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Corporate Governance

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 environments 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, 2010

Name	No. of shares held	Equity stake (%)
The Minister of Finance	5,001,359	50.01
Japan Trustee Services Bank, Ltd. (Trust Account)	280,288	2.80
The Master Trust Bank of Japan, Ltd. (Trust Account)	219,754	2.20
State Street Bank and Trust Company 505223 (Standing Agent: Mizuho Corporate Bank, Ltd., settlement division)	188,236	1.88
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: Hongkong and Shanghai Banking Corporation, Tokyo branch)	111,112	1.11
Mellon Bank N.A. as Agent for Its Client Mellon Omnibus U.S. Pension (Standing Agent: Mizuho Corporate Bank, settlement division)	86,891	0.87
Bank of Tokyo-Mitsubishi UFJ	71,455	0.71
Morgan Stanley & Co. Inc. (Standing Agent: Morgan Stanley Securities Ltd.)	64,447	0.64
HSBC BANK PLC A/C THE CHILDRENS INVESTMENT MASTER FUND (Standing Agent: Hongkong and Shanghai Banking Corporation, Tokyo branch)	62,765	0.63
Total	6,255,307	62.55

(Note) In addition, 419,903 own shares are held by JT.

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 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 2010, 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.

Corporate Governance

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
Number of directors	9
Number of outside directors	None

The reason for the adoption of the current organizational system: While there is no outside director, JT selects persons suitable for the post of director in light of the candidates' personality, judgment and experiences. In addition, in order to ensure the appropriate exercise of the function of providing advice from the perspective of an outsider that is expected of an outside director, JT has established the Advisory Committee, which comprises 5 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. In addition, JT has established an objective and neutral management monitoring system based on audits conducted by auditors (the majority of the auditors are outside auditors (all of the three auditors have the status of an independent executive)) from an independent and fair standpoint. There are also the Compensation Advisory Panel and the Compliance Committee, both of which include outside members with expert knowledge. In light of the above, we believe that the existing systems enable adequate monitoring of the execution of business.

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 candidates.

Member of Advisory Committee

- Hiroyuki Itami
Professor, Graduate School of Management of Science and Technology, Tokyo University of Science.
 - Kazuo Inamori
Founder and Chairman Emeritus, Kyocera Corporation
 - Sakutaro Tanino
Former Japanese Ambassador to India and China/Acting President, Japan-China Friendship Center
 - Tomijiro Morita
Chairman of the Board, The Dai-ichi Life Insurance Company, Limited
 - Sakue Mizukoshi
President, SEVEN & i Publishing Co., Ltd.
- (The appointment is effective July 1, 2010.)

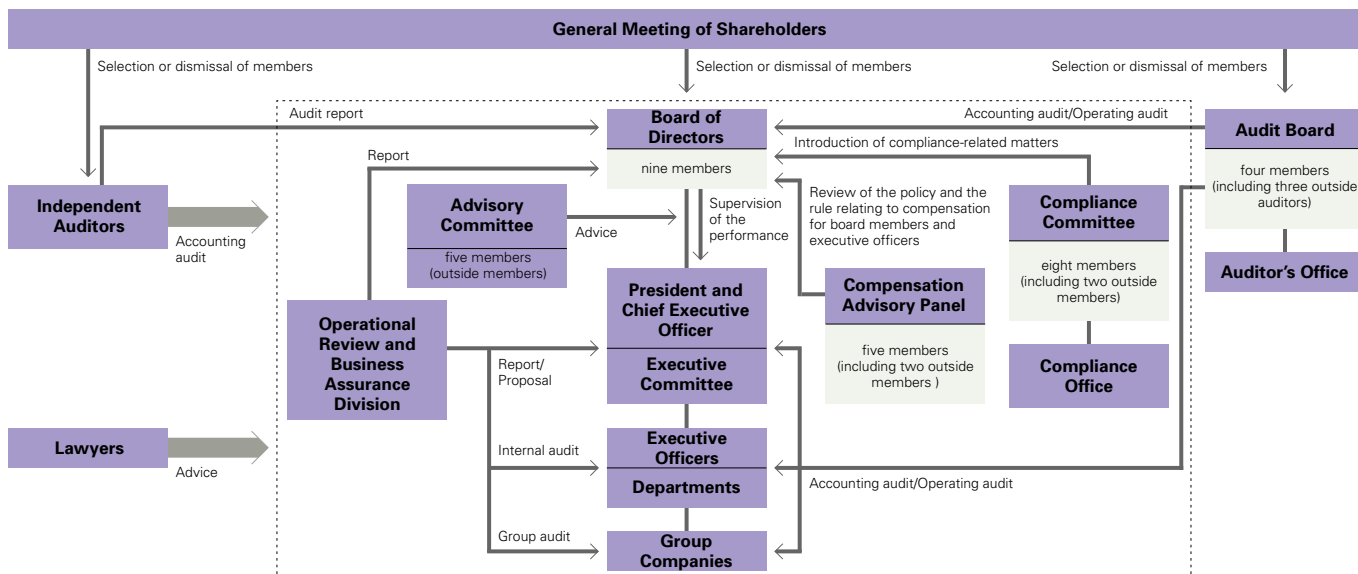
Matters concerning auditors

Presence or absence of 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 LLC) 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.

Our Corporate Governance System



Cooperation between auditors and the internal audit division:

While 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.

Information concerning outside auditors

Appointment of outside auditors	There are outside auditors.
Number of outside auditors	3

There are three outside auditors at JT. Those outside auditors are appointed in light of their experiences and broad perspective in their respective backgrounds.

Although one of them, Mr. Koichi Ueda, is the representative director of the Resolution and Collection Corporation, this corporation does not have any business relations with JT. Therefore, Mr. Ueda himself has no direct interest in JT. As well, neither of the other two outside auditors has any direct interest in JT.

At JT, auditors including outside auditors exercise an objective and neutral management monitoring function based on audits conducted from an independent and fair standpoint. JT has designated all of the three outside auditors as independent executives based on its judgment that in light of the attributes of them and their close relatives, there is not any risk of conflicts of interest arising between them and ordinary shareholders.

Name	Supplementary information	Reason for appointment
Hisao Tateishi	Joined the Ministry of Finance in April 1971. Appointed director-general of the Kanto-Koshinetsu Regional Taxation Bureau in July 1997. Appointed deputy director-general of the Personnel Bureau in July 1999. Appointed deputy director-general of the Personnel and Pension Bureau of the Ministry of Internal Affairs and Communications in January 2001. Appointed managing director of the Japan Foundation for Regional Vitalization in July 2001, Appointed managing director of the Federation of National Public Service Personnel Mutual Aid Associations (KKR) in July 2003. Appointed senior managing director of KKR in September 2005. Appointed standing auditor of JT in June 2007 (this appointment remains in effect). Also designated as independent executive.	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. He was also designated as an independent executive based on the judgment that in light of the attributes of him and his close relatives, there is not any risk of conflicts of interest arising between him and ordinary shareholders.
Takanobu Fujita	Joined Japan Broadcasting Corp. (NHK) in April 1963. Appointed a news commentator at NHK in June 1990. Retired from NHK in January 1995. Appointed professor at Kansei Gakuin University, School of Policy Studies in April 1999. Appointed visiting professor at Kansei Gakuin University, School of Policy Studies (this appointment remains in effect). Appointed auditor of JT in June 2005 (this appointment remains in effect) Also designated as independent executive.	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 as a university professor. He was also designated as an independent executive based on the judgment that in light of the attributes of him and his close relatives, there is not any risk of conflicts of interest arising between him and ordinary shareholders.
Koichi Ueda	Enrolled as a student of the Judicial Research and Training Institute in April 1967. Appointed public prosecutor in April 1969. Appointed Superintending Public Prosecutor of the Tokyo High Public Prosecutors Office in June 2006. Retired as public prosecutor in December 2006 at the mandatory retirement age. Registered as an attorney-at-law in January 2007. Appointed professor at Meiji University, Law School in April 2007 (this appointment remains in effect). Appointed as representative director of the Resolution and Collection Corporation (RCC) in January 2009. Appointed as representative director and president of RCC in March 2009 (this appointment remains in effect). Appointed auditor of JT in June 2009 (this appointment remains in effect). Also designated as independent executive.	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. He was also designated as an independent executive based on the judgment that in light of the attributes of him and his close relatives, there is not any risk of conflicts of interest arising between him and ordinary shareholders.

Other matters concerning major activities of outside auditors:

In FY 3/2010, Mr. Tateishi and Mr. Fujita attended all of the 18 meetings of the Board of Directors and the 16 meetings of the Audit Board, and Mr. Ueda attended all of the 13 meetings of the Board of Directors and

all of the 12 meetings of the Audit Board since his appointment on June 23, 2009. Those outside auditors adequately performed their duties as auditors by asking questions and making statements as necessary.

Corporate Governance

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, Executive Officers

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, as they are expected to achieve targets of their assigned business through their daily execution of business. 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 order to enhance the motivation to contribute to an increase in the corporate value and boost corporate morale.

Matters concerning remuneration for directors

Means of disclosure	Annual securities report, business operation report (business report), etc.
Disclosure status	The total amount and its breakdown of remuneration payments to all directors is disclosed. The total amount of consolidated remuneration payments to persons who received consolidated remuneration of ¥100 million or more each.

Information concerning remuneration for senior officers:

The remuneration payments to senior officers made in FY 3/2010 are as follows:

<Total remuneration amount by officer type and by remuneration type and the number of officers concerned>

Officer type	Total remuneration amount (in millions of yen)	Total remuneration amount by remuneration type (in millions of yen)			Number of officers concerned
		Basic pay	Executive bonus	Stock option grants	
Directors	559	383	52	123	12
Auditors (excluding outside auditors)	33	33	—	—	1
Outside officers	54	54	—	—	4
Total	647	471	52	123	17

(Note 1) The amount of executive bonus is the amount of executive bonus that will be paid to directors.

(Note 2) The amount of stock option grants is the total amount of stock option grants that was given to directors within FY 3/2010.

The following information is disclosed in the 25th annual securities report.

Total amount of consolidated remuneration paid to persons who received consolidated remuneration of ¥100 million or more each.

<Policy concerning the remuneration amount and the remuneration calculation method and the method of determining the policy>

JT's basic concept of executive remuneration for senior officers is as follows:

- Setting the remuneration at a level sufficient to secure personnel with superior capabilities
- Linking the remuneration to business performance so as to motivate senior officers to enhance performance.
- Linking the remuneration to medium and long-term corporate value
- Ensuring transparency through the implementation of deliberation at the Compensation Advisory Panel that includes outside experts, introduction of quantitative schemes (annual remuneration quotas and the upper limit on stock option grants) and continuous monitoring based on objective data.

In accordance with the above concept, remuneration for senior officers comprises basic monthly compensation and a 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.

Based on deliberation by the Compensation Advisory Panel, whose members include outside experts, the amount of compensation for directors is determined in consultations held by the Board of Directors and that for auditors in consultations held by the Audit Board within the limit approved by the General Meeting of Shareholders. The amount of executive bonuses is determined at a meeting of the Board of Directors in light of the business performance in the relevant business year, based on deliberation by the Compensation Advisory Panel and within the limit approved by the General Meeting of Shareholders.

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.

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 and sustainable growth 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 it 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, 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 and sustainable growth and maintain and enhance public trust in the company. It should be noted that Mr. Gisuke Shiozawa, one of the auditors, has a significant level of knowledge concerning financial and accounting affairs due to his experience as the head of JT's financing division.

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 group companies both in Japan and abroad.

JT has employed Deloitte Touche Tohmatsu LLC (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 3/2010 and the persons who assisted the auditing work are as follows:

(Certified public accountants) Tatsuo Igarashi (five years), Shuichi Momoki (five years), Satoshi Iizuka (three 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: 11 persons, Junior accountants: 12 persons, Others: 9 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 experiences of the candidates, and then the nominated candidates are proposed at a General Meeting of Shareholders.

Corporate Governance

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 2009 was sent on June 1 of the year and that for 2010 was sent on June 2 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 2009 was held on June 23 of the year and that for 2010 on June 24 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, and 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, 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.

Corporate Governance

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 decisions 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 or 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 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.

Activities Contributing to the Environment and Society

The JT Group strives to make contributions to society through a variety of corporate activities. We work to find harmony with our business environment and global environment, and aim to coexist with society as a good corporate citizen. We conduct continuing activities from this viewpoint.

Our Approach to Protecting the Global Environment

Protecting the global environment is critical to our efforts to fulfill our social responsibility and is a top priority for our corporate management. In accordance with the JT Group Environmental Charter, the JT Group has acted as a good corporate citizen in all of the countries and regions in which it operates and promoted company-wide initiatives to further reduce the environmental impact of its corporate activities. Moreover, we established the JT Group Environmental Action Plan (2009-2012) as a medium-term plan for concrete environmental protection activities, with the aim of realizing the philosophy outlined in the JT Group Environmental Charter. The operational divisions of JT, as well as subsidiaries and affiliates, have been striving to achieve the targets set forth under this medium-term plan.

Group Environmental Management

The JT Group recognizes that in order to deal with challenges with which the international community as a whole is confronted, such as the preservation of the environment and sustainable utilization of resources, we have to further enhance environmental management of the entire JT Group. Therefore, under the JT Group Environmental Action Plan (2009-2012), we have expanded the scope of environmental

management to cover all consolidated subsidiaries, both in Japan and abroad, and have gradually been introducing an environmental management system. In addition, we have made all consolidated subsidiaries subject to major environmental management targets — reduction targets for the emission of greenhouse gases, the water usage and the generation of waste — and aim to steadily achieve them.

Fight Against Global Warming

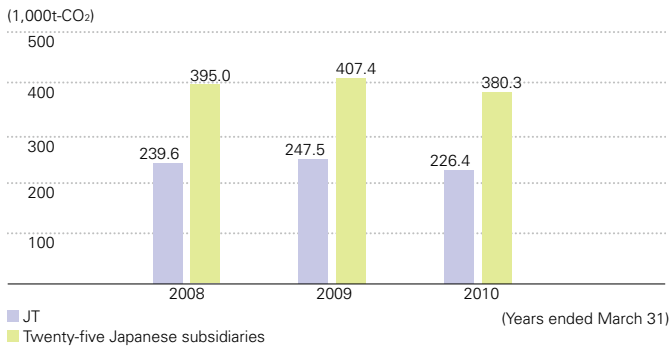
By setting the target of reducing overall greenhouse gas emissions by 10% in 2012 compared with 2007, we are making active reduction efforts. In 2009, JT achieved a 40.8% reduction compared with 1995 in Japan. Our subsidiaries in Japan achieved a 6.9% reduction compared with 2007 by reducing electricity usage through renewal of refrigeration equipment and introduction of EcoCute systems as well as efforts to make air conditioning management more efficient at Plants and Laboratories.

Effective Use of Resources

In order to preserve the limited natural resources available, the JT Group is striving to reduce the water usage and the generation of waste and is promoting the reuse and recycling of used materials.

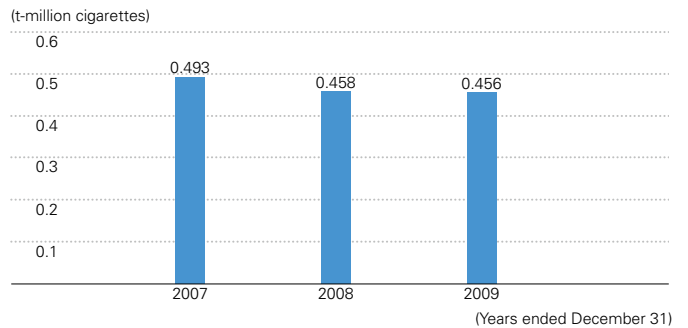
Trends in Greenhouse Gas Emissions

JT/Japanese subsidiaries



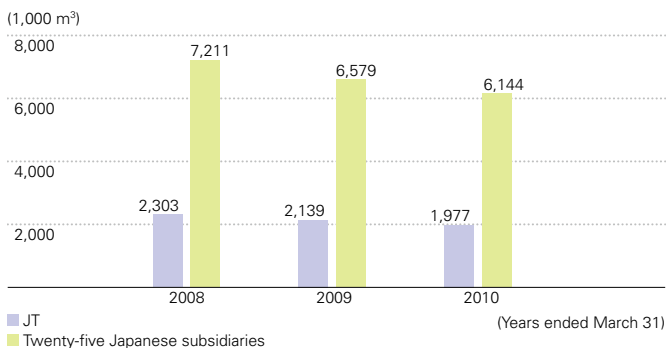
Trends in CO₂ Emissions per Million Cigarettes

JTI



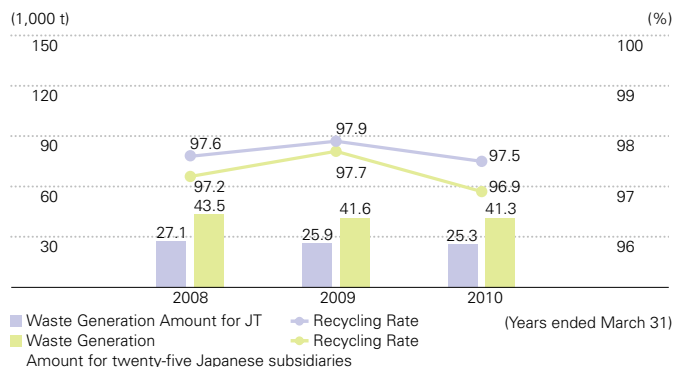
Trends in Water Usage Amount

JT/Japanese subsidiaries



Trends in Waste Generation and Recycling Rate

JT/Japanese subsidiaries



Activities Contributing to the Environment and Society

Toward Better Smoking Manners and a More Favorable Smoking Environment

(This section only describes activities in Japan.)

We aim to help create a society in which smokers and nonsmokers can coexist in harmony. Enshrined in this goal is our wish to see our valued customers fully enjoy smoking at their own discretion and, at the same time, to make sure they avoid causing discomfort to nonsmokers. By engaging in various initiatives, we will fulfill our social responsibility as a tobacco company.

Examples of the Various Initiatives

Setting Up Smoking Areas

We work closely with local governments and facility managers in setting up smoking areas in public facilities such as railway stations and airports, in order to promote coexistence between smokers and nonsmokers.



Public smoking area in front of Sakai Station, Osaka



TAMAPLAZA TERRACE Smoking Area

Advice on Separation of Smoking and Nonsmoking Areas

We provide consultation on how to separate smoking and nonsmoking areas within public facilities, commercial facilities and offices in a manner suited to the characteristics of the facilities and the needs of users. In our consulting service, which is free of charge, we offer our know-how and put forward proposals to achieve the kind of separation that would satisfy smokers while giving due consideration to the concerns of nonsmokers.

“Smoking Manners” Campaign Advertising

Since JT believes that improving the “smoking manners” of individuals is essential to improving those of society as a whole, we are constantly engaged in a campaign to raise awareness about the need for appropriate smoking manners, under the slogan “Pay attention, and you can change your manners.” The advertisements used in this campaign describe specific everyday situations in which smokers are supposed to show good manners, in order to prompt them to pay attention, think, and act appropriately.



Campaign Advertising

Community Clean-up Event

JT has been engaged in the “Pick Up and You will Love Your City” initiative since May 2004 in an effort to eradicate public littering by raising awareness of the problem and organizing rubbish collection. This initiative is aimed at occasions such as community festivals and other public events and conducted in cooperation with local governments, companies, and volunteers. Since these activities began in May 2004, community clean-up events have been held a total of 1,000 times in all of Japan’s prefectures as of April 17, 2010, bringing the number of participating parties to 1,987 and the number of participants to approximately 1.04 million.



Community Clean-up Event “Pick Up and You will Love Your City”

For further information about JT’s efforts to improve the smoking environment, please access the “Smokers’ Style” website.

URL: <http://www.jti.co.jp/sstyle/index.html>



“Smokers’ Style” website

JT Group's Social Contributions

The JT Group has strived to make contributions to society in all the countries and regions in which we operate, building our relationship with local communities by acting as a good corporate citizen. We have established various key areas for social contribution activities in the JT Group Social Contribution Policy.

1. JT Group's Social Contributions Policy

The JT Group will fulfill its corporate responsibility through making sustained contributions to the communities in which it operates. As a good neighbor, the JT Group will support the regeneration and revitalization of local communities, focusing on:

- Social Welfare
- Environmental Protection
- Arts and Culture
- Disaster Relief

The JT Group will contribute to the development of the local communities in which we operate by selecting the most critical of these four priority areas for each and providing support. Based on this policy, the JT Group will engage in a variety of activities that contribute to society, so that we can build and maintain harmonious relations with local communities while encouraging employees to be involved in such activities themselves.

2. Contributions to Japanese Society

Social Welfare

As part of our efforts to contribute to the regeneration and revitalization of local communities as a good neighbor, the JT Group is implementing a variety of social welfare programs.

The JT Group's major activities in the field of social welfare are as follows:

- Implementing the NPO Support Projects for Youth Development
- Providing the Scholarships for Students from Asia
- Sponsoring the JT Shogi Japan Series Tournament for Kids
- Sponsoring the JT "Honobono" concert
- Organizing Volleyball coaching
- Making company-owned facilities available for public use



The Scholarships for Students from Asia The Volleyball Workshop

Arts and Culture

The JT Group engages in activities that contribute to the development and advancement of arts and culture.

The JT Group's major activities in the field of arts and culture are as follows:

- Operating the Tobacco & Salt Museum
- Supporting the training of musicians
- Operating the Affinis Arts Foundation
- Operating the JT Biohistory Research Hall
- Organizing the JT Forum cultural events



The Affinis Arts Foundation
(Photo: K. Miura)

The Tobacco & Salt Museum

Environmental Protection

In appreciation of what our natural environment brings to our business and out of consideration for its preservation, the JT Group engages in environmental protection activities such as reforestation, forest preservation and street cleanup campaigns.

The JT Group's major activities in the field of environmental protection are as follows:

- Conducting reforestation and forest preservation activities
- Organizing the "Pick Up and You will Love Your City" community cleanup campaign
- Conducting local community cleanup activities



Reforestation and
Forest Preservation Activities

Disaster Relief

The JT Group conducts disaster relief activities by providing assistance to the affected areas through group-wide cooperation. Such activities are conducted through the JTI Foundation.

Activities Contributing to the Environment and Society

3. Social Contributions Abroad

The JT Group engages in a variety of philanthropic activities around the world, contributing to the development of the local communities in which it operates. JTI, the international tobacco business arm of the JT Group that controls tobacco production, marketing and sales in more than 120 countries, plays the central role in our worldwide philanthropic activities. In addition to its own philanthropic activities, JTI helps to tackle critical challenges faced by local communities as part of group-wide initiatives such as the reforestation and forest preservation programs that are underway in Africa.

JTI Corporate Philanthropy

JTI's Corporate Philanthropy programs enable the voluntary contribution of resources—financial, material and human—to causes that are of general benefit to society and address a specific need. There are three main focus areas for JTI's programs: providing social welfare to disadvantaged groups; arts and cultural support; and disaster relief. Initiatives in the first two categories tend to be local and are led and funded by individual markets. The third is more international in scope—response to disasters anywhere in the world—and is normally funded by the JTI Foundation. The programs highlighted below are broadly representative of engagements undertaken by the Company and its employees in 2009.

Social Welfare

Many JTI entities have initiated programs that benefit disadvantaged groups. The needs and opportunities vary by country and community but there are common themes. For example, JTI Belgium is active in this area, working closely with the 'United Fund for Belgium' to provide free meals and other forms of assistance to the elderly and underprivileged throughout the country.

JTI Russia has partnered with local authorities in Moscow, Yelets, and St. Petersburg, to support pensioners and World War II veterans. The 'Silver Spring' and 'Autumn of Hope' initiatives provide food, clothes and other durable goods to its elderly citizens. JTI also assists in developing social and cultural events for the elderly, and such activities will spread to the other regions of Russia during 2010.

On the other side of the world, JTI Malaysia has similar projects that contribute both financially and via other assistance to 16 elderly welfare homes that provide shelter for those no longer able to look after themselves. This activity also provides JTI employees with the opportunity to volunteer their time as part of their contribution of giving back to the communities in which they work.

JTI UK supports 'Crisis UK', a charity that helps single homeless people to develop and acquire qualifications in order to reintegrate them into society. This support enables the charity to run an extra 800 educational classes a year in numeracy, literacy and IT skills.

Education of underprivileged groups is one recurring theme in JTI's social welfare agenda. Promoting social diversity is another – appropriate for a Company that takes pride in its ability to assimilate talent from every corner of the world.

In Spain, JTI Iberia created and launched a new project called 'HERMES' in close cooperation with UNED, the Spanish Government's Open University. This is a national initiative to promote the social and workforce integration of immigrant groups in a country where over 11% of the population is non-native. The intent is to remove barriers that adult newcomers face in settling-in and enable them to become productive members of the community by helping validate college degrees from their own countries or complete their studies in Spain.



Social Shop workers supported by JTI Belgium



Crisis students with their tutor in a JTI UK supported class



JTI Malaysia supports 16 elderly welfare homes



JTI Iberia supports adult educational program with UNED

Arts and Culture

In the UK, JTI is an important partner in bringing exhibitions of artistic, historical and academic importance to UK audiences through its long term support of exhibitions in the Sackler Galleries at the Royal Academy of Arts. In autumn 2009, JTI UK also supported an exhibition of the work of Anish Kapoor, one of the most influential and pioneering artists of his generation. The exhibition attracted a record number of visitors and was the largest ever devoted to a living artist at the Royal Academy.

In Russia, JTI helps national heritage stay alive by funding the creation of an Internet-based digital library of art treasures held in the renowned Pushkin State Museum in Moscow. Space constraints allowed only a very small proportion of its huge 750,000 piece collection to be on display at any one time. In 2008 through 09, JTI's support enabled the uploading of 1,200 paintings that can now be viewed on-line.

JTI put considerable resources into making music more international and accessible in 2009. Examples include JTI Russia's long-term cooperation with the Mariinsky Theater led by Maestro Valery Gergiev. The company provides support to the Theater as well as to two major programs run by the Mariinsky: the annual Moscow Easter Festival and Stars of the White Nights Festival. Both events have become highlights of the cultural calendar in Russia and beyond.

In addition, JTI France supported a concert at the renowned Théâtre des Champs Elysées in Paris by the International Music Academy of Switzerland, an institute that attracts and develops young artists from all over the world that is led by Japanese conductor Seiji Ozawa. JTI Italy, a partner of the Teatro alla Scala in Milan, supported La Scala Japan Tour 2009 during which the world famous opera house staged operas and concerts at two of Tokyo's leading theatres.

In Canada, JTI-Macdonald Corp. partners with the Japanese Canadian Cultural Centre to celebrate the joint heritage of Canada and Japan. The cultural and historical links between the two nations date back to the 1880s and more than 100,000 people of Japanese descent live in Canada today. JTI-Macdonald Corp. has supported the Centre for five years and its contributions fund a rich mix of traditional events, musical performances and film screenings, art and history exhibitions and language classes.



JTI UK supported an exhibition of the work of Anish Kapoor



JTI Russia supports the Mariinsky Theater led by Maestro Valery Gergiev



JTI France supported the IMAS concert conducted by Seiji Ozawa in 2009



JTI Italy was a partner of the Teatro alla Scala Japan Tour in 2009



JTI-Macdonald's partnership with the Japanese Canadian Cultural Centre in Canada

Activities Contributing to the Environment and Society

Disaster Relief

The Swiss-based JTI Foundation is an important channel for the Company's support for victims of natural disasters. It works closely with governments, NGOs and emergency relief organizations around the world.

The Foundation made substantial contributions to some of the worst disasters to befall the global community in 2009.

In Italy, it assisted the government in a twelve month restoration and reconstruction program to help the population of the Abruzzo region recover from the devastating earthquake that struck in April. In September, it donated funds for two leading relief organizations to provide immediate support to people displaced by the typhoon that struck the Philippines. It also supported procurement and distribution of relief goods after monsoon rains took a heavy toll on human life and extensively damaged property in India.

The Foundation puts a focus on proactive initiatives with a long-term perspective. It is a principal supporter of the Turkish-based GEA search and rescue service, usually among the first to respond to international appeals for help when disaster strikes.

JTI Foundation also signed a four year partnership agreement with the ETH Zürich (Swiss Federal Institute of Technology Zurich) to support creation of a uniform independent standard for measuring earthquake hazards in the Middle East, Caucasus and North Africa. The goal is to combine advances in scientific, engineering and

information processing capabilities to improve prediction and risk assessment in ways that will enable national governments and other institutions in the region to take additional steps to protect lives and infrastructure in the event of major incidents.



JTI Foundation and JTI Philippines supported typhoon victims in the Philippines