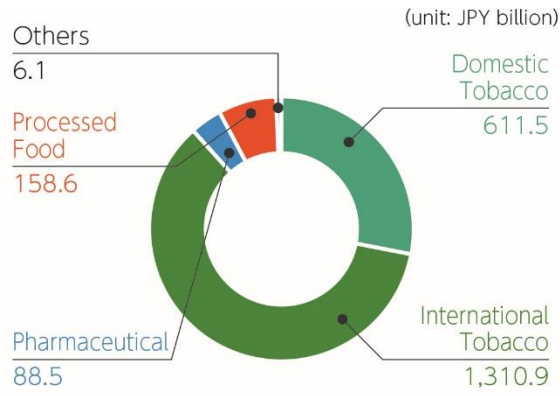
	[Billions of yen]	Change [%]
Revenue	2,175.6	(1.8)
Adjusted operating profit <sup>(Note 1)</sup>	515.9	(13.4)
Adjusted operating profit (at constant rates of exchange) <sup>(Note 2)</sup>	600.8	0.9
Profit attributable to owners of the parent company	348.2	(9.7)

(Notes) 1. Adjusted operating profit is calculated by deducting amortization cost of acquired intangibles arising from business acquisitions and adjustment items (income and costs) from operating profit (loss). Adjustment items (income and costs) are impairment losses on goodwill, restructuring income and costs, and other items.

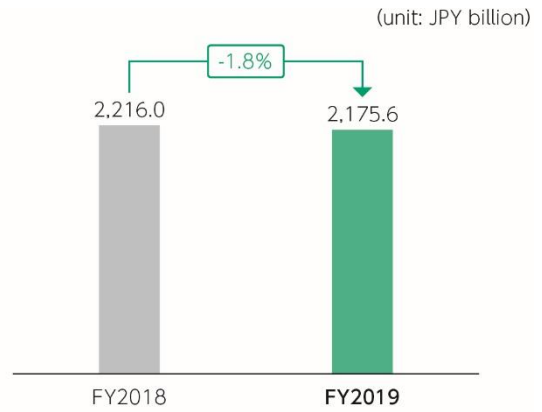


2. Adjusted operating profit (at constant rates of exchange) is a value that excludes foreign exchange effects by translating and calculating adjusted operating profit for the current fiscal year in the International Tobacco Business using the foreign exchange rates of the previous fiscal year.

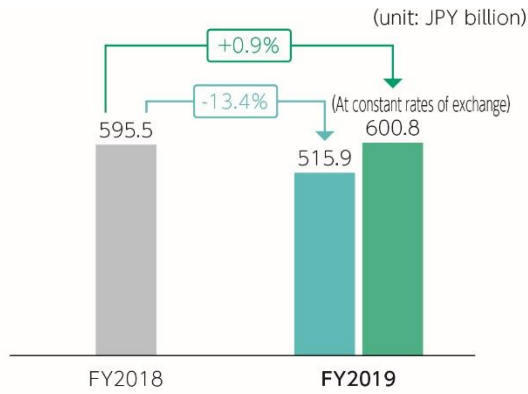
**Revenue breakdown by business segment**



**Revenue**

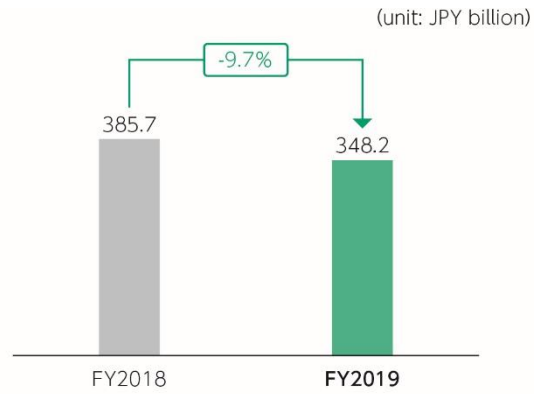


**Adjusted operating profit**

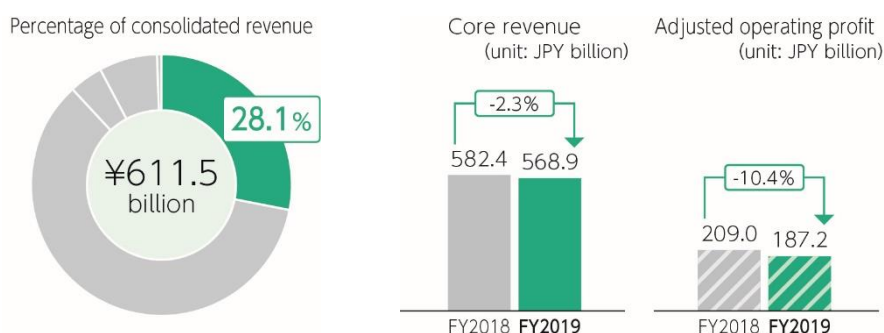


**Profit**

**(Attributable to owners of the parent company)**



## Japanese Domestic Tobacco Business



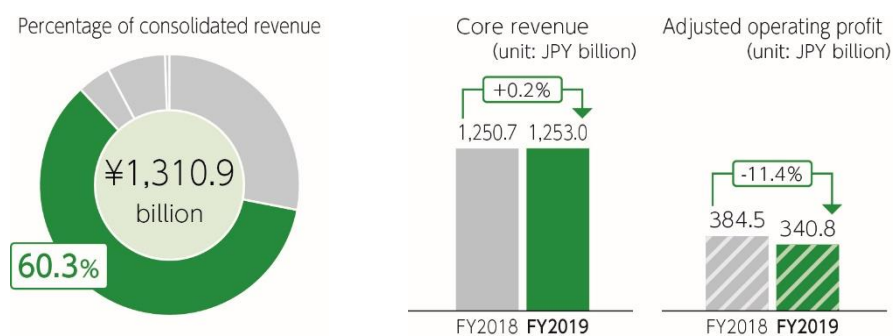
In the current fiscal year, sales volume of cigarettes<sup>(Note 1)</sup> was negatively impacted by a decline in cigarette industry volume<sup>(Note 2)</sup> caused by a natural decline trend, RRP<sup>(Note 3)</sup> category expansion and the impact of price revisions in 2018 and 2019 led by tax increases as well as our market share losses. As a result, sales volume fell by 7.9%, from the previous fiscal year to 75.5 billion cigarettes. The Company's RRP sales volume increased by 0.5 billion to 3.3 billion cigarette equivalent units.

Core revenue from the tobacco business<sup>(Note 4)</sup> fell by 2.3% from the previous fiscal year to ¥568.9 billion, with the effects of favorable cigarette pricing, not offsetting the impact of lower cigarette sales volume and a decrease of RRP related revenue. Core revenue from the tobacco business includes RRP related revenue of ¥60.9 billion.

Adjusted operating profit decreased by 10.4% from the previous fiscal year to ¥187.2 billion, due to the impact of lower core revenue from the tobacco business and an impairment of capsule manufacturing machines for tobacco infused vapor product with law-temperature hearing technology.

- (Notes)
1. Sales volume of cigarettes includes the Company's sales volume for cigarettes and little cigars in the Japanese market, but it does not include sales volume for RRP and so on. In addition to the figure stated above for sales volume, during the fiscal year ended December 31, 2019, 4.0 billion cigarettes were sold at duty-free shops in Japan, as well as at markets in China, Hong Kong and Macau that are under the control of the Company's China Division (4.0 billion cigarettes in the previous fiscal year).
  2. Cigarette industry volume includes sales volume for cigarettes and little cigars, which are classified as cigars as per the Tobacco Business Act in Japan, in the whole Japanese market, but it does not include sales volume for RRP and so on.
  3. Reduced-Risk Products (RRP) are products with potential to reduce the risks associated with smoking such as E-Vapor products and T-Vapor products. E-Vapor products do not use tobacco leaf, instead using electrical heating of a liquid inside a device or specialized cartridge to generate vapor for the user to enjoy. Conversely, T-Vapor products do use tobacco leaf, but instead of burning the leaf, they use methods such as heating the leaf to generate vapor (which includes compounds derived from the tobacco leaf) for the user to enjoy.
  4. Core revenue in the Japanese Domestic Tobacco Business includes revenue from the domestic duty-free market as well as from markets in China, Hong Kong and Macau that are under the control of the Company's China Division, in addition to revenue related to RRP, little cigars and so on, but it excludes revenue related to imported tobacco delivery charges, among others.

## International Tobacco Business



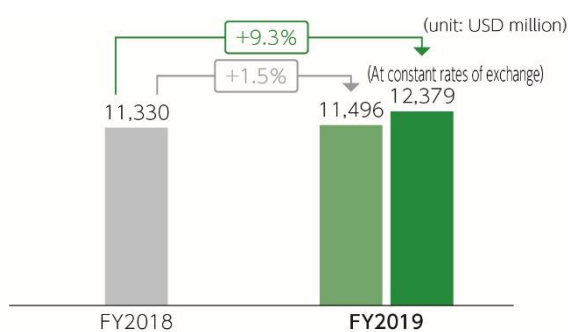
In the current fiscal year, the effects of acquisitions in Bangladesh, Greece and Russia resulted in total shipment volume<sup>(Note 1)</sup> rising by 4.3% from the previous fiscal year to ¥445.8 billion. In addition, GFB<sup>(Note 2)</sup> shipment volume rose by 4.0% from the previous year to 277.0 billion cigarettes with rising sales volume across all four brands.

Yen-based core revenue<sup>(Note 3)</sup> increased by 0.2% from the previous fiscal year to ¥1,253.0 billion, driven by the effects of favorable pricing and by rising sales volume from acquisitions, mostly offset by the unfavorable exchange effects. Yen-based adjusted operating profit fell by 11.4% from the previous fiscal year to ¥340.8 billion due to the unfavorable foreign exchange effects.

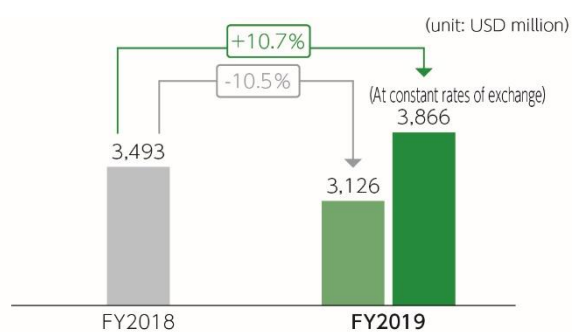
Dollar-based core revenue increased by 1.5% from the previous fiscal year, to \$11,496 million (up 9.3% from the previous fiscal year at constant rates of exchange) due to the effects of favorable pricing and rising sales volume. Meanwhile, dollar-based adjusted operating profit decreased by 10.5% from the previous fiscal year, to \$3,126 million (up 10.7% from the previous fiscal year at constant rates of exchange) due to the unfavorable foreign exchange effects.

- (Notes)
1. Includes fine cut tobacco, cigars, pipe tobacco, snus, kretek and T-Vapor products, except for contract manufacturing products, waterpipe tobacco products and E-vapor products.
  2. GFBs (Global Flagship Brands) consist of four brands, which serve as flagships of the Group's brand portfolio - Winston, Camel, Mevius, LD.
  3. Core revenue in the International Tobacco Business includes revenue related to waterpipe tobacco products and RRP, but excludes revenue related to the distribution business and contract manufacturing, among others.

### Core revenue (USD basis)



### Adjusted operating profit (USD basis)



### Exchange rate per U.S. dollar

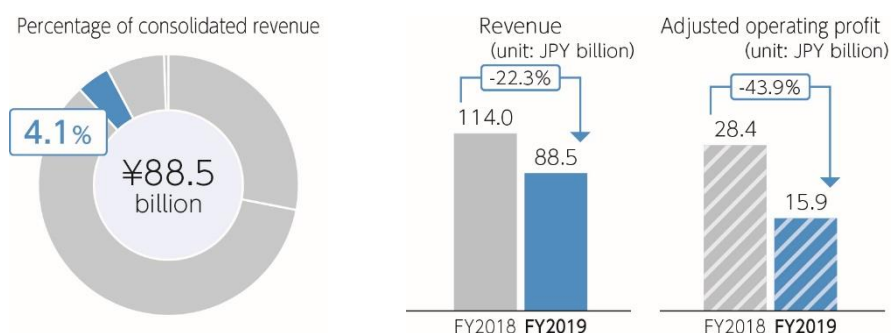
Foreign exchange rate per U.S. dollar	FY 2018	FY 2019
Yen	110.44	109.03
Ruble	62.68	64.74
Pounds sterling	0.75	0.78
Euro	0.85	0.89
Swiss franc	0.98	0.99
Taiwanese dollar	30.14	30.90
Turkish lira	4.82	5.67
Iranian rial	61,649	104,046

### Main Market Shares (12-month rolling average)

	2018 Dec	2019 Dec	Variance
Italy	23.9%	24.5%	0.6ppt
France	23.2%	24.5%	1.3ppt
Spain	24.8%	25.6%	0.8ppt
U.K.	41.4%	43.6%	2.2ppt
Russia (GFBs)	35.6%	39.0%	3.5ppt
Turkey	27.7%	28.3%	0.6ppt
Taiwan	42.4%	45.2%	2.8ppt

Source: IRI, Logista and Nielsen

## Pharmaceutical Business



In the Pharmaceutical Business, the Company has been striving to make a stable contribution to the Group's profits by promoting R&D on next-generation strategic products and by maximizing the value of each product.

In the area of product development, eight compounds are in clinical development. In January 2019 we applied for approval for domestic manufacturing and marketing of the JAK inhibitor "JTE-052" (generic name: delgocitinib) as an indication for atopic dermatitis. In addition, in November 2019 we applied for approval for domestic manufacturing and marketing of the HIF-PH inhibitor "JTZ-951" (generic name: enarodustat) as an indication for anemia associated with chronic kidney disease, while in December 2019 we concluded a license agreement with Shenzhen Salubris Pharmaceuticals Co., Ltd. for exclusive development and commercialization in China, Hong Kong, Macau and Taiwan.

Most recently, in January 2020 we concluded a license agreement with Dermavant Sciences GmbH in relation to exclusive development and commercialization in Japan, in the field of dermatological diseases and conditions, for "tapinarof, a topical, therapeutic aryl hydrocarbon receptor modulating agent", following which an agreement was concluded with Group company Torii Pharmaceutical Co., Ltd. in relation to domestic co-development and commercialization. In addition, we received manufacturing and marketing approval in January 2020 for "JTE-052" (product name: "CORECTIM® Ointment 0.5%"), the application for which had been submitted in January 2019.

In the current fiscal year, revenue decreased by 22.3%, from the previous fiscal year to ¥88.5 billion, mainly due to the termination of license agreements for six anti-HIV drugs in Japan as well as lower overseas royalty revenue. Adjusted operating profit decreased by 43.9%, from the previous fiscal year to ¥15.9 billion due to the revenue decline.

The Company's agreements with Gilead Sciences, Inc. and Torii Pharmaceutical Co., Ltd. for an exclusive license to develop and commercialize six anti-HIV drugs in Japan were terminated in January 1, 2019, and the transfer of manufacturing and marketing approvals to Gilead Sciences, Inc.'s Japanese subsidiary, Gilead Sciences, K.K., was completed on December 1, 2019.

【Reference】

Pharmaceutical Business Clinical Development as of February 6, 2020

<In-house development>

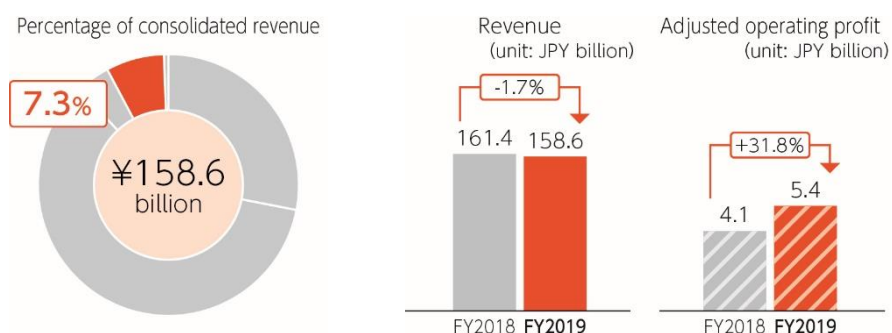
Code (Generic Name)	Potential Indication/Dosage form	Mechanism		Phase(Region)	Note
JTZ-951 (enarodustat)	Anemia associated with chronic kidney disease /Oral	HIF-PH inhibitor	Increases red blood cells by stimulating production of erythropoietin, an erythropoiesis- stimulating hormone, via inhibition of HIF-PH.	NDA filed (Japan) Phase1 (Overseas)	In-house Co-development with Torii
JTE-052 (delgocitinib)	Atopic dermatitis (pediatric) /Topical	JAK inhibitor	Suppresses overactive immune response via inhibition of Janus kinase (JAK) related to immune signal.	Phase 3 (Japan)	In-house Co-development with Torii (In-house)
	Autoimmune/allergic diseases /Oral, Topical			Phase1 (Japan)	In-house
JTE-051	Autoimmune/allergic diseases /Oral	Interleukin-2 inducible T cell kinase inhibitor	Suppresses overactive immune response via inhibition of the signal to activate T cells related to immune response.	Phase2 (Overseas)	In-house
JTE-451	Autoimmune/allergic diseases /Oral	ROR $\gamma$ antagonist	Suppresses overactive immune response via inhibition of ROR $\gamma$ related to Th 17 activation.	Phase2 (Overseas)	In-house
JTT-251	Type 2 diabetes mellitus /Oral	PDHK inhibitor	Decreases blood glucose by activation of pyruvate dehydrogenase (PDH) related to carbohydrate metabolism.	Phase1 (Overseas)	In-house
JTT-662	Type 2 diabetes mellitus /Oral	SGLT1 inhibitor	Suppresses postprandial hyperglycemia and normalizes blood glucose level via inhibition of SGLT1.	Phase1 (Overseas)	In-house
JTE-761	Autoimmune/allergic diseases /Oral	ROR $\gamma$ antagonist	Suppresses overactive immune response via inhibition of ROR $\gamma$ related to Th 17 activation.	Phase1 (Overseas)	In-house
JTT-751 (ferric citrate hydrate)	Iron-deficiency anemia /Oral	Oral iron replacement	Corrects iron-deficiency anemia by using absorbed iron for synthesis of hemoglobin.	Phase3 (Japan)	In-license (Keryx Biopharmaceuticals) Co-development with Torii Additional indication

Clinical trial phase presented above is based on the first dose.

<Licensed compounds>

Compound (JT's code)	Licensee	Mechanism		Note
trametinib	Novartis	MEK inhibitor	Inhibits cellular growth by specifically inhibiting the activity of MAPK/ERK pathway.	
Anti-ICOS monoclonal antibody	AstraZeneca	ICOS antagonist	Suppresses overactive immune response via inhibition of ICOS which regulates activation of T cells.	
delgocitinib	LEO Pharma ROHTO Pharmaceutical	JAK inhibitor	Suppresses overactive immune response via inhibition of Janus kinase (JAK) related to immune signal.	
enarodustat	JW Pharmaceutical Salubris	HIF-PH inhibitor	Increases red blood cells by stimulating production of erythropoietin, an erythropoiesis- stimulating hormone, via inhibition of HIF-PH.	

## Processed Food Business



In the Processed Food Business, we concentrate on frozen and ambient foods, seasonings, and bakery, while at the same time making efforts to strengthen cost competitiveness and working on initiatives to improve profitability.

In the frozen and ambient foods business in the current fiscal year, we worked to expand product sales with an emphasis on frozen noodles, frozen rice, packed rice and baked frozen bread, and launched 27 new and 43 renewed products. Also, in order to raise awareness of the “gottsu-umai” series of frozen home-use products, which has marked the 20th anniversary of its launch, we established May 2 as the “Gottsu Day” anniversary date, and worked on media activities such as setting up a website especially for this purpose, and distributing video for a limited time only.

Despite growth in sales of the main staple food products, revenue in the current fiscal year decreased by 1.7%, from the previous fiscal year to ¥158.6 billion, due to a decline in sales of other products. Adjusted operating profit increased by 31.8%, from the previous fiscal year to ¥5.4 billion, driven by the positive contribution from price revisions, the improvements in product mix as well as cost reduction initiatives, which were partially offset by lower revenue and increases in raw material and distribution costs.

In addition, a Processed Food Business Planning Division was established within the Company with responsibility for corporate governance and drawing up strategy for the Processed Food Business as a whole, which began operations under this new structure in January 2019. There has been no change to the business content of business companies such as TableMark Co., Ltd., Fuji Foods Corporation and Saint-Germain Co., Ltd.



## **2. Status of Capital Expenditures**

In this fiscal year, we made capital expenditures totaling ¥131.4 billion.

In the Japanese Domestic Tobacco Business, we spent ¥34.8 billion, mainly on investments accompanying maintenance and upgrade of manufacturing processes, productivity improvements, adaptation to new products, improvements in product specifications, and others. In the International Tobacco Business, we invested ¥78.3 billion mainly for compliance with regulations in addition to improvements in product specifications. In the Pharmaceutical Business, we spent ¥7.0 billion on enhancing and strengthening research and development structures and the like. In the Processed Food Business, we invested ¥6.1 billion in improvement, maintenance and renewals of production capability.

(Note) Capital expenditures includes land; building and structures; machinery and vehicles; and other property, plant and equipment, as well as goodwill, right of trademark, software and other intangible assets, necessary for production improvements at factories and other facilities, strengthening competitiveness and executing business in a variety of fields, excluding assets acquired through business combinations.

## **3. Status of Financing**

With the aim of allocating funds for the repayment of short-term borrowings by overseas subsidiary JT International Financial Services B.V., on November 26, 2019, we issued foreign currency denominated straight bonds totaling €500 million (approximately ¥61.3 billion).

## **4. Business Transfers, Absorption-Type Company Split or Incorporation-Type Company Split**

No items to report.

## **5. Business Transfers From Other Companies**

No items to report.

## **6. Succession of Rights and Obligations Relating to Other Entities' Business as a Result of Absorption-Type Merger or Company Split**

No items to report.

## **7. Acquisition or Disposal of Shares, Other Equities or Subscription Rights to Shares of Other Companies**

No items to report.

## 8. Trends in Assets and Operating Results

### (1) Trends in assets and operating results of the JT Group [Consolidated]

	32nd term From January 1, 2016 to December 31, 2016	33rd term From January 1, 2017 to December 31, 2017	34th term From January 1, 2018 to December 31, 2018	35th term From January 1, 2019 to December 31, 2019
Revenue (Millions of yen)	2,143,287	2,139,653	2,215,962	2,175,626
Profit before income taxes (Millions of yen)	578,237	538,532	531,486	465,232
Profit attributable to owners of the parent company (Millions of yen)	421,695	392,409	385,677	348,190
Basic earnings per share (Yen)	235.47	219.10	215.31	195.97
Total assets (Millions of yen)	4,744,374	5,221,484	5,461,400	5,553,071
Total equity (Millions of yen)	2,528,041	2,842,027	2,700,445	2,743,611

(Note) Consolidated financial statements of the JT Group are prepared based on IFRS.

**(2) Trends in assets and non-consolidated operating results of JT [Non-consolidated]**

	32nd term From January 1, 2016 to December 31, 2016	33rd term From January 1, 2017 to December 31, 2017	34th term From January 1, 2018 to December 31, 2018	35th term From January 1, 2019 to December 31, 2019
Net sales (Millions of yen)	729,286	681,840	696,250	660,805
Ordinary income (Millions of yen)	203,242	199,336	190,343	278,968
Net income (Millions of yen)	173,607	160,120	164,595	262,469
Net income per share (Yen)	96.94	89.40	91.89	147.72
Total assets (Millions of yen)	2,849,913	2,885,760	2,670,883	2,614,357
Net assets (Millions of yen)	1,663,675	1,592,966	1,493,562	1,417,365

(Notes) 1. Non-consolidated financial statements of the Company are prepared based on Japanese GAAP.

2. The Company has applied the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) and relevant Guidances effective from the 35th term.

As a result of this change, amounts presented for the 34th term are those after retrospective application.

## Trends in assets and operating results of the JT Group [Consolidated]



## 9. Issues to Be Addressed

### (1) Basic management policy

Our management principles are based on the pursuit of the “4S model”. The model requires us 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.

We created our vision and mission based on the “4S model”. Our vision is to become a company committed to global growth by providing diversified value that is uniquely available from JT Group. Our mission is to create, develop and nurture our unique brands to win consumer trust, while understanding and respecting the environment and the diversity of societies and individuals.

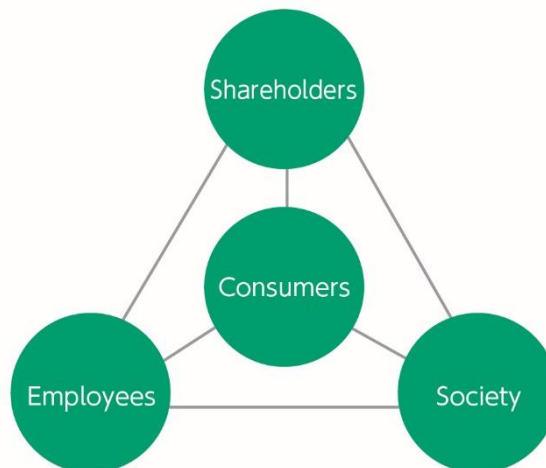
We have also adopted “The JT Group Way” as a code of conduct which all members of the Group should follow. The JT Group Way requires that we fulfill the expectations of our consumers and behave responsibly, strive for quality in everything we do through continuous improvement, and leverage diversity across the JT Group.

The JT Group has attained sustainable profit growth and will continue to do so 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.

We believe 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 all stakeholders.

#### Management Principles

We 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.



## (2) Mid- to long-term management strategy and issues

In view of realizing the Group's long-term vision of becoming a "Company committed to global growth that provides consumers with diversified value available uniquely from JT," the Group intends to carry on strategies that have hitherto been implemented, and believes that in order to take them to a higher level it is necessary to cultivate the ability to respond to change, and that the skill and speed with which the Group responds to such changes will be a crucial factor in determining competitiveness going forward. In addition, we believe that not merely responding passively, we should initiate transformation ourselves, accelerating evolution to an organization that will lead this revolution and thus making possible sustainable growth in profits over the mid- to long-term.

Based on this thinking, the Group formulates its three-year business plan with the aim of renewing it each year on a rolling basis in order to speed up the Group's ability to respond appropriately to unexpected changes.

In the "Business Plan 2020," there is no change in the Group's management resources allocation policy, under which we will continue to place a high priority on making business investments that contribute to sustainable mid- to long-term profit growth as well as on valuing the balance between profit growth through business investments and shareholder returns.

In accordance with the "Business Plan 2020," the Group will continue to pursue mid to high single digit<sup>(Note 1)</sup> annual average growth rate over the mid- to long-term in adjusted operating profit at constant rates of exchange<sup>(Note 2)</sup>.

With regard to shareholder return, the Group will pursue enhanced shareholder returns in proportion to the mid- to long-term profit growth by continually making proactive business investments while maintaining a solid balance sheet<sup>(Note 3)</sup> that enables response to any possible environmental changes.

Specifically, the Group will work toward stable and consistent growth<sup>(Note 4)</sup> in dividend per share.

Whether to execute the acquisition of treasury shares will be considered in view of factors including the medium-term outlook on business environment and financial positions.

Adopting a stakeholder model, the Group will continue to monitor a trend in shareholder returns of global FMCG<sup>(Note 5)</sup> companies which achieve a high-growth business.

The mid- to long-term targets and roles for each business are as follows.

Tobacco Business		Grow adjusted operating profit at mid to high single digit rate per annum over the mid- to long-term as the core business and profit growth engine of the Group
	Japanese Domestic	Core business that serves as the highly competitive profit generator
	International	Also a core business that serves as the profit growth engine
Pharmaceutical Business		Strive to make stable profit contribution to the Group through promotion of R&D on next-generation strategic products and value maximization of each product
Processed Food Business		Aim to contribute to the earnings of the Group through mid- to long-term profit growth driven by high-quality expansion in the top line

In order to achieve the consolidated mid- to long-term profit targets, our strategic focus across all businesses is to achieve quality top line growth by striving in accordance with each target and role. For each business, our strategic focus is to improve cost competitiveness and business foundations that support these efforts, thereby achieving sustainable profit growth.

The Group recognizes that uncertainties in the business environment in which it operates remain high, due to factors such as global economic trends, foreign exchange risks and international geopolitical risks. In order to overcome this uncertain business environment and operate its global business appropriately the Group will, based on the “4S model”, continue a policy of integrated business investment and adaptability to change and, by changing itself and acquiring the ability to generate change, make possible sustainable growth in profits over the mid- to long term, as well as achieve steady returns to shareholders.

- (Notes)
1. mid to high single digit: mid to high single digit-percentage
  2. Adjusted operating profit is calculated by deducting amortization cost of acquired intangibles and adjustment items (income and costs) from operating profit (loss). Adjustment items (income and costs) are impairment losses on goodwill, restructuring income and costs, and other items.  
Adjusted operating profit growth rate at constant rates of exchange is a financial measurement that excludes foreign exchange effects by translating and calculating adjusted operating profit for the current fiscal year in the International Tobacco Business using the foreign exchange rates of the previous fiscal year.
  3. As its financial policy, the Group will maintain a solid balance sheet that secures stability in case of changes in business environment such as economic crises and flexibility enabling expeditious responses to business investment opportunities.
  4. Based on the mid- to long-term outlook of the growth rate of adjusted operating profit at constant rates of exchange, the Group will also take into account the Group’s level of profit.
  5. FMCG: Fast Moving Consumer Goods (daily consumer durables)

### JT Group’s Sustainability Strategy

In order for the Group to achieve sustainable growth, it is essential for our business to contribute to the sustainable development of our society. We work continuously on a variety of sustainability issues to fulfill our responsibilities as a member of our society.

Sustainability is at the heart of managing our business. Our sustainability strategy is formulated based on the “4S model”, our management principles, and encompasses our materiality analyses. Taking an active approach to ESG (Environmental, Social and Governance) issues is an essential part of the sustainability of our business. We have set out **three absolute requirements** for sustainability that apply across the Group. Each business has also set out its own **focus areas**.

3 Absolute Requirements				
Respect for Human Rights		An Improved Social and Environmental Impact		Good Governance and Business Standards
Focus Areas for Each Business				
Tobacco	Products and Services	People	Supply Chain	Regulatory Environment and Illegal Trade
Pharmaceutical	Products and Services	People	Product Safety and Responsibility	
Processed Food	Products and Services	People	Supply Chain	

Tobacco business has established specific targets for the four **focus areas**. Please refer to the JT website for more details. Specific targets for the pharmaceutical business and processed food business will be announced in the Integrated Report, which is scheduled to be published in late March 2020. The Group supports the Sustainable Development Goals (SDGs) adopted by the United Nations, and we will contribute to the following related goals through our business activities and initiatives.





## Reducing Our Environmental Impacts

Environmental issues are of increasing societal concerns, bringing many challenges to our society. For instance, climate change driven by global warming is having a significant impact on our daily lives in the form of abnormal weather patterns. It is a serious problem both for the society and for the business of the Group.

Taking into account the dramatic changes in both the social and business environment in recent years, the Group set out the JT Group Environment Plan 2030, with three focus areas; “**Energy and Emissions,**” “**Natural Resources,**” and “**Waste.**” We will work on the transition to renewable energy, reductions in greenhouse gas emissions, addressing water-related risks or sustainable forest management, and reducing the impact on the environment of waste, including plastics. In addition, the Group will seek to understand the impact on its business of climate change, and implement scenario analyses in order to form appropriate responses.

The Group has set a Science Based Target (SBT) to ensure that we fulfill our commitment to reduce Greenhouse Gas (GHG) emissions and contribute to mitigating climate change. We have committed to reduce GHG emissions from our own operations by 32% across the Group between 2015 and 2030. Our target was validated by the Science Based Targets initiative (SBTi) in 2019.

In 2020, the Company was recognized as a global leader in tackling climate change and was listed on CDP’s “A List”. CDP is the leading international non-profit organization that assesses environmental disclosure. We were also selected as a global leader for engaging with our supply chain in addressing climate change.

Furthermore, the Company was selected as a global leader in sustainable water management and were listed on CDP’s “A List” for water security. This is the first time that we were listed on CDP’s “A List” in two categories.



Solar electricity generation at the Batangas factory in the Philippines



- Please visit the Company’s website (<https://www.jt.com/sustainability/>) to find out more about our approach to sustainability.
- Beginning in FY2019, an Integrated Report will be published instead of the Annual Report and the Sustainability Report. The FY2019 Integrated Report will be made available on the Company website in late March 2020.
- Details of the sustainability initiatives implemented by the Group that were previously disclosed in the Sustainability Report will continue to be made available as online content in the Company’s website (updates are expected towards the end of May 2020).
- With regard to the Company’s corporate governance, please refer to “ **【Reference】** Fundamental Policy Concerning Corporate Governance” at the end of the Business Report.

## 10. Main Business Contents

Business segment	Main business
Japanese Domestic Tobacco Business	Manufacture and sale of tobacco products, mainly Mevius and Seven Stars
International Tobacco Business	Manufacture and sale of tobacco products, mainly Winston and Camel
Pharmaceutical Business	Research and development, manufacture and sale of prescription drugs
Processed Food Business	Manufacture and sale of frozen and ambient foods, bakery products and seasonings

## 11. Status of Important Subsidiaries

Company name	Capital	Equity ownership (%)	Main business
TS Network Co., Ltd.	(Millions of yen) 460	74.5	Distribution of tobacco products
Japan Filter Technology Co., Ltd.	(Millions of yen) 461	88.9	Manufacture and sale of filters for tobacco products
JT International S.A.	(Thousands of CHF) 923,723	(100.0)	Manufacture and sale of tobacco products
Gallaher Ltd.	(Thousands of GBP) 172,495	(100.0)	Manufacture and sale of tobacco products
Torii Pharmaceutical Co., Ltd.	(Millions of yen) 5,190	53.5	Manufacture and sale of prescription drugs
TableMark Co., Ltd.	(Millions of yen) 22,500	100.0	Manufacture and sale of processed foods

- (Notes)
1. Figures in parentheses in the “Equity ownership” column indicate indirect holding rates.
  2. There were 231 consolidated subsidiaries in this fiscal year, including 6 above-mentioned important subsidiaries, as well as 13 affiliates accounted for by the equity method.
  3. On the last day of the fiscal year ended December 31, 2019, there were no specified wholly owned subsidiaries as stipulated in Article 118, item 4 of the Regulation for Enforcement of the Companies Act.

## 12. Major Lenders

Lender	Outstanding balance (Millions of yen)
Syndicated loan	44,114 (EUR 360 million)
The Norinchukin Bank	40,000
Shinkin Central Bank	30,000

(Note) The syndicated loan to the Company's overseas subsidiary JT International Holding B.V., a borrower, was financed jointly by four banks, with UNICREDIT BANK AG acting as the arranger and agent.

## 13. Major Sales Offices and Factories

### (1) JT

Headquarters: 2-1, Toranomom 2-chome, Minato-ku, Tokyo, Japan

Regional sales headquarters:

Hokkaido (Hokkaido), Tohoku (Miyagi), Joshinetsu (Gunma), Kita-Kanto (Saitama), Higashi-Kanto (Chiba), Tokyo (Tokyo), Kanagawa (Kanagawa), Hokuiku (Ishikawa), Tokai (Aichi), Kita-Kansai (Osaka), Osaka (Osaka), Chugoku (Hiroshima), Shikoku (Kagawa), Kyushu (Fukuoka), and Minami-Kyushu (Kagoshima)

Factories: Kita-Kanto (Tochigi), Tokai (Shizuoka), Kansai (Kyoto), Kyushu (Fukuoka), and Tomobe (Ibaraki)

Laboratories: Tobacco Science Research Center (Kanagawa), Leaf Tobacco Research Center (Tochigi), and Central Pharmaceutical Research Institute (Osaka)

### (2) Subsidiaries

TS Network Co., Ltd. (Tokyo)  
Japan Filter Technology Co., Ltd. (Tokyo)  
JT International S.A. (Switzerland)  
Gallaher Ltd. (U.K.)  
Torii Pharmaceutical Co., Ltd. (Tokyo)  
TableMark Co., Ltd. (Tokyo)

(Note) Text in parentheses shows the location of head office.

## 14. Status of Employees

### (1) Employees of the JT Group [Consolidated]

Business segment	Number of employees (Person)
Japanese Domestic Tobacco Business	10,508
International Tobacco Business	43,868
Pharmaceutical Business	1,485
Processed Food Business	5,169
Common company-wide services within JT	945
Total	61,975

(Note) The above number of employees indicates the number of working employees.

### (2) Employees of JT [Non-consolidated]

Male/Female	Number of employees (Person)	Year-on-year increase (decrease) (Person)	Average age (Year old)	Average years of service (Year)
Male	6,273	(39)	44.1	19.5
Female	1,191	46	37.0	11.9
Total or average	7,464	7	43.0	18.3

(Note) The above number of employees indicates the number of working employees.

## II. Matters Concerning Shares of JT

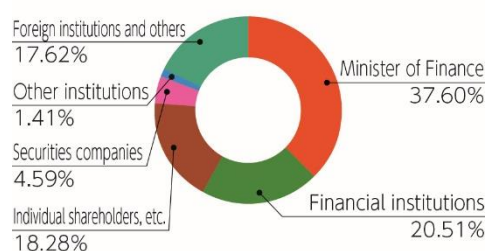
1. Total number of shares authorized: 8,000,000,000 shares

2. Total number of shares issued: 2,000,000,000 shares

(Including treasury shares 226,196,566 shares)

3. Number of shareholders: 515,211

Composition of shareholders (Deducting treasury shares)



### 4. Major shareholders

Name of shareholders	Number of shares held (Share)	Equity ownership (%)
Minister of Finance	666,926,200	37.60
The Master Trust Bank of Japan, Ltd. (Trust Account)	88,722,600	5.00
Japan Trustee Services Bank, Ltd. (Trust Account)	54,377,600	3.07
SMBC Nikko Securities Inc.	29,357,000	1.66
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust & Banking Co., Ltd.	23,660,000	1.33
Japan Trustee Services Bank, Ltd. (Trust Account 5)	23,508,500	1.33
JPMorgan Chase Bank 385151	22,262,535	1.26
JPMorgan Chase Bank 380055	21,612,342	1.22
State Street Bank West Client - Treaty 505234	21,561,341	1.22
Japan Trustee Services Bank, Ltd. (Trust Account 9)	18,737,300	1.06

(Note) Equity ownership is calculated after deducting treasury shares (226,196,566 shares).

### 5. Other significant matters concerning shares

As part of the Shareholder Return Policy, the Company acquired treasury shares in accordance with a resolution of the Board of Directors meeting held on February 7, 2019.

Class and number of acquired shares	Ordinary shares 17,787,600 shares
Acquisition cost	¥49,999,903,350
Period	From February 8, 2019 to March 18, 2019 (contract basis)
Acquisition method	Market purchase via a trust bank

### III. Matters Concerning Subscription Rights to Shares

#### 1. Total number and others of subscription rights to shares as of December 31, 2019

(1) Total number of subscription rights to shares	4,873 units
(2) Class and number of shares to be delivered upon exercise of subscription rights to shares	Ordinary shares 974,600 shares (200 shares per subscription right to shares)

#### 2. Status of subscription rights to shares held by Members of the Board and Audit & Supervisory Board Members of JT as of December 31, 2019

(1) Class and number of shares to be delivered upon exercise of subscription rights to shares	Ordinary shares 402,800 shares (200 shares per subscription right to shares)
(2) Value of property to be contributed when subscription rights to shares are exercised	¥1 per share
(3) Assignment of subscription rights to shares	The approval of the Board of Directors is required for the assignment of subscription rights to shares.
(4) Conditions for exercising subscription rights to shares	Subscription rights to shares holder may exercise his/her subscription rights to shares only if he/she loses his/her all position as Member of the Board, Audit & Supervisory Board Member and Executive Officer.

**The status of ownership by Members of the Board and Audit & Supervisory Board Members of JT is as follows.**

Year granted	Payment due upon allotment of subscription rights to shares	Exercise period of subscription rights to shares	Members of the Board		Audit & Supervisory Board Members	
			Number of units	Number of shareholders	Number of units	Number of shareholders
FY2007	¥581,269 per unit	From January 9, 2008 to January 8, 2038	16	1	-	-
FY2008	¥285,904 per unit	From October 7, 2008 to October 6, 2038	18	1	15	1
FY2009	¥197,517 per unit	From October 14, 2009 to October 13, 2039	40	1	36	1
FY2010	¥198,386 per unit	From October 5, 2010 to October 4, 2040	72	2	30	1
FY2011	¥277,947 per unit	From October 4, 2011 to October 3, 2041	41	2	32	1
FY2012	¥320,000 per unit	From October 10, 2012 to October 9, 2042	72	4	23	1
FY2013	¥513,400 per unit	From October 8, 2013 to October 7, 2043	63	4	14	1
FY2014	¥483,200 per unit	From October 7, 2014 to October 6, 2044	71	5	8	1
FY2015	¥711,200 per unit	From August 4, 2015 to August 3, 2045	127	5	17	1
FY2016	¥572,600 per unit	From July 5, 2016 to July 4, 2046	113	5	13	1
FY2017	¥482,200 per unit	From July 4, 2017 to July 3, 2047	168	5	21	1
FY2018	¥300,000 per unit	From July 3, 2018 to July 2, 2048	374	6	-	-
FY2019	¥188,000 per unit	From July 2, 2019 to July 1, 2049	630	6	-	-

- (Notes)
1. Outside Directors are not included in the above category of “Members of the Board.”
  2. The subscription rights to shares owned by an Audit & Supervisory Board Member are those that were granted to the individual while he/she was serving as an Executive Officer.

3. Status of subscription rights to shares granted to employees of JT from January 1, 2019 to December 31, 2019

<b>(1) Class and number of shares to be delivered upon exercise of subscription rights to shares</b>	Ordinary shares 187,200 shares (200 shares per subscription right to shares)
<b>(2) Payment due upon allotment of subscription rights to shares</b>	¥188,000 per unit
<b>(3) Value of property to be contributed when subscription rights to shares are exercised</b>	¥1 per share
<b>(4) Exercise period of subscription rights to shares</b>	From July 2, 2019 to July 1, 2049
<b>(5) Assignment of subscription rights to shares</b>	The approval of the Board of Directors is required for the assignment of subscription rights to shares.
<b>(6) Conditions for exercising subscription rights to shares</b>	Subscription rights to shares holder may exercise his/her subscription rights to shares only if he/she loses his/her all position as Member of the Board, Audit & Supervisory Board Member and Executive Officer.
<b>(7) Status of granting to employees of JT</b>	936 subscription rights to shares were granted to 20 Executive Officers (excluding persons serving as Members of the Board) of JT.



#### IV. Matters Concerning Members of the Board and Audit & Supervisory Board Members of JT

##### 1. Members of the Board and Audit & Supervisory Board Members

Position	Name	Responsibility	Significant concurrent positions outside the Company
Chairman of the Board	Yasutake Tango		Outside Director, The Ogaki Kyoritsu Bank, Ltd.
Representative Director and President	Masamichi Terabatake	Chief Executive Officer	
Representative Director and Executive Vice President	Mutsuo Iwai	President, Tobacco Business	Chairman and Managing Director, JT International Group Holding B.V.
Representative Director and Executive Vice President	Naohiro Minami	Chief Financial Officer and Communications	Supervisory Board member, JT International Holding B.V.
Representative Director and Executive Vice President	Kiyohide Hirowatari	Legal, Corporate Strategy, Digitalization, Human Resources, Operation Review & Business Assurance, Pharmaceutical Business and Food Business	
*Member of the Board and Senior Vice President	Kazuhito Yamashita	Chief Sustainability Officer, Compliance and General Affairs	
Member of the Board	Main Kohda		Novelist Outside Director, Japan Exchange Group, Inc. Outside Director, MITSUBISHI MOTORS CORPORATION
Member of the Board	Koichiro Watanabe		Representative Director and Chairman of the Board, Dai-ichi Life Holdings, Inc. Representative Director and Chairman of the Board, The Dai-ichi Life Insurance Company, Limited Vice Chair, Director, KEIDANREN (Japan Business Federation)
*Member of the Board	Yukiko Nagashima		Standing Audit and Supervisory Board Member, Recruit Holdings Co., Ltd. Standing Audit and Supervisory Board Member, Recruit Co., Ltd.
Standing Audit & Supervisory Board Member	Ryoko Nagata		
*Standing Audit & Supervisory Board Member	Hiroshi Yamamoto		
*Standing Audit & Supervisory Board Member	Toru Mimura		Attorney at Law, Shiba International Law Offices

Position	Name	Responsibility	Significant concurrent positions outside the Company
Audit & Supervisory Board Member	Hiroshi Obayashi		Attorney at Law, Obayashi Law Office Outside Audit & Supervisory Board Member, Daiwa Securities Co., Ltd. Outside Director, Mitsubishi Electric Corporation Outside Audit & Supervisory Board Member, NIPPON STEEL CORPORATION
*Audit & Supervisory Board Member	Koji Yoshikuni		

- (Notes)
- Members of the Board Main Kohda, Koichiro Watanabe and Yukiko Nagashima are Outside Directors.
  - Audit & Supervisory Board Members Toru Mimura, Hiroshi Obayashi and Koji Yoshikuni are Outside Audit & Supervisory Board Members.
  - Members of the Board, Main Kohda, Koichiro Watanabe and Yukiko Nagashima, and Audit & Supervisory Board Members, Hiroshi Obayashi and Koji Yoshikuni, were designated as independent officers (directors and auditors) as prescribed by the Tokyo Stock Exchange, Inc.
  - Audit & Supervisory Board Members Hiroshi Yamamoto and Koji Yoshikuni have relevant knowledge about financing and accounting as they were Vice President of the Operational Review and Business Assurance Division of the Company and Auditor of Hosei University, respectively.
  - The Members of the Board and Audit & Supervisory Board Members denoted with the asterisk \* assumed their office on March 20, 2019.
  - Standing Audit & Supervisory Board Member Tomotaka Kojima, and Audit & Supervisory Board Member Yoshinori Imai resigned on March 20, 2019.
  - The Company has entered into agreements with each of its Members of the Board (excluding those are Executive Directors, etc.) and Audit & Supervisory Board Members with respect to the liability set forth in Article 423, paragraph 1 of the Companies Act, by which the liability for damages of each of them 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.
  - Changes in the responsibilities etc. of Officers after the end of the current fiscal year

Name	Positions and responsibilities in the Company, and significant concurrent positions outside the Company	
	As of December 31, 2019	As of January 1, 2020
Masamichi Terabatake	Representative Director and President Chief Executive Officer	Representative Director and President Chief Executive Officer Managing Director, JT International Group Holding B.V.
Mutsuo Iwai	Representative Director and Executive Vice President President, Tobacco Business Chairman and Managing Director, JT International Group Holding B.V.	Member of the Board

\* Masamichi Terabatake has served concurrently as President, Tobacco Business since January 1, 2020.

## 2. Remunerations for Members of the Board and Audit & Supervisory Board Members

### (1) Total remunerations for Members of the Board and Audit & Supervisory Board Members

Category	Members of the Board		Audit & Supervisory Board Members		Total	
	Number to be paid (Person)	Amount to be paid (Millions of yen)	Number to be paid (Person)	Amount to be paid (Millions of yen)	Number to be paid (Person)	Amount to be paid (Millions of yen)
Base salary	9	508	7	160	16	668
Executive bonus	5	77	-	-	5	77
Stock option grants	6	115	-	-	6	115
Total	-	700	-	160	-	860

### (2) Policy concerning the remuneration amount for Members of the Board and Audit & Supervisory Board Members or the remuneration calculation method thereof and the method of determining the policy

The Company has the Advisory Panel on Nomination and Compensation in place as a non-statutory advisory body to the Board of Directors in order to increase objectivity and transparency regarding the remuneration of Members of the Board and Audit & Supervisory Board Members. Regarding human resource-related matters, the Advisory Panel on Nomination and Compensation supports the development of a group of executive candidates, deliberates on the nomination of Member of the Board candidates and Audit & Supervisory Board Member candidates and deliberates on dismissal of Executive Directors and Members of the Board who execute the business. On matters regarding remuneration, the panel holds deliberations and makes reports in accordance with its advice on such matters as the policy, plan and calculation method regarding remuneration for the Members of the Board and Executive Officers, and monitors the status of remuneration for Members of the Board and Audit & Supervisory Board Members at the Company. The Advisory Panel on Nomination and Compensation currently comprises the Chairman of the Board and three Independent Outside Director, and is chaired by the Chairman of the Board. The Advisory Panel on Nomination and Compensation is held once a year or more.

Outside members of Advisory Panel on Nomination and Compensation

Outside Director	Main Kohda
Outside Director	Koichiro Watanabe
Outside Director	Yukiko Nagashima

In light of reports by the Advisory Panel on Nomination and Compensation, JT’s basic concept of remuneration for Members of the Board and Audit & Supervisory Board Members is as follows:

- Setting the remuneration at a level sufficient to secure personnel with superior capabilities
- Linking the remuneration to business performance so as to motivate Members of the Board and Audit & Supervisory Board Members to enhance performance
- Linking the remuneration to mid- to long-term corporate value
- Ensuring transparency based on an objective point of view and quantitative schemes

In accordance with the above concept, the remuneration for Members of the Board and Audit & Supervisory Board Members is made of three components. In addition to the monthly “base salary,” there is an “executive bonus,” which reflects the Company’s business performance in the relevant fiscal year, and a “stock option,” which is linked to the mid- to long-term corporate value of JT.

The composition of the remuneration for Members of the Board and Audit & Supervisory Board Members is as follows:

1. Members of the Board who also serve as Executive Officers

For Members of the Board who also serve as Executive Officers, remuneration consists of the “base salary,” the “executive bonus,” and the “stock option” because they are required to achieve results by executing their duties on a daily basis. If the “executive bonus” is paid at the standard amount, the composition ratio for each type of remuneration is as follows.

Base salary	Executive bonus	Stock option
Approximately 55%	Approximately 27%	Approximately 18%

2. Members of the Board (excluding Outside Directors) who do not serve as Executive Officers

Members of the Board (excluding Outside Directors) who do not serve as Executive Officers receive remuneration that consists of the “base salary” and the “stock option” since they are required to make decisions on company-wide management strategies and fulfill supervisory functions to enhance corporate value. Beginning in fiscal 2020, in order to place a greater emphasis on objectivity and neutrality and further focus on the supervisory functions, including monitoring the implementation of mid- to long-term growth strategies, etc., remuneration is composed of “base salary” only.

3. Outside Directors

Remuneration for Outside Directors, which is not linked to business performance with the purpose of maintaining their independence, is composed of “base salary” only.

4. Audit & Supervisory Board Members

In the light of the role of Audit & Supervisory Board Members, which is primarily to conduct audits on legal compliance, their remuneration consists solely of the “base salary.”

The upper limit of remuneration for the Company’s Members of the Board and Audit & Supervisory Board Members, which was approved at the 34th Ordinary General Meeting of Shareholders (held in March 2019), is ¥1.2 billion per year for all Members of the Board (including ¥80 million per year for the Outside Directors) and ¥240 million per year for all Audit & Supervisory Board Members. In addition, the upper limit of “stock option” that may be granted to Members of the Board (excluding Outside Directors) separately to the remuneration mentioned above is 960 units and ¥240 million per year. This was also approved at the 34th Ordinary General Meeting of Shareholders. The number of units allocated for each term, including the number allocated to Executive Officers who are not also Members of the Board, is decided by resolution of the Board of Directors.

The amounts of remunerations for Members of the Board are determined by resolution of the Board of Directors within the approved upper limits, in light of deliberations by the Advisory Panel on Nomination and Compensation. These processes are carried out after benchmarking of levels of remuneration at major Japanese manufacturers that operate globally, whose size and profits are at similar levels to those of the Company, are undertaken based on third-party research into remuneration for corporate executives. The amounts of remunerations for Audit & Supervisory Board Members are benchmarked in the same way, and determined through discussions among Audit & Supervisory Board Members, within the approved upper limits.

\* For this Ordinary General Meeting of Shareholders (35th Ordinary General Meeting of Shareholders), we have proposed Item 4, “Determination of Remuneration for Granting Restricted Stock and Performance Share Units to Members of the Board Who Also Serve as Executive Officers, and Revision of Remuneration Amount for Members of the Board,” regarding revisions to the new share-based remuneration plan as mid- to long-term incentives and the associated revision of the remuneration amount for Members of the Board. For an overview of the related revisions, please refer to pages 23 to 28.

### 3. Matters concerning Outside Directors and Outside Audit & Supervisory Board Members

#### (1) Significant concurrent positions outside the Company

Category	Name	Organizations where concurrent positions are held	Position
Member of the Board	Main Kohda	Novelist	
		Japan Exchange Group, Inc.	Outside Director
		MITSUBISHI MOTORS CORPORATION	Outside Director
	Koichiro Watanabe	Dai-ichi Life Holdings, Inc.	Representative Director and Chairman of the Board
		The Dai-ichi Life Insurance Company, Limited	Representative Director and Chairman of the Board
		KEIDANREN (Japan Business Federation)	Vice Chair, Director
	Yukiko Nagashima	Recruit Holdings Co., Ltd.	Standing Audit and Supervisory Board Member
Recruit Co., Ltd.		Standing Audit and Supervisory Board Member	
Audit & Supervisory Board Member	Toru Mimura	Shiba International Law Offices	Attorney at Law
	Hiroshi Obayashi	Obayashi Law Office	Attorney at Law
		Daiwa Securities Co., Ltd.	Outside Audit & Supervisory Board Member
		Mitsubishi Electric Corporation	Outside Director
		NIPPON STEEL CORPORATION	Outside Audit & Supervisory Board Member

(Note) There are no special relationships to be mentioned between the above organizations in which concurrent positions are held and JT.

#### (2) Major activities during this fiscal year

Category	Name	Status of main activities
Member of the Board	Main Kohda	Attended all 14 Board of Directors meetings held during this fiscal year. Based on her extensive experience in serving on governmental advisory bodies, etc., and her high insight into international finance, she has fulfilled her duties as a Member of the Board, offering advice and recommendations on the Company's finances and IR, etc.
	Koichiro Watanabe	Attended all 14 Board of Directors meetings held during this fiscal year. Based on his wealth of experience in corporate management and governance and high insight from an investor's perspective, he has fulfilled his duties as a Member of the Board, providing advice and recommendations on the Company's governance system and finance, etc.
	Yukiko Nagashima	Attended all 10 Board of Directors meetings held during this fiscal year since she assumed office on March 20, 2019. Based on her experience acquired through her deep involvement in emerging businesses and corporate management, as well as her wide-ranging insights from the perspectives of both management and audit, she has fulfilled her duties as a Member of the Board, providing advice and recommendations on the Company's business strategy and organizational reform, etc.

Audit & Supervisory Board Member	Toru Mimura	Attended all 10 Board of Directors meetings, as well as all 10 meetings of the Audit & Supervisory Board, held during this fiscal year since he assumed office on March 20, 2019. Based on his deep insight into finance, global risk management, geopolitics, company law, etc., he has fulfilled his duties as an Audit & Supervisory Board Member, providing advice and recommendations on the Company's governance system and operational efficiency, etc.
	Hiroshi Obayashi	Attended all 14 Board of Directors meetings, as well as all 14 meetings of the Audit & Supervisory Board, held during this fiscal year. Based on his extensive experience and broad insight in the judicial world, he has fulfilled his duties as an Audit & Supervisory Board Member, providing advice and recommendations on the Company's governance system and appropriate information disclosure, etc.
	Koji Yoshikuni	Attended all 10 Board of Directors meetings, as well as all 10 meetings of the Audit & Supervisory Board, held during this fiscal year since he assumed office on March 20, 2019. Based on his extensive experience and broad insight in management across all operational businesses and internal departments, he has fulfilled his duties as an Audit & Supervisory Board Member, providing advice and recommendations on the Company's governance system and corporate culture, etc.

**(3) Total amount of remunerations**

Category	Outside Director		Outside Audit & Supervisory Board Member		Total	
	Number to be paid (Person)	Amount to be paid (Millions of yen)	Number to be paid (Person)	Amount to be paid (Millions of yen)	Number to be paid (Person)	Amount to be paid (Millions of yen)
Base salary	3	53	4	66	7	119

## V. Matters Relating to Independent Auditor

1. **Name of Independent Auditor:** Deloitte Touche Tohmatsu LLC

### 2. Fees for Independent Auditor relating to this fiscal year

#### (1) Fees for Independent Auditor relating to this fiscal year of JT

i) Fees for audit attestation based on Article 2, paragraph 1 of the Certified Public Accountants Act: ¥325 million

ii) Fees for tasks other than audit attestation based on Article 2, paragraph 1 of the Certified Public Accountants Act: ¥95 million

#### (2) Amount of cash and other financial benefits to be paid by JT and its subsidiaries:

¥567 million

#### (3) Reasons for approval of the Independent Auditor's remuneration by the Audit & Supervisory Board:

When the Company concluded an audit contract with Independent Auditor, the Audit & Supervisory Board Members obtained necessary materials and received reports from the Members of the Board, relevant internal departments, and the Independent Auditor, and performed verification to confirm that the amount of remuneration to be paid to the Independent Auditor, the persons in charge of the audits, and other details of the audit contract were appropriate.

Based upon this verification, the Audit & Supervisory Board checked and examined matters including the content of the Independent Auditor's accounting plan, the status of the performance of the auditing duties, and the basis for calculation of the remuneration estimate, and, as a result, determined that approval was fair and reasonable.

- (Notes)
1. Fees paid under the terms of the audit contract concluded between Deloitte Touche Tohmatsu LLC and JT in relation to audit attestation based on the Companies Act and the Financial Instruments and Exchange Act are not clearly classified, and since they cannot be effectively classified, their total is indicated in the amount in "i)" above.
  2. JT retains Deloitte Touche Tohmatsu LLC for tasks other than audit attestation based on Article 2, paragraph 1 of the Certified Public Accountants Act, which consist of advisory services relating to sustainability management and the issuance of the comfort letter in relation to the bond issuing, and for which a consideration is paid to the same.
  3. Among the important subsidiaries of JT, JT International S.A. and Gallaher Ltd. are audited by Deloitte & Touche LLP. None of these subsidiaries are audited by Deloitte Touche Tohmatsu LLC, the Independent Auditor of JT.

### 3. Policy on dismissal or non-reappointment of Independent Auditor

In the case that an Independent Auditor is adjudged to fall within any of the items listed in Article 340, paragraph 1 of the Companies Act, with the agreement of all of the Audit & Supervisory Board Members, the Company shall dismiss the Independent Auditor. Additionally, apart from the above, should an incident occur casting serious doubt on the ability of the Independent Auditor to continue to perform its duties, the Audit & Supervisory Board shall decide the content of proposal and submit such proposal to the General Meeting of Shareholders that the Independent Auditor should be dismissed or should not be reappointed.

## **[Reference] Corporate Governance**

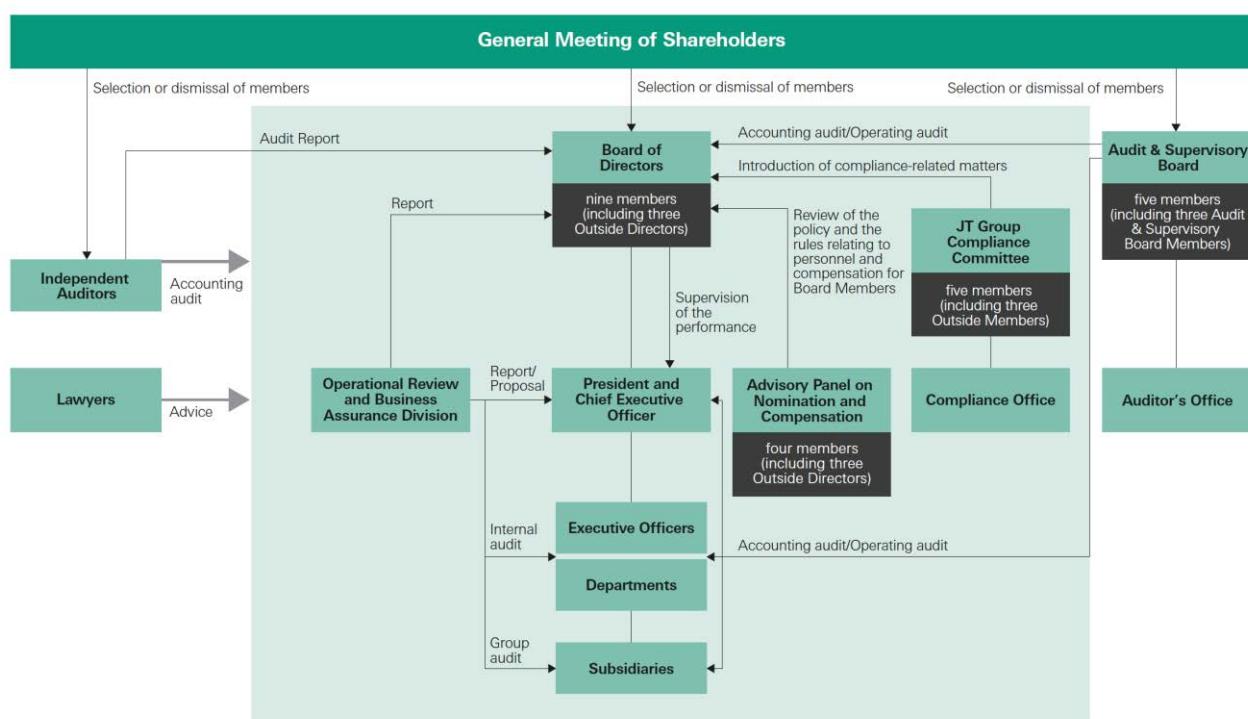
### **Fundamental Policy Concerning Corporate Governance**

We have enhanced our corporate governance, based on our belief that it is the means for conducting transparent, fair, timely and decisive decision-making for pursuing JT’s management principle, the “4S model.” Specifically the “4S model” aims “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.”

We have set out the “JT Corporate Governance Policies” on 4 February, 2016, and continuously strive to make enhancements based on our belief that it will enable us to achieve mid- to long-term sustainable profit growth and increase corporate value, which will contribute to the development of our group’s stakeholders and eventually the economic society as a whole.

“JT Corporate Governance Policies” is posted on our website (<https://www.jti.co.jp/>).

### **JT’s Corporate Governance System (as of December 31, 2019)**





## Overview of the Board of Directors, Audit & Supervisory Board, and Committees

### ■ The Board of Directors

The Board of Directors assumes responsibility in making decisions for important issues including the Group strategy as well as supervising all the activities of the Group. In view of the point that the Board of Directors determines company-wide management strategy and important matters and effectively assumes roles and responsibilities as the body exercising supervision over all business activities, the concept concerning the composition of the Board of Directors shall be set forth as follows.

- The number of Members of the Board in the Board of Directors shall be fifteen (15) or less, within necessary and appropriate scope, composed of diverse people with a high-integrity sense of ethics as professionals, knowledge, experience and skills.
- JT shall appoint two (2) or more Independent Outside Director with qualities that will contribute to its sustainable profit growth and increase of corporate value in the mid- to long-term from the viewpoint of strengthening supervisory functions and transparency of business.

It is currently composed of nine (9) Members of the Board (including three (3) Outside Directors). Conditional on approval by this Ordinary General Meeting of Shareholders, it is planned that it be composed of nine (9) Members of the Board (including three (3) Outside Directors).

In year ended December 31, 2019, we had 14 board meetings to discuss important issues including the management plan and nomination of Executive Officers.

\* For an evaluation of effectiveness of the Board of Directors of the Company, please refer to page 20.

### ■ The Audit & Supervisory Board

The Audit & Supervisory Board shall be composed of persons with proven experience in business, law, financial affairs and accounting, etc. Audit & Supervisory Board Members, in addition to participating in the Board of Directors meetings and other important meetings and making remarks as an independent body mandated by the shareholders, shall actively exercise his/her authority such as by proactively inspecting business bases, etc., as well as appropriately conduct an audit from an objective position corresponding to the nature of duties of independent outside Audit & Supervisory Board Members or standing Audit & Supervisory Board Members. It is currently composed of five (5) Audit & Supervisory Board Members (including three (3) Outside Audit & Supervisory Board Members).

In year ended December 31, 2019, we had 14 board meetings to discuss issues including the auditing policies and preparing of Audit Report.

### ■ Advisory Panel on Nomination and Compensation

The Advisory Panel on Nomination and Compensation was established as an optional advisory body to the Board of Directors on March 20, 2019, and integrates the functions of the previous Meeting for Talent Development and Compensation Advisory Panel. The establishment of the panel is intended to further enhance the objectivity and transparency of the Board of Directors' decision making and to improve the supervisory functions of the Board of Directors by having the panel support the development of a group of executive candidates, deliberate on the nomination of Member of the Board and Audit & Supervisory Board Member candidates, deliberate on dismissal of Executive Directors and Members of the Board who execute the business, and deliberate on matters regarding remuneration for Members of the Board and Executive Officers, then report to the Board of Directors.

It is currently composed of four (4) members, comprising the Chairman of the Board and three (3) Independent Outside Director, and is chaired by the Chairman of the Board.

In year ended December 31, 2019, we had six (6) meetings to confirm and discuss issues, including a review of the existing executive remuneration plan, a proposal to revise the remuneration plan, the level of remuneration, processes for developing the group of executive candidates, and nomination of Member of the Board candidates.

### ■ JT Group Compliance Committee

As part of the Company's efforts to ensure that compliance is practiced fairly and effectively, it has established the JT Group Compliance Committee. The JT Group Compliance Committee is headed by the Chairman of the Board, with the majority of the members consisting of external members.

In year ended December 31, 2019, we met 3 times to discuss initiatives, etc. to further promote compliance. Its conclusions have been reflected in the Compliance Action Plan for FY2020.

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\* All figures contained in this Business Report are rounded to the nearest unit.

## **Consolidated Statement of Financial Position**

(As of December 31, 2019)

(Millions of yen)

Account title	Amount	Account title	Amount
<b>Current assets</b>		<b>Current liabilities</b>	
Cash and cash equivalents	357,158	Trade and other payables	408,597
Trade and other receivables	458,513	Bonds and borrowings	284,135
Inventories	677,586	Income tax payables	69,543
Other financial assets	21,943	Other financial liabilities	21,862
Other current assets	410,443	Provisions	16,570
Subtotal	1,925,643	Other current liabilities	701,050
Non-current assets held-for-sale	30	Total current liabilities	1,501,757
Total current assets	1,925,673		
<b>Non-current assets</b>		<b>Non-current liabilities</b>	
Property, plant and equipment	803,239	Bonds and borrowings	690,367
Goodwill	2,002,595	Other financial liabilities	41,062
Intangible assets	440,434	Retirement benefit liabilities	320,614
Investment property	16,588	Provisions	19,463
Retirement benefit assets	67,377	Other non-current liabilities	155,768
Investments accounted for using the equity method	52,903	Deferred tax liabilities	80,430
Other financial assets	109,568	Total non-current liabilities	1,307,702
Deferred tax assets	134,696	<b>Total liabilities</b>	2,809,459
Total non-current assets	3,627,397	<b>Equity</b>	
		Share capital	100,000
		Capital surplus	736,400
		Treasury shares	(492,469)
		Other components of equity	(431,741)
		Retained earnings	2,750,506
		Equity attributable to owners of the parent company	2,662,696
		Non-controlling interests	80,916
		<b>Total equity</b>	2,743,611
<b>Total assets</b>	5,553,071	<b>Total liabilities and equity</b>	5,553,071

## Consolidated Statement of Income

(Year ended December 31, 2019)

(Millions of yen)

Account title	Amount
Revenue	2,175,626
Cost of sales	(942,299)
Gross profit	1,233,326
Other operating income	95,725
Share of profit in investments accounted for using the equity method	5,011
Selling, general and administrative expenses	(831,707)
Operating profit	502,355
Financial income	8,402
Financial costs	(45,526)
Profit before income taxes	465,232
Income taxes	(103,609)
Profit for the period	361,622
Attributable to:	
Owners of the parent company	348,190
Non-controlling interests	13,432

## Nonconsolidated Balance Sheet

(As of December 31, 2019)

(Millions of yen)

Account title	Amount	Account title	Amount
<b>ASSETS</b>		<b>LIABILITIES</b>	
<b>Current assets</b>	477,597	<b>Current liabilities</b>	696,054
Cash and deposits	80,282	Accounts payable-trade	10,304
Accounts receivable-trade	43,174	Current portion of bonds	80,000
Securities	40,000	Lease obligations	2,769
Merchandise and finished goods	32,756	Accounts payable-other	60,869
Semi-finished goods	68,416	National tobacco excise taxes payable	71,178
Work in process	2,262	National tobacco special excise taxes payable	10,060
Raw materials and supplies	40,120	Local tobacco excise taxes payable	81,718
Advance payments-trade	2,093	Income taxes payable	10,555
Prepaid expenses	9,893	Accrued consumption taxes	32,758
Short-term loans receivable from subsidiaries and affiliates	99,536	Cash management system deposits received	323,313
Other	59,091	Provision for bonuses	4,726
Allowance for doubtful accounts	(26)	Other	7,806
<b>Noncurrent assets</b>	2,136,759	<b>Noncurrent liabilities</b>	500,937
<b>Property, plant and equipment</b>	246,540	Bonds payable	291,904
Buildings	92,396	Long-term loans payable	70,000
Structures	2,686	Lease obligations	6,113
Machinery and equipment	59,262	Provision for retirement benefits	129,322
Vehicles	1,827	Other	3,598
Tools, furniture and fixtures	16,586	<b>Total liabilities</b>	1,196,991
Land	71,279		
Construction in progress	2,503	<b>NET ASSETS</b>	
<b>Intangible assets</b>	336,031	<b>Shareholders' equity</b>	1,403,136
Patent right	224	<b>Capital stock</b>	100,000
Right of trademark	98,896	<b>Capital surplus</b>	736,400
Software	19,581	Legal capital surplus	736,400
Goodwill	214,626	<b>Retained earnings</b>	1,059,205
Other	2,705	Legal retained earnings	18,776
<b>Investments and other assets</b>	1,554,189	Other retained earnings	1,040,429
Investment securities	22,566	Reserve for investment loss on developing new business	378
Shares of subsidiaries and affiliates	1,482,083	Reserve for reduction entry	45,373
Long-term loans receivable from subsidiaries and affiliates	17,040	Special account for reduction entry	1,747
Long-term prepaid expenses	9,268	Retained earnings brought forward	992,930
Deferred tax assets	13,053	<b>Treasury shares</b>	(492,469)
Other	11,841	<b>Valuation and translation adjustments</b>	12,673
Allowance for doubtful accounts	(1,663)	Valuation difference on available-for-sale securities	7,283
		Deferred gains or losses on hedges	5,390
<b>Total assets</b>	2,614,357	<b>Subscription rights to shares</b>	1,556
		<b>Total net assets</b>	1,417,365
		<b>Total liabilities and net assets</b>	2,614,357

## Nonconsolidated Statement of Income

(Year ended December 31, 2019)

(Millions of yen)

Account title	Amount	
Net sales		660,805
Cost of sales		195,933
<b>Gross profit</b>		464,872
Selling, general and administrative expenses		335,858
<b>Operating income</b>		129,014
<b>Non-operating income</b>		
Interest income	210	
Dividends income	148,354	
Other	7,812	156,376
<b>Non-operating expenses</b>		
Interest expenses	519	
Interest on bonds	4,084	
Other	1,819	6,422
<b>Ordinary income</b>		278,968
<b>Extraordinary income</b>		
Gain on sales of noncurrent assets	14,202	
Gain on sales of investment securities	22,912	
Gain on transfer of licenses	18,381	
Other	1,000	56,495
<b>Extraordinary losses</b>		
Loss on sales of noncurrent assets	52	
Loss on retirement of noncurrent assets	7,025	
Impairment loss	8,521	
Loss on liquidation of subsidiaries	20,524	
Other	3,461	39,584
<b>Income before income taxes</b>		295,879
Income taxes-current	37,329	
Income taxes-deferred	(3,920)	33,409
<b>Net income</b>		262,469

(TRANSLATION)

## INDEPENDENT AUDITOR'S REPORT

February 7, 2020

To the Board of Directors of  
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,  
Engagement Partner,  
Certified Public Accountant: Yukitaka Maruchi (Seal)

Designated Unlimited Liability Partner,  
Engagement Partner,  
Certified Public Accountant: Yasuhiko Haga (Seal)

Designated Unlimited Liability Partner,  
Engagement Partner,  
Certified Public Accountant: Yoichi Matsushita (Seal)

Pursuant to the fourth paragraph of Article 444 of the Companies Act, we have audited the consolidated financial statements, namely, the consolidated statement of financial position as of December 31, 2019 of Japan Tobacco Inc. and its consolidated subsidiaries, and the related consolidated statements of income and changes in equity for the fiscal year from January 1, 2019 to December 31, 2019, and the related notes of significant matters for preparing consolidated financial statements and other related notes to consolidated financial statements.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements pursuant to the provisions of the second sentence of the first paragraph of Article 120 of the Ordinance on Company Accounting which allows companies to prepare consolidated financial statements with the omission of a part of the disclosures required under International Financial Reporting Standards ("IFRS"), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Audit Opinion**

In our opinion, the consolidated financial statements referred to above, prepared with the omission of a part of the disclosures required under IFRS pursuant to the provisions of the second sentence of the first paragraph of Article 120 of the Ordinance on Company Accounting, present fairly, in all material respects, the financial position of Japan Tobacco Inc. and its consolidated subsidiaries as of December 31, 2019, and the results of their operations for the year then ended.

### **Interest**

Our firm and the engagement partners do not have any interest in Japan Tobacco Inc. for which disclosure is required under the provisions of the Certified Public Accountants Act.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

(TRANSLATION)

## INDEPENDENT AUDITOR'S REPORT

February 7, 2020

To the Board of Directors of  
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,  
Engagement Partner,  
Certified Public Accountant: Yukitaka Maruchi (Seal)

Designated Unlimited Liability Partner,  
Engagement Partner,  
Certified Public Accountant: Yasuhiko Haga (Seal)

Designated Unlimited Liability Partner,  
Engagement Partner,  
Certified Public Accountant: Yoichi Matsushita (Seal)

Pursuant to the first item, second paragraph of Article 436 of the Companies Act, we have audited the nonconsolidated financial statements, namely, the nonconsolidated balance sheet as of December 31, 2019 of Japan Tobacco Inc. and the related nonconsolidated statements of income and changes in net assets for the 35th fiscal year from January 1, 2019 to December 31, 2019, and the related notes of significant accounting policies and other related notes to nonconsolidated financial statements, and the accompanying supplemental schedules.

### **Management's Responsibility for the Nonconsolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these nonconsolidated financial statements and the accompanying supplemental schedules in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of nonconsolidated financial statements and the accompanying supplemental schedules that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these nonconsolidated financial statements and the accompanying supplemental schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the nonconsolidated financial statements and the accompanying supplemental schedules are free from material misstatement.



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the nonconsolidated financial statements and the accompanying supplemental schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the nonconsolidated financial statements and the accompanying supplemental schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the nonconsolidated financial statements and the accompanying supplemental schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the nonconsolidated financial statements and the accompanying supplemental schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Audit Opinion**

In our opinion, the nonconsolidated financial statements and the accompanying supplemental schedules referred to above present fairly, in all material respects, the nonconsolidated financial position of Japan Tobacco Inc. as of December 31, 2019, and the results of its operations for the year then ended in accordance with accounting principles generally accepted in Japan.

### **Interest**

Our firm and the engagement partners do not have any interest in Japan Tobacco Inc. for which disclosure is required under the provisions of the Certified Public Accountants Act.

The above represents a translation, for convenience only, of the original report issued in the Japanese language and "the accompanying supplemental schedules" referred to in this report are not included in the attached financial documents.

[The following represents a translation, for convenience only, of the original report issued in the Japanese language.]

## **Audit Report of the Audit & Supervisory Board**

### **AUDIT REPORT**

Regarding the performance of duties by the Members of the Board for the 35th fiscal year from January 1, 2019 to December 31, 2019, the Audit & Supervisory Board hereby submits its audit report, which has been prepared through discussions based on the audit report prepared by each Audit & Supervisory Board Member.

#### **1. Auditing Methods Employed by Audit & Supervisory Board Members and the Audit & Supervisory Board and Details of Such Methods**

(1) The Audit & Supervisory Board established auditing policies, allocation of duties, and other relevant matters, and received reports from each Audit & Supervisory Board Member regarding his or her audits and results thereof, as well as received reports from the Members of the Board, other relevant personnel, and Independent Auditors regarding performance of their duties, and sought explanations as necessary.

(2) Each Audit & Supervisory Board Member complied with the auditing standards of Audit & Supervisory Board Members established by the Audit & Supervisory Board, followed the auditing policies, allocation of duties, and other relevant matters, communicated with the Members of the Board, and any other relevant personnel, and made efforts to optimize the environment for information collection and audit, and conducted his or her audits in the following methods:

i) We participated in the Board of Directors' meetings and other important meetings, received reports from the Members of the Board, and other relevant personnel regarding performance of their duties, sought explanations as necessary, examined important documents, and studied the operations and financial positions at the head office and principal offices. With respect to subsidiaries, we communicated and exchanged information with Members of the Board, Audit & Supervisory Board Members, and other relevant personnel of the subsidiaries, and received business reports from subsidiaries as necessary.

ii) We monitored and verified the details of the resolution of the Board of Directors related to the system that ensures Members of the Boards are carrying out their duties in compliance with laws and regulations and the Articles of Incorporation, and other systems that ensure the propriety of the operations of the corporate group comprised of a stock company and its subsidiaries, which are described in paragraphs 1 and 3 of Article 100 of the Regulation for Enforcement of the Companies Act. We also monitored and verified the condition of the system (internal control system) put in place in accordance with the aforesaid resolution.

iii) We monitored and verified whether the Independent Auditors maintained their independence and implemented appropriate audits, and we received reports from the Independent Auditors regarding the performance of their duties and sought explanations as necessary. In addition, we received notice from the Independent Auditors that "the system for ensuring that duties are performed properly" (matters set forth in each item of Article 131 of the Regulation on Corporate Accounting) is organized in accordance with the "Quality Management Standards Regarding Audits" (Business Accounting Council, October 28, 2005) and other relevant regulations, and sought explanations as necessary.

Based on the above methods, we examined the business report and the accompanying supplemental schedules, the non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of income, and non-consolidated statement of changes in net assets) and the accompanying supplemental schedules,

as well as consolidated financial statements (consolidated statement of financial position, consolidated statement of income, and consolidated statement of changes in equity, which omit some disclosure items required under International Financial Reporting Standards (IFRS) in accordance with the provision of the second sentence of Article 120, paragraph 1 of the Regulation on Corporate Accounting) related to the relevant business year.

## 2. Audit Results

### (1) Results of Audit of Business Report and Other Relevant Documents

1. In our opinion, the business report and the accompanying supplemental schedules are in accordance with the related laws and regulations and Articles of Incorporation, and fairly represent JT's condition.
2. With regard to the performance of duties by the Members of the Board, we have found no evidence of wrongful action or material violation of related laws and regulations, nor of any violation with respect to the Articles of Incorporation.
3. In our opinion, the contents of the resolutions of the Board of Directors regarding the internal controls system are fair and reasonable, and, furthermore, the development, implementation and maintenance of the internal controls system are appropriate.

### (2) Results of Audit of Non-Consolidated Financial Statements and the accompanying supplemental schedules

In our opinion, the methods and results employed and rendered by the Independent Auditors, Deloitte Touche Tohmatsu LLC, are fair and reasonable.

### (3) Results of Audit of Consolidated Financial Statements

In our opinion, the methods and results employed and rendered by the Independent Auditors, Deloitte Touche Tohmatsu LLC, are fair and reasonable.

February 13, 2020

The Audit & Supervisory Board, Japan Tobacco Inc.

Standing Audit & Supervisory Board Member	Ryoko Nagata	(seal)
Standing Audit & Supervisory Board Member	Hiroshi Yamamoto	(seal)
Standing Audit & Supervisory Board Member	Toru Mimura	(seal)
Audit & Supervisory Board Member	Hiroshi Obayashi	(seal)
Audit & Supervisory Board Member	Koji Yoshikuni	(seal)

(Note) Standing Audit & Supervisory Board Member Toru Mimura and Audit & Supervisory Board Members Hiroshi Obayashi and Koji Yoshikuni are Outside Audit & Supervisory Board Members provided for by Article 2, item 16 and Article 335, paragraph 3 of the Companies Act.