

[This is an English translation prepared for the convenience of non-resident shareholders. Should there be any inconsistency between the translation and the official Japanese text, the latter shall prevail.]

JAPAN TOBACCO INC.  
CORPORATE GOVERNANCE

Last update: June 24, 2010

**JAPAN TOBACCO INC.**

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

**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**

<b>Combined equity stakes of foreign shareholders</b>	Between 20% and 30%
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[Status of Major Shareholders] [updated]

<b>Name</b>	<b>Number of Shares Held</b>	<b>Ratio (%)</b>
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 proxy: Mizuho Corporate Bank, Ltd., Settlement Sales Department)	188,236	1.88
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	169,000	1.69
State Street Bank and Trust Company (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	111,112	1.11
Mellon Bank, N.A. as Agent for its Client Melon Omnibus US Pension (Standing proxy: Mizuho Corporate Bank, Ltd., Settlement Sales Department)	86,891	0.87
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	71,455	0.71
Morgan Stanley & Company Inc. (Standing proxy: Morgan Stanley Japan Securities Co., Ltd.)	64,447	0.64
HSBC BANK PLC A/C THE CHILDRENS INVESTMENT MASTER FUND (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	62,765	0.63

### 3. Corporate Attributes

<b>Listed Stock Exchanges and Market Segment</b>	Tokyo (First Section), Osaka (First Section), Nagoya (First Section), Sapporo (existing market), Fukuoka (existing market)
<b>Closing month of the annual account book</b>	March
<b>Business Sector</b>	Foods
<b>Number of Employees (Consolidated basis)</b>	1,000 or more
<b>Net Sales (Consolidated basis)</b>	¥1 trillion or more
<b>Parent Company</b>	None
<b>Number of Consolidated Subsidiaries</b>	Between 100 and 300

### 4. Other Factors which May Materially Affect Corporate Governance [updated]

- 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 research and development, 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 foods business, is a consolidated subsidiary of JT and is listed on the Nagoya Stock Exchange. TableMark commenced the tender offer bid for KS Frozen Foods on February 3, 2010 and completed the tender offer bid on March 17, 2010, and is currently in the process of making KS Frozen Foods its wholly owned subsidiary. Accordingly, the common stock of KS Frozen Foods will likely be delisted on July 26, 2010.

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

### **1. Matters Relating to Organizational Structure and Organizational Management**

<b>Form of organization</b>	<b>A company with Auditors</b>
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#### **[Matters Related to Directors]**

<b>Chairman of the Board of Directors</b>	Chairman (excluding where serving concurrently as President)
<b>Number of Directors</b>	9
<b>Number of sitting Outside Directors</b>	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, insight and the experience.

As an effort to secure the function of advice from an external viewpoint, a function expected to outside directors, 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.

In addition, JT has established a system to monitor the management with securing objectivity and neutrality by carrying out audits by Auditors (a majority of them are outside Auditors and all three those auditors are independent officers) from their independent and fair standpoint. There are also the Compensation Advisory Panel and the Compliance Committee, both of which include outside members, too. Therefore, JT believes that the current organizational system is adequately functioning.

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 Related to Auditors]**

<b>Presence or absence of the Audit Board</b>	The Audit Board is in place
<b>Number of Auditors</b>	4

#### **Cooperation Between Auditors and Independent Auditor [updated]**

While Auditors and Independent Auditor (Deloitte Touche Tohmatsu LLC) conduct audits independently, 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 Internal Auditing Division**

Auditors and the Operational Review and Business Assurance Division conduct audits independently, 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.

<b>Appointment of Outside Auditors</b>	There are sitting Outside Auditors
<b>Number of Outside Auditors</b>	3

### Relationship with JT (1)

Name	Attribute	Relationship with JT*								
		a	b	c	d	e	f	g	h	i
Hisao Tateishi	Originally from another company									
Takanobu Fujita	Originally from another company									
Koichi Ueda	Attorney					○				

\* Conditions met regarding the relationship with JT

a Originally from the parent company

b Originally from other subsidiaries and affiliates

c Major shareholder of JT

d Serves as an Outside Director or Outside Auditor at another company concurrently

e Serves as an Executive Officer (Director) or Operating Officer (Non-director) at another company

f Spouse, relative within the third degree of kinship, or similar person of Executive Officer or Operating Officer of JT or specified affiliate

g Receiving compensation, etc. or other financial benefits as a Director of the parent company of JT or subsidiary of the parent company

h Limited liability agreement concluded between this individual and JT

i Others

### Relationship with JT (2)

Name	Supplementary Explanation to Corresponding Item	Reason for Appointment as Outside Auditor
Hisao Tateishi	<p>April 1971    Joined Ministry of Finance</p> <p>July 1997    Director-General, Kanto-Shinetsu Regional Taxation Bureau, National Tax Agency</p> <p>July 1999    Deputy Director-General, Personnel Bureau, Management and Coordination Agency</p> <p>January 2001    Deputy Director-General, Personnel and Pension Bureau, Ministry of Internal Affairs and Communications</p> <p>July 2001    Standing Director, Japan Foundation for Regional Vitalization</p> <p>July 2003    Standing Director, Federation of National Public Service, Personnel Mutual Aid Associations</p> <p>September 2005    Executive Director, Federation of National Public Service, Personnel Mutual Aid Associations</p> <p>September 2005    Executive Director, Federation of National Public Service, Personnel Mutual Aid Associations</p> <p>June 2007    Standing Auditor, Japan Tobacco Inc. (current position)</p>	<p>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. In addition, JT designated Mr. Tateishi as an independent officer based on the judgment that, in light of the attributes of himself and his close relatives, there is no risk of causing conflicts of interest with general shareholders.</p>

	JT appointed Mr. Tateishi Independent Officer(Auditor).	
Takanobu Fujita	<p>April 1963      Joined NHK (Japan Broadcasting Corporation)</p> <p>June 1990      News Commentator</p> <p>January 1995    Retired from NHK</p> <p>April 1999      Professor, School of Policy Studies, Kwansei Gakuin University</p> <p>April 2005      Visiting Professor, School of Policy Studies, Kwansei Gakuin University (current position)</p> <p>June 2005      Auditor, Japan Tobacco Inc.(current position)</p> <p>JT appointed Mr.Fujita Independent Officer(Auditor).</p>	<p>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. In addition, JT designated Mr. Fujita as an independent officer based on the judgment that, in light of the attributes of himself and his close relatives, there is no risk of causing conflicts of interest with general shareholders.</p>
Koichi Ueda	<p>April 1967      Judicial Apprentice</p> <p>April 1969      Appointed as Public Prosecutor</p> <p>June 2006      Superintending Public Prosecutor, the Tokyo High Public Prosecutors Office</p> <p>December 2006 Took mandatory retirement</p> <p>January 2007    Registered as an attorney at law</p> <p>April 2007      Specially Appointed Professor of Meiji University Law School (current position)</p> <p>January 2009    Representative Director, The Resolution and Collection Corporation</p> <p>March 2009      President and Representative Director, The Resolution and Collection Corporation (current position)</p> <p>June 2009      Auditor, Japan Tobacco Inc. (current position)</p> <p>JT appointed Mr.Ueda Independent Officer(Auditor).</p>	<p>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. In addition, JT designated Mr. Ueda as an independent officer based on the judgment that, in light of the attributes of himself and his close relatives, there is no risk of causing conflicts of interest with general shareholders.</p>

### Other Matters Relating to the Major Activity of Outside Auditors [updated]

During the fiscal year ended March 31, 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.

### [Matters Related to Incentives]

<b>Provision of incentives to Directors</b>	Introduction of a performance-linked remuneration system and a stock option scheme
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### Supplementary Explanation Relating to the Relevant Item

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

Specifically, remuneration for directors who concurrently serve as executive officers (*shikkoyakuin*), because they are expected to achieve results by executing their duties on a daily basis, comprises basic monthly compensation and an annual bonus reflecting the company's business performance in the relevant year, and share remuneration type stock options, the value of which is linked to the medium to long term corporate value of JT.

In addition, remuneration for Directors who do not concurrently serve as executive officers (*shikkoyakuin*) comprises basic monthly compensation and share remuneration type 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 fulfill their monitoring function.

<b>Officers eligible for stock option grants</b>	In-house Directors and Others
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### Supplementary Explanation Relating to the Relevant Item

As part of remuneration for directors and executive officers (*shikkoyakuin*), JT introduced a stock option scheme in the fiscal year ended March 31, 2008, in order to enhance the motivation to contribute to an increase in the corporate value and boost the corporate morale.

#### [Matters Related to Remuneration for Directors]

<b>Means of disclosure</b>	Annual Securities Report, Business Operating Report (Business Report) and Others
<b>Disclosure status [updated]</b>	Others

### Supplementary Explanation Relating to the Relevant Item [updated]

Total remuneration for Directors in the fiscal year ended March 31, 2010 is ¥559 million, including basic remuneration of ¥383 million, bonuses of ¥52 million and stock option grants of ¥123 million.

The total remuneration on a consolidated basis of over ¥100 million is explained separately in the Annual Securities Report for the 25th Term.

Total remuneration for Outside Auditors is ¥54 million and total remuneration for Auditors including Outside Auditors is ¥88 million.

Note: The above remunerations are for Directors and Auditors in office during the fiscal year ended March 31, 2010.

#### [Support for Outside Directors (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 (*shikkoyakuin*) in order to ensure sound and sustainable growth and maintain and enhance public trust in the company.

When Directors and Executive Officers (*shikkoyakuin*) 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.

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.

## **2. Matters Relating to Functions Such As Execution of Business, Audit and Supervision, Nomination, Determination of Remuneration, etc. [updated]**

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 (*shikkoyakuin*) System, under which Executive Officers (*shikkoyakuin*) 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 (*shikkoyakuin*) in order to ensure sound business management and maintain and enhance public trust in the company. Moreover, the auditor of JT, Mr. Gisuke Shiozawa, has considerable knowledge of finance and accounting because he has held the office of the Head of Finance Processing Division, Japan Tobacco, Inc.

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 as its Independent Auditor, and Deloitte Touche Tohmatsu LLC has conducted audits based on the Companies Act and the Financial Instruments and

Exchange Act. The certified public accountants who audited JT's financial statements for fiscal year ended March 31, 2010 and the persons who assisted the auditing work are as follows.

(Certified public accountants)

Tatsuo Igarashi (5 years), Shuichi Momoki (5 years), Satoshi Iizuka (3 years)

Note: 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 the 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 make a decision by taking into consideration the personality, judgment and career backgrounds of candidates, and then the nominated candidates are proposed at a General Meeting of Shareholders.

The following is JT's basic concept on remuneration for Directors and Auditors.

- Set a level of remuneration necessary to secure outstanding individuals
- Have in place a remuneration system linked to performance that engenders motivation towards the achievement of results
- Set remuneration linked to mid- to long-term corporate value
- Ensure transparency through discussions by the Compensation Advisory Panel that includes external experts, introduction of quantitative schemes (annual compensation range, upper limit for stock options) and continuous monitoring based on objective data

Based on the above, remuneration for Directors and Auditors is made up of three components, namely the monthly basic remuneration, annual bonus reflecting the company's business performance for the relevant year and share remuneration type stock options, the value of which is linked to mid- to long-term corporate value of JT.

Regarding the remuneration system, because Directors serving concurrently as Executive Officers (*shikkoyakuin*) are expected to achieve results by executing their duties on a daily basis, their compensation comprises of a basic remuneration, an annual bonus and stock options. For Directors not serving concurrently as Executive Officers (*shikkoyakuin*), because they are requested to determine company-wide business strategy for increasing corporate value and to fulfill their monitoring function, their compensation comprises of a basic remuneration and stock options. Auditors receive a single basic remuneration in light of their role mainly as auditors conducting audits according to law.

Amounts of remunerations are determined by the Board of Directors as to those for the Directors and among the Auditors as to those for the Auditors, respectively, upon deliberation by the Compensation Advisory Panel that includes external experts and within the limit approved by the General Meeting of Shareholders. Annual bonuses for the Directors are determined by the Board of Directors considering performance results recorded during the relevant fiscal year.



### **III Implementation of Measures Related to Shareholders and Other Interested Parties**

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

	<b>Supplementary Explanation</b>
<b>Sending the notice of a General Meeting of Shareholders at an early date</b>	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.
<b>Avoiding scheduling a General Meeting of Shareholders for a date on which many other companies' shareholders' meetings are concentrated</b>	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.
<b>Allowing the exercise of the voting right through electromagnetic means</b>	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**

	<b>Supplementary Explanation</b>	<b>Presence or absence of a briefing by the Representative Director.</b>
<b>Periodic briefings for individual investors</b>	JT participates in a convention of earnings briefings sponsored by securities exchanges and other organizations several times every year.	Not provided
<b>Periodic briefings for analysts and institutional investors</b>	JT holds briefing sessions after the announcement of earnings at its offices or neighboring facilities.	Provided
<b>Periodic briefings for overseas investors</b>	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
<b>Publication of IR materials on the website</b>	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
<b>Establishment of a division (appointment of an officer) in charge of IR</b>	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

	<b>Supplementary Explanation</b>
<b>Establishment of internal rules, etc. concerning the respect of the standpoint of stakeholders</b>	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.
<b>Implementation of environment protection activity, CSR activity, etc.</b>	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.
<b>Formulation of the policy concerning the provision of information to stakeholders</b>	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 step:

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 (*shikkoyakuin*) System, under which Executive Officers (*shikkoyakuin*) 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 consumer trust, while understanding and respecting the environment and the diversity of societies and individuals, and there is a group-wide consensus on the mission. 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 entire 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 employees 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, JT 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 (*shikkoyakuin*) 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 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 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.

## **V Others**

### **1. Matters Related to Defense against Takeover**

Nothing to report

### **2. Other Matters Related to the Corporate Governance System**

Nothing to report

**[Reference: Organization]**

