

## I Basic Concept of Corporate Governance and Basic Information Including Capital Structure and Corporate Attributes

### 1. Basic Concept

JT recognizes that prompt and proper decision-making and business execution are vital to increasing our corporate value and responding appropriately to new challenges to come in the future,

as the business and social environment change. Based on this recognition, JT has been striving hard to enhance corporate governance as a top management priority.

### 2. Capital Structure

Combined equity stakes of foreign shareholders: between 20% and 30%

#### Major Shareholders

As of March 31, 2009

Name	No. of shares held	Equity stake (%)
The Minister of Finance	5,001,390	50.01
Japan Trustee Services Bank, Ltd. (Trust Account)	266,683	2.67
Japan Trustee Services Bank, Ltd. (Trust Account 4G)	258,891	2.59
The Master Trust Bank of Japan, Ltd. (Trust Account)	212,913	2.13
State Street Bank and Trust Company 505223 (Standing Agent: Mizuho Corporate Bank, Ltd., Kabutocho Settlement and Clearing Services Division)	171,774	1.72
Mizuho Trust and Banking Co., Ltd., re-trusted to Trust & Custody Services Bank, Ltd., as retirement benefit trust assets	169,000	1.69
State Street Bank and Trust Company (Standing Agent: Mizuho Corporate Bank, Ltd., Kabutocho Settlement and Clearing Services Division)	130,567	1.31
Deutsche Bank AG, London PB Non-Treaty Clients 613 (Standing Agent: Deutsche Securities Inc.)	124,737	1.25
The Chase Manhattan Bank N.A. London Secs Lending Omnibus Account (Standing Agent: Mizuho Corporate Bank, Ltd., Kabutocho Settlement and Clearing Services Division)	123,711	1.24
The Chase Manhattan Bank 385036 (Standing Agent: Mizuho Corporate Bank, Ltd., Kabutocho Settlement and Clearing Services Division)	72,215	0.72

### 3. Corporate Attributes

Listed on:	First sections of the Tokyo Stock Exchange, the Osaka Securities Exchange and the Nagoya Stock Exchange and the major sections of the Sapporo Securities Exchange and the Fukuoka Stock Exchange
Closing month of the annual account book	March
Business sector	Foods
Number of employees (consolidated basis)	1,000 or more
Net sales (consolidated basis)	¥1 trillion or more
Presence or absence of the parent company	None
Number of consolidated subsidiaries	Between 100 and 300

### 4. Other Factors which May Materially Affect Corporate Governance

The Japan Tobacco Inc. Law (the "JT Law") obligates the government to hold JT shares. As of the end of March 2009, the government held 50.01% of all outstanding JT shares.

The Minister of Finance has the authority to supervise JT under the JT Law and Tobacco Business Law.

Torii Pharmaceutical Co., Ltd. (hereinafter referred to as "Torii Pharmaceutical"), which engages in the pharmaceutical business, is a consolidated subsidiary of JT and is listed on the Tokyo Stock Exchange. While JT is responsible for R&D, Torii Pharmaceutical

undertakes production and sales. In order to perform these different functions efficiently, the two companies maintain a cooperative relationship. JT respects the need to ensure a certain degree of independence for Torii Pharmaceutical by refraining from undermining the company's business judgment.

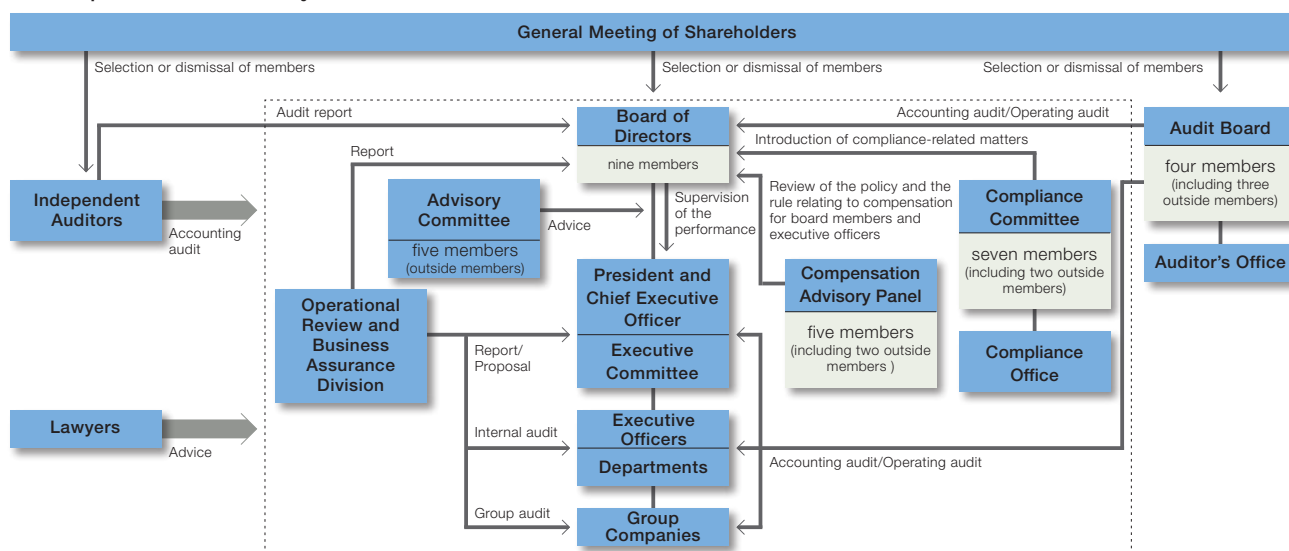
KS Frozen Foods Co., Ltd. (hereinafter referred to as "KS Frozen Foods"), which engages in the food business, is a consolidated subsidiary of JT and is listed on the Nagoya Stock Exchange. Katokichi Co., Ltd. (hereinafter referred to as "Katokichi") and Katokichi Suisan Co. Ltd. (hereinafter referred to as "Katokichi Suisan"), both of which are consolidated subsidiaries of JT, hold

shares in KS Frozen Foods. While KS Frozen Foods has personnel and transactional relationships with Katokichi, JT, Katokichi and Katokichi Suisan respect the need to ensure a certain degree of independence for KS Frozen Foods by refraining from undermining the company's business judgment.

Green Foods Co., Ltd. (hereinafter referred to as "Green Foods"), which engages in the food business, is a consolidated subsidiary of JT and is listed on the JASDAQ Securities Exchange.

Katokichi, which is a consolidated subsidiary of JT, holds shares in Green Foods. While Green Foods has personnel and transactional relationships with Katokichi, JT and Katokichi respect the need to ensure a certain degree of independence for Green Foods by refraining from undermining the company's business judgment. Katokichi had acquired shares in Green Foods through a tender offer, with the number of shares totaling 55,930 (equivalent to an equity stake of 94.22%) after the closure of the tender offer.

### Our Corporate Governance System



## II Status of Business Management Organization Concerning Business Decision-Making, Execution and Supervision and Other Corporate Governance Systems

### 1. Matters concerning the organizational structure and organizational management

Form of organization	A company with auditors
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#### Matters concerning directors

Chairman of the Board of Directors	Chairman
No. of directors	9
Number of sitting outside directors	None

The reason for the adoption of the current organizational system: While there is no sitting outside director, JT selects persons suitable for the post of director in light of the candidates' personality, judgment and career backgrounds and believes that the current organizational system is adequately functioning.

JT has established the Advisory Committee, which comprises five outside experts and advises the management team from a

broad perspective with regard to how the company should operate in the medium to long term, and other issues of similar importance. There are also the Compensation Advisory Panel and the Compliance Committee, both of which include outside members, too.

Although JT does not have any specific plan to appoint an outside director at the moment, it will continually consider the usefulness of an outside director and the qualifications of a candidate.

#### Matters concerning auditors

Presence or absence of the Audit Board	The Audit Board is in place.
Number of auditors	4

#### Cooperation between auditors and an independent auditor:

While auditors and the independent auditor (Deloitte Touche Tohmatsu) 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 and, as necessary, exchange information and opinions with each other.

### Cooperation between auditors and the internal audit division:

Auditors and the Operational Review and Business Assurance Division 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 and, as necessary, exchange information and opinions with each other.

Appointment of outside auditors	There are sitting outside auditors.
No. of outside auditors	3

### Information concerning outside auditors

Name	Supplementary information	Reason for appointment
Hisao Tateishi	Mr. Tateishi is a former official of the Ministry of Finance.	Mr. Tateishi's appointment is based on the judgment that he is qualified to serve as an outside auditor of JT because of the experiences and broad perspective acquired through his many years of service for the government and on the board of the Federation of National Public Service Personnel Mutual Aid Associations.
Takanobu Fujita	Mr. Fujita formerly worked for Japan Broadcasting Corp. (NHK) and is now a visiting professor at Kansei Gakuin University, School of Policy Studies.	Mr. Fujita's appointment is based on the judgment that he is qualified to serve as an outside auditor of JT because of the experiences and broad perspective concerning political and economic affairs that were acquired through his tenures as a news commentator at NHK and a university professor.
Koichi Ueda	Mr. Ueda is a former superintendent prosecutor at the Tokyo High Public Prosecutors Office. He serves as Representative Director & President at the Resolution and Collection Corporation and Member of the Board (Outside Director) at Pioneer Corporation as of June 23 2009.	Mr. Ueda's appointment is based on the judgment that he is qualified to serve as an outside auditor of JT because of the experiences and broad perspective acquired through his service in the judicial field.

Other matters concerning major activities of outside auditors:

In FY 3/2009, the outside auditors attended almost all of the 24 meetings of the Board of Directors and the 19 meetings of the Audit Board and adequately performed their duties as auditors by asking questions and making statements as necessary.

### Matters concerning incentives

Provision of incentives for directors	Introduction of a performance-linked remuneration system and a stock option scheme
Officers eligible for stock option grants	Directors: others

Supplementary information concerning incentives:

Remuneration for directors is linked to JT's business performance for each year and the company's medium- and long-term corporate value.

Specifically, remuneration for directors who concurrently serve as executive officers comprises basic monthly compensation and an annual bonus linked to the company's business performance in the relevant year, and stock options, the value of which is linked to the medium to long term corporate value of JT. Remuneration

for directors who do not concurrently serve as executive officers comprises basic monthly compensation and stock options, as they are required to participate in decision-making regarding companywide business strategies aimed at increasing the corporate value of JT and to perform their audit-related duties.

As part of remuneration for directors and executive officers, JT introduced a stock option scheme in fiscal 2007 in order to enhance the motivation to contribute to an increase in the corporate value and boost the corporate morale.

### Matters concerning remuneration for directors

Means of disclosure	Annual securities report, business operation report (business report), etc.
Disclosure status	The total amount of remuneration payments to all directors is disclosed.

Supplementary information concerning remuneration for directors: The total amount of remuneration payments to directors came to ¥602 million in FY 3/2009.

\* The above remuneration payments, which were made to the directors who were in office in FY 3/2009, include stock option grants and executive bonuses in addition to the basic remuneration.

### Support for outside auditors

JT is striving to develop an appropriate environment for audits by allocating sufficient staff to the Auditor's Office as an organization supporting the auditors in performing their duties and establishing an adequate information communication system so that auditors, in their capacity as independent agents with a mandate from shareholders, can adequately audit the execution of business by directors and executive officers in order to ensure sound business management and maintain and enhance public trust in the company.

When directors and executive officers detect any matter that may cause substantial damage to the company, they are due to report it to the Audit Board. Moreover, when directors and employees detect any evidence of malfeasance in financial documents or serious breaches of laws or the company's articles of incorporation, they are due to report them to the Audit Board, along with other relevant matters that could affect the company's management.

Auditors are allowed to attend not only meetings of the Board of Directors but also other important meetings. When directors and employees are asked by auditors to compile important documents available for their perusal, to accept field audits and to submit reports, they are due to respond in a prompt and appropriate manner. Directors are due to cooperate with audits and ensure the provision of funds necessary for covering audit-related expenses so as to secure their effectiveness. The Operational Review and Business Assurance Division and the Compliance Office maintain cooperation with auditors by exchanging information.

## 2. Matters concerning functions such as the execution of business, audit and supervision, nomination, determination of remuneration, etc.

The Board of Directors meets 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 directors on the status of business execution.

In order to maintain a high quality of business execution, JT 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 companywide business strategy decided by the Board, by exercising the authority delegated to them. In addition, the Chairman of the Board has been positioned as a non-executive director in order to concentrate on the function of supervising management.

Moreover, as part of its efforts to enhance corporate governance, JT has established the Advisory Committee, which comprises five outside experts and advises the management team from a broad perspective with regard to how the company should operate in the medium to long term, and other issues of similar importance.

Meanwhile, the Executive Committee, comprising the company's President and other members appointed by the President, discusses important management issues—particularly management

policy and basic plans regarding overall business operations—in addition to matters to be referred to the Board of Directors.

JT has adopted the Audit Board System, under which auditors, in their capacity as independent agents with a mandate from shareholders, examine the performance of duties by directors and executive officers in order to ensure sound business management and maintain and enhance public trust in the company.

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 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. The division also reports to the Board of Directors. Furthermore, the division is promoting efforts to enhance the audit system for the entire JT Group by cooperating with groups companies both in Japan and abroad.

JT has employed Deloitte Touche Tohmatsu (DTT) as its independent auditor, and DTT has conducted audits based on the Company Act and the Financial Instruments and Exchange Act. The certified public accountants who audited JT's financial statements for FY 3/2009 and the persons who assisted the auditing work are as follows:

(Certified public accountants)

Tatsuo Igarashi (four years), Shuichi Momoki (four years), Satoshi Iizuka (two years)

\* Figures in parentheses represent the number of consecutive years in which the certified public accountants have engaged in the accounting audit of JT.

(Assistants for the audit work)

Certified public accountants: 7 persons,

Junior accountants: 14 persons, Others: 7 persons

While auditors, internal audit organizations including the Operational Review and Business Assurance Division, and independent auditors 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.

As for the nomination of candidates for the posts of director and auditor, the Board of Directors makes a decision by taking into consideration the personality, judgment and career backgrounds of the candidates, and then the nominated candidates are proposed at a General Meeting of Shareholders.

The amount of remuneration for directors is based on a determination made by the Board of Directors and the amount for auditors is based on the results of consultations among the auditors, with both amounts confined within the limits approved by a General Meeting of Shareholders.

In light of the results of deliberations conducted by the Compensation Advisory Panel, which comprises the President, Chairman, and the director in charge of personnel affairs management and two outside committee members, JT decided at a meeting of the Board of Directors on April 27, 2007 to review the

system of remuneration for directors and auditors based on the principle that such remuneration should be paid in a manner suited to their respective duties of office and roles.

Based on this, JT decided to introduce a remuneration system for directors in which pay is linked to the company's business performance so as to motivate them to endeavor to enhance the performance, and also linked to the medium to long term corporate

value of JT, so as to provide them with an incentive to maximize the shareholder value.

Unlike remuneration for directors, a large portion of which is linked to the business performance of the company, remuneration for auditors comprises only basic monthly compensation in light of the main role of auditors, which is to audit the status of compliance with laws and regulations.

### III Implementation of Measures related to Shareholders and Other Interested Parties

#### 1. Status of efforts to invigorate General Meetings of Shareholders and facilitate the exercise of the voting right

	Supplementary information
Sending the notice of a General Meeting of Shareholders at an early date	The notice of a General Meeting of Shareholders for 2008 was sent on June 2 of the year and that for 2009 was sent on June 1 of the year.
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 2008 was held on June 24 of the year and that for 2009 on June 23 of the year.
Allowing the exercise of the voting right through electromagnetic means	JT not only allows the exercise of the voting right via the website designated by the company (E-voting) but also participates in an electronic platform for the exercise of the voting right for institutional investors that is operated by ICJ, Inc.

#### 2. IR-related activities

	Supplementary information	Presence or absence of a briefing by the representative director.
Periodic briefings for individual investors	JT participates in a convention of earnings briefings sponsored by securities exchanges and other organizations several times every year.	Not provided
Periodic briefings for analysts and institutional investors	JT holds briefing sessions after the announcement of earnings at its offices or neighboring facilities.	Provided
Periodic briefings for overseas investors	JT holds teleconferences for overseas investors after the announcement of earnings, and JT officials visit overseas investors several times every year to provide briefings.	Provided
Publication of IR materials on the website	JT publishes information concerning earnings, other timely disclosure materials, materials used at earnings briefings, annual securities reports or quarterly securities reports, notices of invitation to General Meetings of Shareholders.	Provided
Establishment of a division (appointment of an officer) in charge of IR	JT has appointed an officer dedicated to IR at the Media & Investor Relations Division who reports to the executive in charge of communications.	

#### 3. Status of efforts to respect the standpoint of stakeholders

	Supplementary information
Establishment of internal rules, etc. concerning the respect of the standpoint of stakeholders	The JT Group has set itself the mission of "creating, developing and nurturing its unique brands to win customer trust, while understanding and respecting the environment and the diversity of societies and individuals," and there is a group-wide consensus on the mission.
Implementation of environment protection activity, CSR activity, etc.	From the viewpoint of achieving the JT Group Mission, JT engages in such activities as reducing the burden on the environment, making contributions to local communities, tree-planting and forest preservation, and youth education and development, and it publishes the contents of those activities through an annual CSR report.
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, JT has established rules concerning information disclosure and strives to ensure timely and appropriate information disclosure.

## IV Basic Concept of the Internal Control System and Development of the System

JT has been endeavoring to ensure appropriate business operations through efforts to enhance compliance, internal audits and risk management, and implementing measures to ensure the effectiveness of audits, such as improving arrangements and procedures for reporting the necessary matters to auditors, as is required of a company adopting the Audit Board System.

We will continue these efforts while reviewing and revising the current system as necessary, and ensure appropriate business execution by taking the following steps:

### 1. System to ensure that directors and employees perform their duties in accordance with laws, regulations and the company's articles of incorporation

With regard to the compliance system, JT has established the Guidelines for Conduct based on internal rules concerning compliance in order to ensure that directors and employees comply with laws, regulations, the company's articles of incorporation, the social norms, etc., and set up the Compliance Committee as an organization responsible for ensuring thorough compliance. This committee, headed by the company's Chairman, includes outside experts among its members and reports directly to the Board of Directors. Meanwhile, the Compliance Office is charged with overseeing efforts to improve the company-wide compliance system, identify compliance problems and enhance the effectiveness of the compliance system by enlightening directors and employees about compliance through various compliance education programs.

Regarding the internal reporting system (whistle-blower system), JT has a counter through which employees may report any misconduct they have detected. The Compliance Office 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 Compliance Committee for deliberation.

In order to ensure the reliability of its financial reporting, JT 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, 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.

### 2. Procedures and arrangements for storage and management of information on the performance of duties by the Directors

JT makes sure to properly store and manage the minutes of Annual General Meetings of Shareholders, meetings of the Board of Directors, and meetings of the Executive Committee, in line with laws, regulations and internal rules.

Information on other important matters relating to business execution and decision-making are stored and managed by the relevant departments and divisions as specified by internal rules on the allocation of responsibilities and authorities (hereinafter referred to as the "Responsibilities/Authorities Allocation Rules"), in accordance with rules on the supervision of the processes of decision-making, procurement and accounting.

### 3. Rules on management of risk of loss and procedures/arrangements for other matters

JT has established internal rules on the management of risk of loss relating to monetary and financial affairs, and ensures that relevant reports are made to the Executive Committee on a quarterly basis.

With regard to risk of loss relating to other affairs, the relevant departments and divisions specified by the Responsibilities/Authorities Allocation Rules conduct proper management, identifying risk and reporting it to the Executive Committee or referring it to the Committee for deliberation, depending on the importance of the identified risk.

JT has assigned sufficient staff to the Operational Review and Business Assurance Division, which functions as the company's internal audit organization. This division examines and evaluates the internal control systems of JT and JT 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, as well as reporting to the Board of Directors.

To prepare for possible emergencies, JT has produced a manual for crisis management and disaster response. In the event of an emergency or a disaster, JT is ready to establish an emergency project system under the supervision of the Corporate Strategy Division, and make prompt and proper responses under the leadership of senior management and through close cooperation between the relevant departments and divisions.

#### 4. System to ensure that directors perform their duties efficiently

The Board of Directors meets 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. Meanwhile, the Executive Committee, comprising the company's President and other members appointed by the President, discusses 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 Board of Directors.

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

#### 5. System to ensure the appropriateness of business operations within the JT Group

The JT Group has set itself the mission of creating, developing and nurturing its unique brands to win customer trust, while understanding and respecting the environment and the diversity of societies and individuals, and there is a group-wide consensus on the mission. We have specified the functions and rules necessary for group management based on a group management policy, in order to optimize the operations of the JT Group as a whole.

Moreover, we have been enhancing our systems for compliance (including the internal reporting system), internal audits, financial affairs management, etc. in cooperation with JT Group companies.

#### 6. System for assisting auditors and reporting to auditors, and other systems to ensure effective auditing

JT has allocated sufficient staff to the Auditor's Office as an organization supporting the auditors 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 Board. The Audit Board is involved in the selection of personnel of the Auditor's Office in order to ensure the office's independence from directors.

When directors and executive officers detect any matter that may cause substantial damage to the company, they are due to report it to the Audit Board. Moreover, when directors and employees detect any evidence of malfeasance in financial documents or serious breaches of laws or the company's articles of incorporation, they are due to report them to the Audit Board, along with other relevant matters that could affect the company's management.

As auditors are allowed to attend not only meetings of the Board of Directors but also other important meetings, they usually attend meetings of the Executive Committee. When directors, executive officers and or employees are asked by auditors 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.

Furthermore, directors are due to cooperate with audits and ensure the provision of funds necessary for covering audit-related expenses so as to secure their effectiveness. The Operational Review and Business Assurance Division and the Compliance Office maintain cooperation with auditors by exchanging information.

Meanwhile, JT's basic concept on the exclusion of anti-social elements and its efforts to exclude such elements are as follows:

1) Basic concept on the exclusion of anti-social elements

JT is resolved not to have any relations with, and to fight against, anti-social groups and organizations that pose a threat to the order and safety of civil society, and organizations involved in tobacco smuggling or counterfeiting.

The company will also never engage in practices that would promote the activities of antisocial elements. If it faces a problem involving such elements, JT will devote company-wide efforts to dealing with it.

2) Efforts to exclude anti-social elements

The concept on the exclusion of anti-social elements described above is specified and fully communicated to all employees as part of the company's code of conduct. With the General Administration Division at JT's headquarters assuming the responsibility for supervising efforts to exclude anti-social elements, the officers in charge of those efforts have been assigned to branch offices across Japan, and 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 measures to be taken by JT in response to unjust and unreasonable demands from anti-social elements are specified in the company's manual for corporate defense, which is available for reference at all offices and plants. JT also consistently educates employees, including those working for its affiliates, about the importance of excluding antisocial elements by providing relevant training as necessary.