Corporate Governance

**Basic Concept of Corporate Governance**

Based on the framework of solid corporate governance, the JT Group is committed to growing in a sound and sustainable way. While it is paramount that high ethical standards be upheld and responsible management be practiced, the JT Group believes that highly transparent management and effective communication with all stakeholders on information and decision-making regarding management will lead to superior corporate governance. The JT Group, therefore, will continue to place a premium on strengthening of corporate governance.

Efforts have been underway to downsize the board of directors, separate the decision-making process from the business management process through an Executive Officer System, and introduce outside directors to accelerate and improve the group’s decision-making and business management processes. At the same time, an advisory committee comprised of outside experts is in place, where they advise the management from a broad perspective regarding how the company should operate over the mid to long term, and other issues of similar importance.

**Internal Control System**

The JT Group has been maintaining and improving a system to optimize its operations by increasing the credibility of compliance and its financial reports, managing risks, and conducting internal audits. We will continue these efforts while reviewing and revising the current system as necessary and will strive to maintain and enhance our corporate systems so as to ensure appropriate business execution.

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Directors, Board of Directors / Auditors, Board of Auditors

The Board of Directors—which is tasked with developing the JT Group’s management strategy, making decisions on important issues, and supervising all the group’s operations—meets once a month in principle and on more occasions, if necessary, to make decisions regarding the matters specified by laws and regulations and other important issues, supervise business execution, and receive reports from the directors on its status. The chairman, meanwhile, is committed to supervising management as a non-executive director.

In order to keep pace with the rapidly changing business environment and optimize the group’s management, the JT Group 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 group-wide business strategy decided by the board, by exercising the authority delegated to them.

JT utilizes the Audit Board System, under which four auditors (including three outside auditors), in their capacity as an independent agent 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 high levels of accountability and transparency. To this end, efforts are underway 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, with the allocation reviewed as needed in consultation with the auditors.

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.

Auditors are entitled to attend not only meetings of the Board of Directors but also other important meetings, and they usually attend meetings of the Executive Committee.

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Compliance

**JT Group Compliance Management**

We at the JT Group define “compliance” as “Actions for the shared JT Group Mission, based on the values and ethics we must hold in order to become better corporate employees and citizens.” In FY 2011, the “Principles of Conduct” and the “Guidelines for Conduct,” both of which were set in 2000, were integrated into the “JT Group Code of Conduct” to further improve the JT Group’s compliance and maintain its system and to help employees practice compliance. At the same time, the Compliance Committee was reshuffled, with external experts constituting more than half of the members, to strengthen corporate governance.

**Compliance Promotion System**

- A General Term for the Corporate and Other Departments Supervising the Code of Conduct

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**Compliance Implementation Activities**

The JT Group develops the Compliance Implementation Plan every year to continuously improve the quality of its operations. Accordingly, October is designated as “Compliance Promotion Month” to practice compliance, where workshop meetings are held and JT Group Compliance Survey is conducted for all employees, while seminars such as those for e-learning are offered to managers. In addition, a variety of level-specific seminars are held to raise awareness of compliance among employees and help them practice it on a day-to-day basis.

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**Consultation and Reporting System**

Consultation and reporting counters are in place both in and outside the company, while consultations and reports received are properly dealt with according to relevant laws and internal regulations. The consultation and reporting system is being improved and properly managed to prevent problems from arising and improve the company’s ability to govern itself.
Human Resources Management

Recruitment of Next-Generation Human Resources
JT is recruiting motivated individuals to ensure sustainable growth.
In recruiting new graduates, for example, we focus on their motivation and abilities regardless of their gender, nationality, or educational background, while disseminating ample information on JT through the website, job seminars, and internship programs.
In addition to recruiting new graduates in spring, a system is in place for recruitment in summer and for foreign-student recruitment to employ a variety of individuals with different backgrounds.
We also recruit mid-career professionals, providing them with opportunities to leverage their experience and knowledge.

Human Resources Development
With emphasis on a transparent human resources management, JT provides employees with workplaces where they can improve and make the most of their abilities, while enhancing fair treatment of all employees.

Establishment of a Fair Merit System and Enhancement of the Organizational Strength
Managers, meanwhile, play a vital role in practicing a fair merit system and helping employees achieve self-sustained development. In order to practice a fair appraisal, each department and section holds appraisers’ meetings to standardize appraisal practices and improve appraisal skills.
At the same time, managers are being trained and educated to enhance the organizational strength, while training programs are offered to newly appointed managers to have them obtain knowledge and skills required for management of human resources and organizations, with a variety of programs such as follow-up trainings implemented to enhance the organizational power.

Human Resources Development
JT is upgrading its training and educational programs to help each employee grow as a professional.
For example, many employees participate in optional programs to acquire basic knowledge and skills necessary for their jobs, such as those for marketing, financial accounting, logical thinking, and inventive and communication skills. These programs are open to all employees, regardless of their departments, jobs, and ages.
There are also level-specific programs for learning professional knowledge and skills, while each department has its own job-specific programs designed for learning specialties.

Career Development Support Programs
Career development support programs include career interviews conducted annually by managers and career management training designed for employees who are at stages in their careers to decide their paths. These programs provide employees with opportunities to review and determine their career paths from a mid-term to long-term perspective.
In addition, the Career Challenge System is in place to help employees develop their career plans, where employees who are qualified can apply once a year for jobs they aspire to, with their applications examined by the departments concerned. The system provides employees who aim for self-sustained growth with opportunities to advance their careers.

Mobilizing and Developing Global Human Resources
While the JT Group’s workforce consists of employees with over 100 different nationalities, it is imperative that they respect one another’s cultures and values.
JT and Japan Tobacco International (JTI), which spearheads JT’s overseas tobacco business, therefore, jointly launched the “JT/JTI Talent Partnership Program,” to exchange human resources and develop global talents who can leverage new ideas emerging from synergies among a variety of talents. One such program is the biannual program “JT/JTI Exchange Academy,” where JT/JTI employees from all over the world are engaged in group discussions and make presentations in English to deepen mutual understanding beyond language and cultural barriers.

Respect for Human Rights
JT believes that each employee’s respect for human rights and others’ individualities and personalities leads to creating and maintaining a fair working environment. The Basic Policy on Human Rights Education is thus in place to maintain fairness in recruitment and treatment, based on an international perspective for human rights.
To raise awareness of human rights among employees, moreover, learning materials are posted on the intranet and e-learning programs are offered regularly.

Better Labor-Management Relationship
It is imperative that employees and employers share a common view of the business environment and trends to ensure the JT Group’s sustainable growth. Based on a labor-management consultation system established between the two parties, JT and its employees respect each other, being engaged in good-faith discussion to deal with management issues such as business plans and financial management. Although the Great East Japan Earthquake dealt a severe blow to the JT Group’s business, a group-wide cooperation system was established to continue operations and restore damaged production facilities. At the same time, emergency labor-management meetings were held to change work schedules to maintain product supply and ramp up production, while support is being provided to disaster-stricken areas.
Creating Workplaces Where Employees Feel Gratified and Rewarded

JT has been improving its safety and health control system in accordance with the JT Occupational Safety and Health Basic Policy, which was set in 2002, as ensuring the safety and health of employees is an integral part of its operations.

To Eliminate On-The-Job Accidents
JT set up its unique Industrial Accident Prevention Five-Year Plan to eliminate on-the-job accidents, setting goals for reducing the number of on-the-job accident casualties, and maintaining and promoting employee mental and physical health. Specific measures include proper maintenance and management of the occupational safety and health control system, on-the-job accident prevention measures, mental health enhancement, health hazard (occupational diseases, etc.) prevention measures, and prevention of occupational traffic accidents.

Health Management of Employees
Recognizing that each employee needs to stay healthy both physically and mentally to ensure continuous high performance, JT properly manages the health of employees, stationing full-time medical personnel (12 physicians and 35 public health nurses) at 11 locations nationwide. In addition to legal medical examinations, additional examinations are conducted annually for those who are 35 years of age and older to prevent lifestyle-related diseases, with industrial physicians and health nurses communicating the results to each employee.

Approaches to Mental Health
Recognizing the importance of employees' mental health, JT focuses on preventing mental illness. In addition to a counter where specialists and counselors offer counseling services, external specialized institutions listen to employees' problems either by phone or face to face. Workshops and seminars are also held regularly for managers on “care by lines” and for employees on “self-care” in line with the Guidelines for Mental Health Promotion at the Workplace established by the Ministry of Health, Labour and Welfare.