[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.]

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JAPAN TOBACCO INC.
Mitsuomi Koizumi, President and
CEO and Representative Director
Contact: +81-3-3582-3111
Securities Code Number: 2914
https://www.jti.co.jp/

The current status of the Company's corporate governance is as follows.

I. Basic Concept of Corporate Governance and Basic Information including Capital Structure and Corporate Attributes

1. Basic Concept [updated]

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

The Company has set out the "JT Corporate Governance Policy", and strives to make enhancements based on its' belief that it will enable the Group to achieve mid- to long-term sustainable profit growth and increase corporate value, which will contribute to the development of the Group's stakeholders and eventually the economic society as a whole.
URL of "JT Corporate Governance Policy":
https://www.jt.com/investors/at_a_glance/governance01/pdf/20170314_E.pdf

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

The Company has implemented all of the Principles of the Corporate Governance Code.

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

[Principle 1-4]

The policy on strategic shareholding and the standards for exercising voting rights are as described in Chapter 3, 2. (4) Strategic Shareholding in the JT Corporate Governance Policy.

[Principle 1-7]

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

[Principle 3 -1]

(1) The Company's management principles, etc. are as described in Chapter 1, 2. Management Principles, etc. in the JT Corporate Governance Policy.

The Company's Business Plan is publically available on the Company's website.

URL of"Business Plan": https://www.jt.com/investors/results/forecast/pdf/20170206_12.pdf

(2) The Company's basic views and basic policies on corporate governance are as described in I .1. Basic Concept in this Report, Chapter 1. 1. Basic Concept concerning Corporate Governance and Chapter 2. Basic Policy concerning Corporate Governance in the JT Corporate Governance Policy.

(3) The Company's policies and procedures for determining the remuneration of Members of the Board and Executive Officers are as described in Chapter 4. 2. (3) Members of the Board and Executive Officers' Compensation in the JT Corporate Governance Policy.

(4) The Company's policies and procedures for the nomination of candidates for Member of the Board and Audit & Supervisory Board Members are as described in Chapter 4. 2. (2) Nomination of Member of the Board Candidates in the JT Corporate Governance Policy.

(5) The individual reasons for the nomination of candidates for Members of the Board and Audit & Supervisory Board Members are described in the Notice of Convocation of the Ordinary General Meeting of Shareholders when this matter to be discussed. .

[Supplementary Principle 4-1-1]

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

[Principle 4-9]

The independence criteria for the Company's independent executives are as described in II .1. Independent Executives Other Items Related to Independent Executives in this Report.

[Supplementary Principle 4-11-1]

The Company's view on the balance between knowledge, experience and skills of the Board of Directors as a whole, and also on diversity and size are as described in Chapter 4. 2. (1) Composition of the Board of Directors in the JT Corporate Governance Policy.

[Supplementary Principle 4-11-2]

The significant concurrent positions of Members of the Board and Audit & Supervisory Board Members are as described in the Notice of Convocation of the Ordinary General Meeting of Shareholders.

[Supplementary Principle 4-11-3]

With regard to the effectiveness of the Board of Directors, in addition to self-evaluations by Members of the Board and Audit & Supervisory Board Members (including outside officers), the Board of Directors Secretariat compiles the results after it conducts individual interviews with the Members of the Board and Audit & Supervisory Board Members (including outside officers) with the aim of supplementing the results of the evaluations.

The Board of Directors meetings in the year ended December 31, 2016 functioned in light of these results, confirming that its effectiveness has been ensured.

It should be noted that the Company is also implementing the necessary improvements to further enhance effectiveness, including activities related to the evaluation of effectiveness, in the year ending December 31, 2017 and beyond.

[Supplementary Principle 4-14-2]

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

[Principle 5-1]

The Company's policies concerning the maintenance of a system and measures to promote constructive dialogue with shareholders are as described in Chapter 3. 2. (3) Dialogue with Shareholders in the JT Corporate Governance Policy.

2. Capital Structure

Combined equity stakes of foreign shareholders	30% or more

[Status of Major Shareholders] [updated]

Name	Number of Shares Held	Ratio (%)
The Minister of Finance	666,927,200	33.35
Japan Trustee Services Bank, Ltd. (Trust Account)	57,243,800	2.86
The Master Trust Bank of Japan, Ltd. (Trust Account)	56,742,000	2.84
State Street Bank and Trust Company (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	35,920,351	1.80
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust & Banking Co., Ltd.	33,800,000	1.69
GIC Private Limited-C (Standing proxy: Bank of Tokyo-Mitsubishi UFJ)	31,123,800	1.56
State Street Bank and Trust Company 505223 (Standing proxy: Mizuho Bank, Ltd., Settlement Sales Department)	29,825,673	1.49
State Street Bank and Trust Company 505001 (Standing proxy: Mizuho Bank, Ltd., Settlement Sales Department)	25,502,286	1.28
JPMorgan Chase Bank 380055 (Standing proxy: Mizuho Bank, Ltd., Settlement Sales Department)	22,489,094	1.12
The Bank of New York 133522 (Standing proxy: Mizuho Bank, Ltd., Settlement Sales Department)	20,434,226	1.02

Controlling Shareholders (excluding parent company)	—
Parent Company	None

[Supplementary Information] [updated]

The Japan Tobacco Inc. Act (hereinafter referred to as the “JT Act”) obligates the Government of Japan to hold the Company’s shares. As of the end of December 2016, the government held 33.35% of all outstanding the Company’s shares as shown in the Status of Major Shareholders above.

3. Corporate Attributes

Listed Stock Exchanges and Market Segment	Tokyo (First Section)
Closing Month of the Annual Account Book	December
Business Sector	Foods
Number of Employees (Consolidated basis) at the end of the previous fiscal year	1,000 or more

Net Sales (Consolidated basis) at the end of the previous fiscal year	¥1 trillion or more
Number of Consolidated Subsidiaries at the end of the previous fiscal year	100 or more and less than 300

4. Policies for Measures to Protect Minority Shareholders When Conducting Transactions with Controlling Shareholders

—

5. Other Factors Which May Materially Affect Corporate Governance

- The JT Act obligates the Government of Japan to hold the Company's shares.
- The Minister of Finance has the authority to supervise the Company under the JT Act and the Tobacco Business Act.
- Torii Pharmaceutical Co., Ltd. (hereinafter referred to as "Torii Pharmaceutical"), which engages in the pharmaceutical business, is a consolidated subsidiary of the Company and is listed on the Tokyo Stock Exchange. While the Company is responsible for research and development, Torii Pharmaceutical undertakes production and sales. In order to perform these different functions efficiently, the two companies maintain a cooperative relationship. The Company respects the need to ensure a certain degree of independence for Torii Pharmaceutical by refraining from undermining the company's business judgment.

II Status of Business Management Organizations Concerning Business Decision-making, Execution and Supervision, and Other Corporate Governance Systems

1. Matters Relating to Organizational Structure and Organizational Management

Form of organization	A company with board of auditors (Audit & Supervisory Board)

[Matters Related to Members of the Board]

Number of Members of the Board Stipulated in Articles of Incorporation	15
Term of Office for Members of the Board Stipulated in Articles of Incorporation	2 years
Chairman of the Board of Directors	Chairman (excluding where serving concurrently as President)
Number of Members of the Board [updated]	7
Appointment of Outside Members of the Board	There are sitting Outside Members of the Board
Number of Sitting Outside Members of the Board	2
Number of Sitting Outside Members of the Board Designated as Independent Executive	2

Relationship with the Company (1)

Name	Attribute	Relationship with the Company*										
		a	b	c	d	e	f	g	h	i	j	k
Motoyuki Oka	Originally from another company								△			
Main Kohda	Originally from another company											

* Conditions met regarding the relationship with the Company
* "○" is put if the principal presently satisfies or has recently satisfied the condition, and "Δ" is put if the principal satisfied the condition in the past.
* "●" is put if a close relative presently satisfies or has recently satisfied the condition, and "▲" is put if a close relative satisfied the condition in the past.

a. A person who executes business in a listed company or a subsidiary of a listed company
b. A person who executes business or a non-executive director in the parent company of a listed company
c. A person who executes business in a sister company of a listed company
d. A supplier of which a listed company is a major customer, or, if the supplier is a corporation, a person who executes business in the corporation
e. A major customer of a listed company, or, if the customer is a corporation, a person who executes business in the corporation
f. A consultant, professional accountant or lawyer who receives a large amount of money and other economic benefits other than officers' compensation from a listed company
g. A major shareholder of a listed company (if the major shareholder is a corporation, a person who executes business in the corporation)
h. A person who executes business (limited to the principal) in a corporation that is a customer of a listed company other than customers falling in either category of d, e and f above
i. A person who executes business (limited to the principal) in a corporation at which an outside officer of the company concurrently has a position of outside officer
j. A person who executes business (limited to the principal) in a corporation to which a listed company offers donation

k. Others

Relationship with the Company (2)【updated】

Name	Inde-pendent Executive	Supplementary Explanation to Corresponding Item	Reason for Appointment
Motoyuki Oka	○	He concurrently serves as outside director of NEC Corporation, with which the Company has a business relationship. Although the Company has had a business relationshipwith NEC Corporation, , the transaction amount accounted for less than 0.001% of the Company's consolidated sales revenue in the fiscal year ended December 31, 2016, which the Company believes this has no material impacts to generate special interest. For more details, refer to the "Criteria for Evaluating Independence of Outside Executives" (mentioned below in "Other Items Related to Independent Executives") established by resolution of the Board of Directors.	His appointment is based on the judgment that he is qualified to serve as an Outside Member of the Board because of his abundant experience and extensive insight into the management of global companies and the financial situation. In addition, the Company designated him as an independent executive defined by financial instruments exchanges based on its judgment that there is no risk of causing conflicts of interest with general shareholders.
Main Kohda	○	—	Her appointment is based on the judgment that she is qualified to serve as an Outside Member of the Board because of her abundant insight into international finance, her extensive experience in teaching as a university professor and serving on governmental advisory bodies, etc., and her deep insight and objective point of view developed through her activities as a fiction writer, as well of other literary works. In addition, the Company designated her as an independent executive defined by financial instruments exchanges based on its judgment that there is no risk of causing conflicts of interest with general shareholders. For more details, refer to the "Criteria for Evaluating Independence of Outside Executives" (mentioned below in "Other Items Related to Independent Executives") established by resolution of the Board of Directors.

Presence or Absence of Optional	Present

Committee Equivalent to Nominating Committee or Compensation Committee	

Establishment of Optional Committee, Composition of Committee Members and Attribute of Committee Chair

Optional committee equivalent to nominating committee

Name of committee			—			
Number of committee members	Number of standing committee members	Number of Inside Members of the Board	Number of Outside Members of the Board	Number of external experts	Number of others	Committee Chair
—	—	—	—	—	—	None

Optional committee equivalent to compensation committee

Name of committee			Compensation Advisory Panel			
Number of committee members	Number of standing committee members	Number of Inside Members of the Board	Number of Outside Membres of the Board	Number of external experts	Number of others	Committee Chair
5	0	1	2	2	0	Inside Members of the Board

Supplementary Explanation

The Company has established the Compensation Advisory Panel composed of the independent Outside Members of the Board and the independent Outside Audit & Supervisory Board Members as an optional advisory body to the Board of Directors with the aims of creating an effective governance system and ensuring the objectivity and transparency of executive remuneration.
The Compensation Advisory Panel is held once a year or more. Upon request, the Panel reviews and provides advice on the policy, framework and calculation method for remuneration of the Company's Membrs of the Board and Executive Officers. It also monitors whether the Company's executive remuneration level is reasonable.
The Compensation Advisory Panel currently comprises the Chairman of the Board, two Outside Members of the Board and two Outside Audit & Supervisory Board Members, and is chaired by the Chairman of the Board.

Outside members of Compensation Advisory Panel

Motoyuki Oka, Outside Member of the Board of the Company
Main Kohda, Outside Member of the Board of the Company
Yoshinori Imai, Outside Audit & Supervisory Board Member of the Company
Hiroshi Obayashi, Outside Audit & Supervisory Board Member of the Company

[Matters Related to Audit & Supervisory Board Members]

Presence or Absence of the Audit Board	The Audit & Supervisory Board is in place
Number of Audit & Supervisory Board Members Stipulated in Articles of Incorporation	4
Number of Audit & Supervisory Board Members	4

Cooperation among Audit & Supervisory Board Members, Accounting Auditor and Internal Auditing Divisions

While Audit & Supervisory Board Members, internal audit divisions including the Operational Review and Business Assurance Division, and the Accounting Auditor (Deloitte Touche Tohmatsu LLC) conduct audits individually, they endeavor to enhance their cooperation and exchange information and opinions as necessary in order to ensure appropriate audits, for example by sharing information on the results of their respective audits.

Appointment of Outside Audit & Supervisory Board Members	There are sitting Outside Audit & Supervisory Board Members
Number of Outside Audit & Supervisory Board Members	2
Number of Outside Audit & Supervisory Board Members Designated as Independent Executives	2

Relationship with the Company (1)

Name	**Attribute**	**Relationship with the Company***												
		a	**B**	**c**	**d**	**e**	**f**	**g**	**h**	**i**	**j**	**k**	**l**	**m**
Yoshinori Imai	Originally from another company										Δ			
Hiroshi Obayashi	Originally from another company													

* Conditions met regarding the relationship with the Company
* "○" is put if the principal presently satisfies or has recently satisfied the condition, and "Δ" is put if the principal satisfied the condition in the past.
* "●" is put if a close relative presently satisfies or has recently satisfied the condition, and "▲" is put if a close relative satisfied the condition in the past.

a. A person who executes business in a listed company or a subsidiary of a listed company
b. A non-executive director or an accounting advisor in a listed company or a subsidiary of a listed company
c. A person who executes business or a non-executive director in the parent company of a listed company
d. A company auditor of a parent company of a listed company
e. A person who executes business in a sister company of a listed company
f. A supplier of which a listed company is a major customer, or, if the supplier is a corporation, a person who executes business in the corporation
g. A major customer of a listed company, or, if the customer is a corporation, a person who executes business in the corporation
h. A consultant, professional accountant or lawyer who receives a large amount of money and other economic benefits other than officers' compensation from a listed company
i. A major shareholder of a listed company (if the major shareholder is a corporation, a person who executes business in the corporation)
j. A person who executes business (limited to the principal) in a corporation that is a customer of a listed company other than customers falling in either category of f, g and h above

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

Relationship with the Company (2)

Name	Inde-pendent Executive	Supplementary Explanation to Corresponding Item	Reason for Appointment
Yoshinori Imai	○	He previously served for Japan Broadcasting Corporation ("NHK"). However, although the Company pays to NHK reception fees pursuant to the Broadcast Act, the Company judges that, because the payments are routine and immaterial and made in accordance with laws and regulations, there is no risk of causing conflicts of interest with general shareholders. For more details, refer to the "Criteria for Evaluating Independence of Outside Executives" (mentioned below in "Other Items Related to Independent Executives") established by resolution of the Board of Directors.	His appointment is based on the judgment that he is qualified to serve as an Outside Audit & Supervisory Board Member of the Company because of the abundant experiences and broad insights into global policies and economics gained from performing responsibilities as Executive Vice President of NHK. In addition, the Company designated him as an independent executive based on the judgment that there is no risk of causing conflicts of interest with general shareholders.
Hiroshi Obayashi	○	—	He has gained abundant experience and developed a broad perspective through his service in the judicial world. In addition, the Company designated him as an independent executive based on the judgment that there is no risk of causing conflicts of interest with general shareholders. For more details, refer to the "Criteria for Evaluating Independence of Outside Executives" (mentioned below in "Other Items Related to Independent Executives") established by resolution of the Board of Directors.

Independent Executives

Number of Independent Executives	4

Other Items Related to Independent Executives

The Company designates all persons who are qualified as independent executives as such.

The Criteria for Evaluating the Independence of Outside Executives established by the Company's Board of Directors based on the independence criteria set by securities exchanges are as follows.

Persons who do not fall under the following:.

1. A person who belongs or belonged to the Company, the Company's affiliate company or the Company's sister company;
2. A person who belongs to an organization such as company, etc., of which the Company is a major shareholder;
3. The Company's major shareholder or a person who belongs to an organization such as company,etc., which is the Company's major shareholder;
4. A person who is a major supplier or customer of the Company (a person who belongs to such organization in the event that it is an organization such as company, etc.);
5. The Company's major lender or other major creditor (a person who belongs to such organization in the event that it is an organization such as a company, etc.);
6. A certified public accountant who is the Company's Accounting Auditor or the Company's accounting advisor, or a person who belongs to an auditing firm which is the Company's Accounting Auditor or the Company's accounting advisor;
7. A person who provides the Company with expert services or consulting services concerning legal affairs, financial affairs, tax affairs, etc., and receives a large amount of compensation (a person who belongs to such organization in the event that it is an organization such as company, etc.);
8. A person who has received a large amount of donation from the Company (a person who belongs to such organization in the event that it is an organization);
9. A person to whom any of the above 2. to 8. has recently applied; or
10. A close relative of any one of the following:
    (i) Any one of the above 2. to 8. (a person who implements important duties in such organization in the event that it is an organization such as company, etc.);
    (ii) A Member of the Borard, Audit & Supervisory Board Members, accounting advisor, executive, Executive Officer or employee of the Company, the Company's affiliate companies or the Company's subsidiaries; or
    (iii) A person to whom either (i) or (ii) has recently applied.

[Matters Related to Incentives]

Provision of incentives to Members of the Board	Introduction of a performance-linked remuneration system and a stock option scheme

Supplementary Explanation Relating to the Relevant Item

Remuneration for the Members of the Board comprises (1) “basic monthly pay,” (2) an “executive bonus” linked to the Company’s business performance in the relevant year, and (3) “stock option grants,” the value of which is linked to the Company’s mid- to long-term corporate value.

For more details, refer to the “Policy for Determining Among and Method of Amount and Calculation Method of Remuneration” mentioned below.

Officers eligible for stock option grants	Inside Memers of the Board and Others

Supplementary Explanation Relating to the Relevant Item

The Company introduced a stock option scheme in 2007, in order to enhance the motivation to contribute to an increase in the corporate value in the mid- to long- term.

[Matters Related to Remuneration forMembers of the Board]

Disclosure status	Individual disclosure of remuneration for Members of the Board is limited

Supplementary Explanation Relating to the Relevant Item [updated]

Total remuneration for Members of the Board (excluding Outside Members of the Board) in the fiscal year ended December 31, 2016 is ¥603 million, including basic remuneration of ¥316 million, bonuses of ¥170 million and stock option grants of ¥117 million.

Total remuneration for Audit & Supervisory Board Members (excluding Outside Audit & Supervisory Board Members) is ¥77 million.

Total remuneration for Outside Members of the Board and Outside Audit & Supervisory Board Members is ¥56 million.

The total remuneration on a consolidated basis of over ¥100 million is explained separately in the Annual Securities Report for the 32nd Term.

Policy for Determining Among and Method of Amount and Calculation Method of Remuneration	Yes

[Disclosed Details of Policy for Determining Amount and Calculation Method of Remuneration] [updated]

Based on deliberation by the Compensation Advisory Panel, the Company's basic concept of executive remuneration for senior officers is set as follows:

- The compensation standard shall be suitable for securing excellent personnel;
- The compensation system shall be performance-based which will serve as motivation for achieving performance goals;
- Compensation shall be linked to mid- to long-term corporate value;
- Compensation shall be transparent based on objective points of view and quantitative framework.

In accordance with the above concept, remuneration for the senior officers comprises (1) "basic monthly pay," (2) an "executive bonus" linked to the Company's business performance in the relevant year, and (3) "stock option grants," the value of which is linked to the Company's mid- to long-term corporate value. In 2007, the Company introduced a stock option program in stock compensation style as an incentive linked to the mid- to long-term corporate value of the Company.

Remuneration for the Members of the Board is structured as follows:

Remuneration for the Members of the Board also serving as Executive Officers comprises "basic monthly pay," an "executive bonus," and "stock option grants," as their duty is to achieve targets of their assigned business through their daily execution of business. If the amount of their "executive bonus" is a standard amount, the total amount of "executive bonus" and "stock option grants" is set at approximately 80% of the aggregate amount of their "basic monthly pay." Remuneration for the Members of the Board not serving as Executive Officers excluding Outside Members of the Board comprises "basic monthly pay" and "stock option grants" as their duties require them to participate in decision making regarding group-wide management strategies and perform a supervisory function.

Remuneration for Outside Members of the Board, which is not linked to business performance from the perspective of maintaining their independence, comprises only "basic monthly pay."

Remuneration for the Audit & Supervisory Board Members comprises basic monthly pay alone, in light of their major duty of conducting compliance audits.

[Support for Outside Members of the Board (Outside Audit & Supervisory Board Members)]

With a view to contributing to the enhancement of discussion at the Board of Directors, the Company has established a system by which the Corporate Strategy Division and the Secretary's Office cooperate with Outside Members of the Board by providing them explanation in advance, communicating various relevant matters to them, and offering them materials and other information, in connection with proposals to be submitted to the Board of Directors.

The Company has also established a system to support Audit & Supervisory Board Members in performing their duties by establishing an adequate information communication system as well as by setting up an Audit & Supervisory Board Member's Office and allocating sufficient staff to the Office so that Audit & Supervisory Board Members, in their capacity as independent agents with a mandate from shareholders, can adequately audit the execution of duty by Members of the Boardand Executive Officers in order to ensure sound and sustainable growth and maintain and enhance public trust in the company.

2. Matters Relating to Functions Such As Execution of Business, Audit and Supervision, Nomination, Determination of Remuneration, etc. (Overview of Current Corporate Governance System) [updated]

In addition to opting to be a company with Audit & Supervisory Board, the Company seeks to enhance

corporate governance through the utilization of voluntary structures such as the establishment of the Compensation Advisory Panel, which is largely composed of the Outside Members of the Board and the Outside Audit & Supervisory Board Members, and the JT Group Compliance Committee, which is largely composed of outside committee members, from a viewpoint of creating an effective governance system.

The Board of Directors meeting takes place once a month in principle and on more occasions if necessary, in order to make decisions with regard to the matters specified by laws and regulations and other important matters, to supervise business execution and to receive reports from the Members of the Board on the status of business execution.

In order to maintain a high quality of business execution, the Company has adopted the Executive Officer System, under which Executive Officers appointed by the Board of Directors execute business in their respective areas of responsibility, in accordance with a company-wide business strategy decided by the Board of Directors, by exercising the authority delegated to them. In addition, the Company appoints at least two Outside Members of the Board who possess the qualities to contribute to sustained profit growth and enhancement of corporate value over the mid- to long- term from a viewpoint of strengthening the supervising function and management transparency.

The Board of Directors has set forth in the Board of Directors Regulations matters to be discussed at the Board of Directors meetings. In addition, from the viewpoint of realizing quick decision-making and high-quality implementation of business, the Board of Directors has set forth a clear decision-making process based on internal rules on the allocation of responsibilities and authorities (hereinafter referred to as the “Responsibility and Authority Regulations”) concerning essential business matters as well as delegate authority as necessary to Executive Officers based on company-wide management strategy, under the Executive Officer system.

The Company has adopted the Audit & Supervisory Board system under which Audit & Supervisory Board Members (hereinafter simply “Audit & Supervisory Board Members,” with the terms “Audit & Supervisory Board,” “Audit & Supervisory Board Member’s Office,” and “Manager of the Audit & Supervisory Board Member’s Office” also referring to those items within the Company) assertively exercise authority as an independent body with the mandate of shareholders, which includes attending and speaking at the Board of Directors meetings and other important meetings as well as actively inspecting business sites. In addition, they also perform audits appropriately from an objective viewpoint in accordance with the characteristics of the duties of the Outside Audit & Supervisory Board Members and the standing Audit & Supervisory Board Members. The Audit & Supervisory Board Members work to ensure sound and sustainable growth and maintain and enhance public trust in the Company by examining the performance of duties by Members of the Board and Executive Officers .

The Audit & Supervisory Board is composed of members with substantial knowledge of management, law, finance, accounting and other aspects of business. The standing Audit & Supervisory Board Member, Mr. Futoshi Nakamura is eligible as an Audit & Supervisory Board Member with profound expertise and experience concerning financial and accounting affairs including his past experience as the Vice President of Operational Review and Business Assurance Division of the Company after engaging in the Accounting Division and the Treasury Division of the Company. In addition, Audit & Supervisory Board Member, Mr. Tomotaka Kojima, is eligible as an Audit & Supervisory Board Member because he has not only profound expertise and experience concerning financial and accounting affairs including his past experience as Deputy Head of Finance Group of the Company, but also wide-ranging governmental experience and knowledge of corporate governance through his experience at the Japan Association of Corporate Directors. In preparation against a situation where the number of Outside Audit & Supervisory Board Members falls below the statutory required number under Article 329, Paragraph 3 of the Companies Act, one Substitute Audit & Supervisory Board member is elected.

The Operational Review and Business Assurance Division, which is responsible for overseeing internal audits, examines and assesses the system for internal management, including the management of the Compnay’s group companies, from its objective standpoint as an organization independent from the organizations involved in business execution with due consideration of such viewpoints as relevance, legal compliance, and risk and submits reports and proposals to the President and Chief Executive Officer. The division also reports to the Board of Directors. Furthermore, the division is promoting

efforts to enhance the audit system for the entire group by cooperating with the Company's group companies both in Japan and abroad.

The Company's Accounting Auditor (Deloitte Touche Tohmatsu LLC) has conducted audits based on the Companies Act and the Financial Instruments and Exchange Act. The certified public accountants who audited the Company's financial statements for fiscal year ended December 31, 2016 and the persons who assisted the accounting audit work are as follows.

(Certified public accountants)Masahiko Tezuka, Koji Ishikawa, Takehisa Ohashi

(Assistants for the accounting audit work)
Certified public accountants: 11 persons, Junior accountants: 6 persons, Others: 10 persons

While Audit & Supervisory Board Members, internal audit organizations including the Operational Review and Business Assurance Division, and the Accounting Auditor conduct audits individually, they endeavor to enhance their cooperation in order to ensure appropriate audits, for example by sharing information on the results of their respective audits.

3. The Reason for the Adoption of the Current Corporate Governance Structure

At the General Meeting of Shareholders on June 22, 2012, the Company appointed two Outside Members of the Board in order to strengthen the supervisory function of the Board of Directors and enhance transparency over its management.

The Company will continue to strive to make enhancements of its corporate governance as one of the key challenges for its management.

III Implementation of Measures Related to Shareholders and Other Interested Parties

1. States of Efforts to Invigorate General Meeting of Shareholders and Facilitate the Exercise of Voting Rights [updated]

	Supplementary Explanation
Sending the notice of a General Meeting of Shareholders at an early date	The notice of a General Meeting of Shareholders for fiscal year ended December 31, 2015 was sent on February 29, 2016 and that for fiscal year ended December 31, 2016 was sent on March 1, 2017. The notice was also published on the company's website ahead of sending printed version of it.
Avoiding scheduling a General Meeting of Shareholders for a date on which many other companies' shareholders' meetings are concentrated	A General Meeting of Shareholders for fiscal year ended December 31, 2015 was held on March 23, 2016 and that for fiscal year ended December 31, 2016 was held on March 24, 2017. Neither of them was on the peak day.
Allowing the exercise of the voting right through electromagnetic means	The Company allows the exercise of the voting right via the website designated by the company (E-voting).
Participation in Platform for exercise of voting Rights by Electromagnetic Means and other Measures to Enhance Environmental for Exercise of Voting Rights by Institutional Investors	The Company participates in an electronic platform for the exercise of voting right for institutional investors that is operated by ICJ, Inc.
Providing Convocation Notice(Summary) in English	The convocation notice and its English translation are published on the company's website and electronic platform for institutional investors.

2. IR-related activities [updated]

	Supplementary Explanation	Presence or absence of a briefing by the Representative Director
Periodic briefings to individual investors	The Company holds briefings occasionally and factory tours periodically. Additionally, the Company publishes information such as its business performances on specialized page for individual investors on its website.	Absent
Periodic briefings for analysts and institutional investors	The Company holds briefing sessions after the announcement of earnings at its offices or neighboring facilities.	Present
Periodic briefings for overseas investors	The Company officials visit overseas investors (mainly institutional investors) several times every year to provide briefings.	Present
Publication of IR materials	The Company publishes information concerning	

on the website	earnings, other timely disclosure materials, materials used at earnings briefings, annual securities reports or quarterly securities reports, convocation notice for General Meetings of Shareholders.	
Establishment of a division (appointment of an officer) in charge of IR	The Company has appointed IR contact personnel at the Media & Investor Relations Division who reports to the Senior Vice President in charge of Communications.	

3. Status of Efforts to Respect the Standpoint of Stakeholders [updated]

	Supplementary Explanation
Establishment of internal rules, etc. concerning the respect of the standpoint of stakeholders	The Group's management principles are the pursuit of the "4S model". It aims "to strive to fulfill our responsibilities to our valued consumers, shareholders, employees and the wider society, carefully considering the respective interests of these four key stakeholder groups, and exceeding their expectations wherever we can." The Group has set its vision and mission based on the "4S model". The Group's vision is "to become a company committed to global growth that provides consumers with diversified value uniquely available from the Group." The Group's mission is "to create, develop and nurture the Group's unique brands to win consumer trust, while understanding and respecting the environment and the diversity of societies and individuals." In addition, the Group has set "The JT Group Way" as code of conduct which all of the Group members should make apply. The Group Way requires that the Group: fulfills the expectations of the Group's consumers and behaves responsibly strive for quality in everything the Group does through continuous improvement and leverage diversity across the Group.
Implementation of environment protection activity, CSR activity, etc.	Based on the Company's belief that the pursuit of the "4S model" is precisely what will pave the way to the promotion of sustainability for the Company and society, the Company defines the challenges around sustainability through dialogue with stakeholders in addition to actively promoting initiatives aimed at resolving challenges through such ways as measure for the global environment, social contribution activities and business activities. The Company discloses the details of these activities in a timely and appropriate manner through the Sustainability Report and other means.
Formulation of the policy concerning the provision of information to stakeholders	In order to clarify the authorities and responsibilities concerning the handling of various corporate information, the Company has established rules concerning information disclosure and strives to ensure timely and appropriate information disclosure.
Other	[Status of Initiatives Promoting the Active Participation of Women] Based on the recognition that "Employing a diverse workforce is a strong source of competitiveness" the Company has developed all kinds of trainings and seminars, and systems in order to foster an organizational environment which respects different backgrounds and values including personalities, experience and expertise in addition to sex, gender identity, sexual orientation, age and nationality, discovers value in difference and allows diverse human resources to fulfill their potential with the aim of sustained corporate growth. <Initiatives to Promote Active Participation by Women> The Company provides a large number of growth opportunities that target women. This includes internal and external training in accordance with age and job grade, including introduction to role models of female employees and networking opportunities, and interaction with other companies. In addition, the Company provides a variety of training for managers, such as

	communication style and understanding life events and utilizing the range of systems that accompany them, to create an environment that supports diverse careers tailored to each individual. In addition to establishing an array of systems aimed at fulfilling work-life balance for individual, the Company strives to foster an organizational environment that tolerates diverse working styles, including promoting a transformation in awareness about working styles through in-company seminars and the intranet. Moreover, the Company has systems that ensure ease of work and systems that enable rewarding work for employees. These systems can be utilized according to the wishes of employees when they need to provide parenting or nursing care. <Status of Active Participation by Women> As of March 31, 2013, women accounted for 1.4% of the Company's managers (16 managers), but this figure increased to 4.7% (45 managers) as of December 31, 2016. The Company has established milestones which it will aim for equivalent to 5% by 2018 and equivalent to 10% by 2023. In addition, the Company appointed women as Executive Officers in 2008 and as an Outside Member of the Board in 2012. As of December 31, 2016, women accounted for 13.8% of the Group's managers (470 managers).

IV Concept regarding the Internal Control System

1. Basic Concept of the Internal Control System and Development of the System [updated]

The Company has always endeavored to run an internal control system that ensures the propriety of Company and Group operations through initiatives in such areas as compliance, internal audits, and risk management. Moreover, as a company with Audit & Supervisory Board, the Company has created the systems required under the Companies Act and the Ordinance for the Enforcement of the Companies Act by implementing measures aimed at ensuring the effectiveness of audits by Audit & Supervisory Board Members such as the establishment of a system of reporting to the Audit & Supervisory Board Members. The Company will work to maintain and enhance the following systems in each company while consecutively reviewing and revising the current system as necessary, and ensure appropriate business execution. For the foreign subsidiaries, the Company will build and operate the necessary system in conformity with the provisions concerning subsidiaries in the following basic policy, in principle, while complying with the laws and regulations in the country in which the subsidiary is incorporated.

(1) System to ensure that Members of the Board, etc. and employees (with Members of the Board, etc. and employees hereafter collectively referred to as "Directors and employees") perform their duties in accordance with laws and regulations and the Company's Articles of Incorporation

With regard to the compliance system, the Company and its subsidiaries have established the code of conduct based on internal rules concerning compliance system in order to ensure that directors and employees of the Company and its subsidiaries comply with laws and regulations, respective articles of incorporation, the social norms, etc., and set up the JT Group Compliance Committee as an organization responsible for ensuring thorough compliance. This committee, headed by the Chairman of the Board, consists mainly of outside members. Meanwhile, an Executive Officer is designated to be in charge of the Compliance Office, which is making overseeing efforts to improve the compliance system across the Group and identify compliance problems. Each division responsible for the promotion of compliance in the Company and its subsidiaries (meaning the Compliance Office within the Company, and corresponding departments within subsidiaries) works to enhance the effectiveness of the compliance system by allocating the brochure of "JT Group Code of Conduct," which provides information about the code of conduct, and other materials to directors and employees of the Company or the subsidiary and by enlightening the directors and employees about compliance through various compliance education programs.

Regarding the internal reporting system (whistle-blower system), each of the Company and its subsidiaries has a counter inside and outside the company through which employees and others may consult or report in case that they detect any conduct, etc. that may violate laws and regulations. Each division responsible for the promotion of compliance of the Company and its subsidiaries is charged with investigating reported cases and implementing company-wide measures to prevent the recurrence of misconduct after holding consultations with the departments and divisions concerned. Matters of particular importance shall be referred to the JT Group Compliance Committee for deliberation. Significant issues regarding the Group are submitted for discussion or reported to the JT Group Compliance Committee.

In order to ensure the reliability of financial reporting of the Group, the Company is operating a relevant internal control system that it has established in accordance with the Financial Instruments and Exchange Act. By allocating a sufficient level of staff to the task of evaluating financial results and reporting them, the company is striving to maintain and improve the reliability of its financial reporting.

The internal audit system is overseen by the Operational Review and Business Assurance Division of the Company, which examines and evaluates systems for supervising and managing the overall operations of the company and the status of business execution from the viewpoints of legality and rationality, in order to protect the company's assets and improve management efficiency. The said Division plans and promotes the internal audit framework and policy of the Group and supplement the internal audit function of each subsidiary in cooperation with the internal audit function of the subsidiary.

(2) Procedures and arrangements for storage and management of information on the performance of duties by the Members of the Board

The Company makes sure to properly store and manage the minutes of Annual General Meetings of Shareholders and the Board of Directors meetings in line with laws and regulations. Information on important matters such as business execution and decision-making including the conclusion of corporate contracts are stored and managed by specifying the relevant departments and divisions and responsibilities for storage and management in accordance with the Responsibilities/Authorities Allocation Rules, and by making rules on the supervision of the processes of decision-making, procurement and accounting.

(3) System to report matters regarding performance of duties of the Members of the Board, etc. of subsidiaries

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

(4) Rules and other systems on management of risk of loss and procedures/arrangements of the Company and its subsidiaries

The Company has established internal rules of the Group on the management of risk of loss relating to monetary and financial affairs, and ensures that relevant reports are made to the President and Chief Executive Officer as well as the Board of Directors through Chier Financial Officer on a regular basis. With regard to the risk of loss relating to other affairs, in accordance with authority delegated to each department and division as per the Responsibilities/Authorities Allocation Rules, responsible departments and divisions take on a supervisory role creating all types of committees to conduct proper management and, depending on the level of importance, report risks to the President and Chief Executive Officer, and obtain approval for countermeasures.

The Operational Review and Business Assurance Division of the Company, in cooperation with the internal audit function of each subsidiary, examines and evaluates the internal control systems of the Company and the Group companies – in light of the importance of internal control procedures and arrangements and the risks involved – from an objective viewpoint, in its capacity as an entity independent of the organizations responsible for business execution, and reports its findings and present proposals to the President and Chief Executive Officer, as well as reporting to the Board of Directors.

To prepare for possible emergencies, the Company has produced a manual for crisis management and disaster response. In the event of an emergency or a disaster, the Company is ready to establish an emergency project system under the leadership of senior management and through close cooperation with the relevant departments and divisions and subsidiaries. Events to which a response has been made and the details of such events shall be reported to the Board of Directors.

(5) System to ensure that Member of the Board etc. of the Company and of its subsidiaries perform their duties efficiently

The Board of Directors meeting takes place once a month in principle and on more occasions as necessary, in order to make a decision with regard to the matters specified by laws and regulations and other important matters and to supervise business execution. The Company's Board of Directors also receives reports from Members of the Board of the Company once per three months and on more occasions on the status of business execution. With regard to important management issues, particularly management policy and basic plans regarding overall business operations of the company, in addition to matters to be referred to the Company's Board of Directors, the "Responsibilities/Authorities Allocation Rules" clearly prescribes the decision-making process, and decisions are promptly made in accordance with the prescribed process. The Company has adopted the Executive Officer System, under which Executive Officers appointed by the Company's Board of Directors execute business in their respective areas of responsibility, in accordance with a company-wide business strategy decided by the Board of Directors, by exercising the authority delegated to them.

Moreover, in order to ensure that business operations are managed in ways that contribute to the business efficiency and flexibility of the company as a whole, basic matters concerning the company's organization, allocation of duties to Officers and staff and the roles of individual divisions are specified by the relevant internal rules. Meanwhile, in order to enable prompt decision-making and high level of quality in business

execution, the departments and divisions responsible for business execution are specified by the "Responsibilities/Authorities Allocation Rules."

The Company has been building the system to ensure efficient execution of business in the Group through the measures such as the formulation of internal rules and guidelines applied to the Group.

(6) System to ensure the appropriateness of business operations within the Company as well as the corporate group composed of the Company and the Group

Through 4S model, the Group has set itself the mission of creating, developing and nurturing its unique brands to win consumer trust, while understanding and respecting the environment and the diversity of societies and individuals, and there is a group-wide consensus on the mission. The Company has specified the functions and rules necessary for group management based on a group management policy, in order to optimize the operations of the entire the Group as a whole. Moreover, the Company has been enhancing the Company's systems for compliance (including the consulting and the internal reporting system), internal audits, financial affairs management, etc. in cooperation with its subsidiaries.

(7) System for employees assisting the Company's Audit & Supervisory Board Members and reporting to the Company's Audit & Supervisory Board Members, and systems to ensure effective auditing by the Company's Audit & Supervisory Board Members

The Company has allocated sufficient staff to the Audit & Supervisory Board Member's Office as an organization supporting the Audit & Supervisory Board Members in performing their duties. In addition, the Company makes sure to review and reform the staffing structure as necessary based on consultations with the Audit & Supervisory Board.

The Audit & Supervisory Board is involved in the selection of personnel of the Audit & Supervisory Board Member's Office in order to ensure the office's independence from Members of the Board. The Company makes the employees belonging to the Audit & Supervisory Board Member's Office to assist Audit & Supervisory Board Members performing their duties under the command of the Audit & Supervisory Board Members, and to concurrently take no position that relates to business execution.

If directors and employees of the Company and its subsidiaries detect any evidence of malfeasance in financial statements, etc. or serious breaches of laws and regulations or respective articles of incorporation, they are due to report them to the Audit & Supervisory Board, along with other relevant matters that could affect the company's management. In addition, when directors and employees of the Company and its subsidiaries are asked by Audit & Supervisory Board Members to compile important documents available for their perusal, to accept field audits and to submit reports, they are due to respond to the request in a prompt and appropriate manner.

The Compliance Office makes reports to Audit & Supervisory Board Members on the status related to the internal reporting system on a regular basis and as necessary.

The Company makes everyone in the Group informed about the policy in which no one who consulted or reported under the internal reporting system is treated disadvantageously due to the consultation or report.

When an Audit & Supervisory Board Member requests prepayment of audit expenses from the Company, the Company will promptly pay the expenses or make a debt disposal unless the expenses or the debt are found to be unnecessary for the performance of duties of the Audit & Supervisory Board Member.

The Company makes a budget covering audit-related expenses so as to secure effectiveness of audits by Audit & Supervisory Board Members. The Company also bears the portion of audit-related expenses that exceed the budget unless the expenses are found to be unnecessary for the performance of duties of Audit & Supervisory Board Members. Audit & Supervisory Board Members are allowed to attend not only the Company's Board of Directors meetings but also the Company's other important meetings. The Operational Review and Business Assurance Division and the Compliance Office maintain cooperation with Audit & Supervisory Board Members by exchanging information.

2. Basic Concept to eliminate Anti-social Forces and its Maintenance

(1) Basic concept to eliminate anti-social forces

The Company is resolved not to have any relations with, and to fight against, anti-social groups and organizations.

(2) Efforts to exclude anti-social elements

Designating the General Administration Division of the Company as the department assuming the responsibility for supervising efforts to exclude anti-social elements at the Group level, the Officers are cooperating with police, lawyers and other relevant organizations and parties to gather and share information in order to deal with such elements in an organized way. The Company also consistently makes enlightening activities to eliminate anti-social forces by making directors and employees of the Company and its subsidiaries informed about the rules not to have any relations with anti-social groups and organizations and by educating the directors and employees through providing relevant training as necessary.

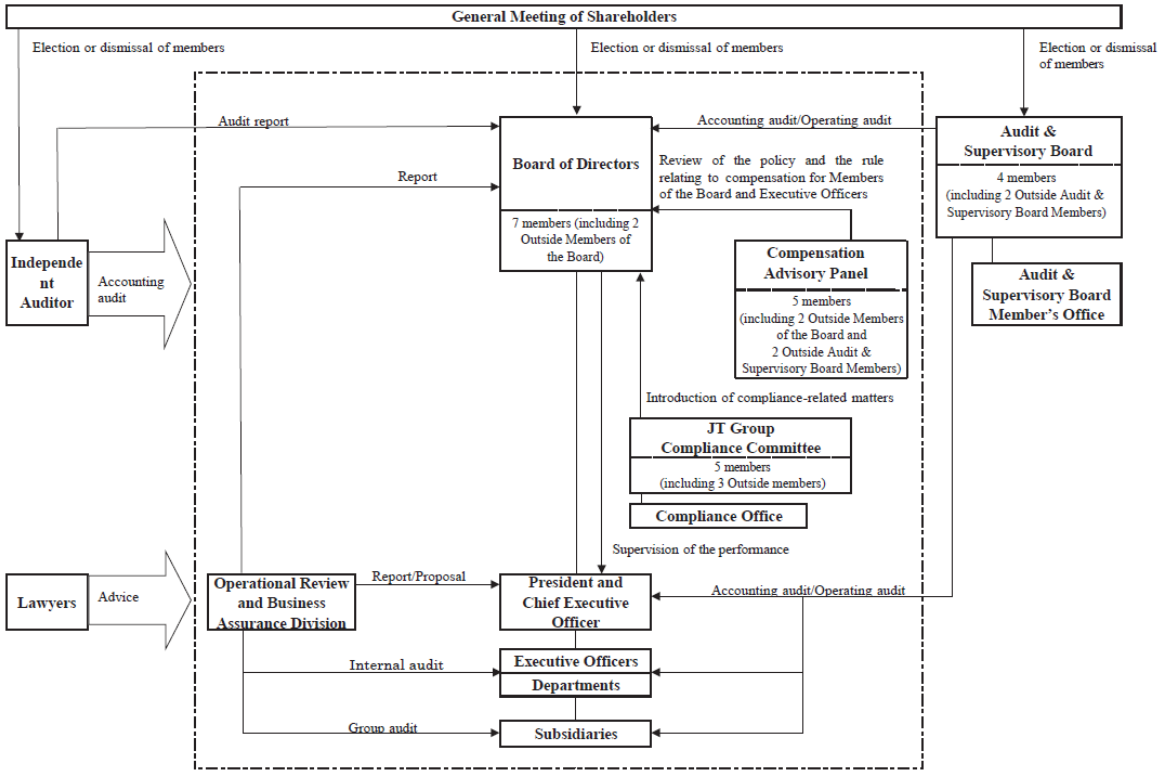
V Others

1. Matters Related to Defense against Takeover

Nothing to report

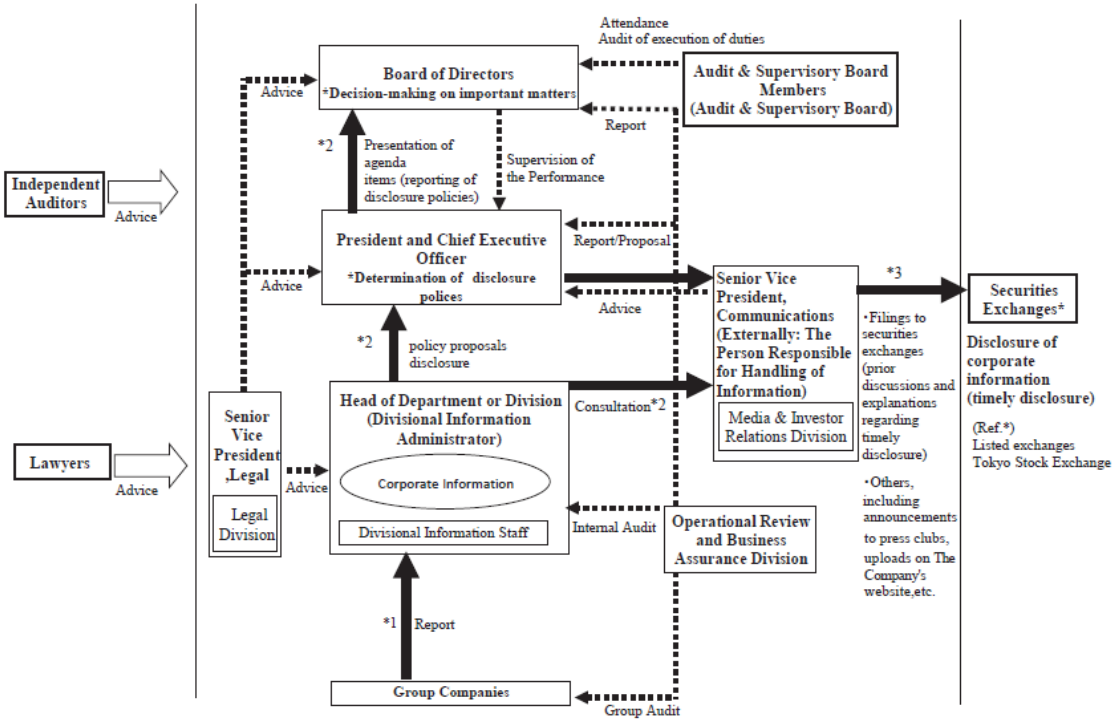
2. Other Matters Related to the Corporate Governance System [updated]

The following is an overview of the status of the Company's corporate governance system and timely disclosure system.



In preparation against a situation where the number of Outside Audit & Supervisory Board Members falls below the statutory required number, one Substitute Audit & Supervisory Board member is elected.

Overview of Timely Disclosure System



Flow of disclosure policy determination and timely disclosure

Internal controls

1. The Person Responsible for Handling of Information

(1) The Company has in place regulations regarding information disclosure in an effort to clarify its authority and responsibilities with respect to all its corporate information and works to disclose information on a timely and appropriate basis.

(2) The Company appoints its Senior Vice President in charge of Communications as the Person Responsible for Handling of Information required by stock exchanges who is in charge of information disclosure.

(3) Each head of division is appointed as the Divisional Information Administrator and has Divisional Information Staff who collects and manages departmental information on a centralized basis, including the information on the Group companies under the control of that division.

(4) The Media & Investor Relations Division, which is directly under the control of the Senior Vice President in charge of Communications, plans, proposes and implements information disclosure and shares information with Divisional Information Staff.

(5) The Senior Vice President in charge of Communications set forth the timely disclosure criteria to each head of division, letting them know of any changes to timely disclosure rules whenever necessary, and receives reports from them on corporate information.

2. Determination of disclosure policies and timely disclosure

(1) Each head of division collects and manages departmental information on a centralized basis as a departmental information by not only collecting and managing departmental information itself but also obtaining necessary information from the Group companies under its control jurisdiction.*1

(2) When a decision is to be made on important matters based on the Responsibilities/Authorities

Allocation Rules, each head of division presents the issues involving external communication including timely disclosure to the Senior Vice President in charge of Communications and gets permission from the President and Chief Executive Officer about disclosure policies on such facts. Any important item that requires a decision by the Board of Directors based on the internal rules on the Board of Directors is presented to the Board of Directors, to which disclosure policy are also reported.*2

(3) The Senior Vice President in charge of Communications effects timely disclosure subsequent to any decision on an important matter based on determined disclosure policies.

When disclosing corporate information, the Company provides preliminary explanations to securities exchanges according to their timely disclosure rules and, whenever necessary, makes prior consultations with securities exchanges.*3

3. Internal controls

(1) The Board of Directors decides on items provided by laws and regulations as well as important matters, receives reports on the status of the execution of duties (including disclosure policies) and monitors same.

(2) Audit & Supervisory Board Members constitute an independent organ of the Company in an adversary capacity with respect to Members of the Board and conduct audits on same.

Audit & Supervisory Board Members attend the Board of Directors meetings and provide opinions whenever necessary.

(3) The Operational Review and Business Assurance Division examines and evaluates (audits) the internal control systems of the Company and the Group companies – in light of the importance of internal control mechanisms and the risks involved – from an objective viewpoint, in its capacity as an entity

independent of the organizations responsible for business execution, and reports its findings and presents proposals to the President and Chief Executive Officer, and provides reports to the Board of Directors.

(4) The Senior Vice President in charge of Legal provides opinions, whenever necessary, to the Board of Directors. The Legal Division provides support to each division with respect to timely disclosure with specialized knowledge.

4. Participation of the Independent Auditor and attorneys

(1) The Company is audited by the Independent Auditor based on the Financial Instruments and Exchange Act and the Companies Act. Regarding the timely disclosure of information on financial results, the Company has a system in place for obtaining necessary advice and guidance from such Independent Auditor.

(2) The Company has in place a system to obtain advice and guidance from multiple law firms regarding timely disclosure whenever needed.