

[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, 2011

JAPAN TOBACCO INC.

Hiroshi Kimura, President & CEO

Contact: +81-3-3582-3111

Securities Code Number: 2914

<http://www.jti.co.jp/>

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

Combined equity stakes of foreign shareholders	Between 20% and 30%
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[Status of Major Shareholders]

Name	Number of Shares Held	Ratio (%)
The Minister of Finance	5,001,345	50.01
Japan Trustee Services Bank, Ltd. (Trust Account)	256,502	2.57
State Street Bank and Trust Company 505223 (Standing proxy: Mizuho Corporate Bank, Ltd., Settlement Sales Department)	224,116	2.24
The Master Trust Bank of Japan, Ltd. (Trust Account)	222,931	2.23
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
The Chase Manhattan Bank 385036 (Standing proxy: Mizuho Corporate Bank, Ltd., Settlement Sales Department)	85,107	0.85
Mellon Bank, N.A. as Agent for its Client Melon Omnibus US Pension (Standing proxy: Mizuho Corporate Bank, Ltd., Settlement Sales Department)	80,675	0.81
State Street Bank and Trust Company (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	78,317	0.78
HSBC BANK PLC A/C THE CHILDRENS INVESTMENT MASTER FUND (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	68,367	0.68
State Street Bank and Trust Company 505225 (Standing proxy: Mizuho Corporate Bank, Ltd., Settlement Sales Department)	61,888	0.62

Controlling Shareholders(excluding parent company)	None
Parent Company	None

[Supplementary Information]

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.

3. Corporate Attributes

Listed Stock Exchanges and Market Segment	Tokyo (First Section), Osaka (First Section), Nagoya (First Section), Sapporo (existing market), Fukuoka (existing market)
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
Number of Consolidated Subsidiaries	Between 100 and 300

4. Policies for Measures to protect Minority Shareholders when conducting Transactions with Controlling Shareholders.

None

5. 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.

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

1. Matters Relating to Organizational Structure and Organizational Management

Form of organization	A company with Auditors
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[Matters Related to Directors]

Number of Directors Stipulated in Articles of Incorporation	15
Term of Office for Directors Stipulated in Articles of Incorporation	2
Chairman of the Board of Directors	Chairman (excluding where serving concurrently as President)
Number of Directors	8
Number of sitting Outside Directors	None

[Matters Related to Auditors]

Presence or absence of the Audit Board	The Audit Board is in place
Number of Auditors Stipulated in Articles of Incorporation	4
Number of Auditors	4

Cooperation among Auditors, the Independent Auditor and Internal Auditing Divisions

While Auditors, internal audit divisions including the Operational Review and Business Assurance Division, and the Independent Auditors (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.

Appointment of Outside Auditors	There are sitting Outside Auditors
Number of Outside Auditors	3
Number of Outside Auditors Designated as Independent Auditors	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								○	
Koichi Ueda	Attorney					○			○	
Yoshinori Imai	Originally from another company								○	

* 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>JT appointed Mr. Tateishi Independent Officer(Auditor).</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>
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>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</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>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>
Yoshinori Imai	<p>April 1968 Joined Japan Broadcasting Corporation</p> <p>June 1995 Bureau Chief of General Bureau for Europe</p> <p>May 2000 Director General, Planning & Broadcasting Department</p> <p>June 2003 Executive Editor and Programme Host</p> <p>January 2008 Executive Vice President</p> <p>January 2011 Retired from Executive Vice President</p> <p>April 2011 Visiting Professor, Ritsumeikan University (Current Position)</p> <p>June 2011 Auditor, Japan Tobacco Inc. (current position)</p>	<p>Mr. Imai's appointment is based on the judgment that he is qualified to serve as an Outside Auditor of JT because of the abundant experiences and broad insights into global policies and economics gained from performing responsibilities as Executive Vice President of Japan Broadcasting Cooperation(NHK)</p> <p>In addition, JT designated Mr. Imai 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>

Independent Auditors

Number of Independent Auditors	3
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Other Items Related to Independent Auditors	-
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[Matters Related to Incentives]

Provision of incentives to Directors	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.

Officers eligible for stock option grants	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]

Disclosure status [updated]	Annual Securities Report, Business Operating Report (Business Report) and Others
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Supplementary Explanation Relating to the Relevant Item

Total remuneration for Directors in the fiscal year ended March 31, 2011 is ¥583 million, including basic remuneration of ¥372 million, bonuses of ¥107 million and stock option grants of ¥103 million.

The total remuneration on a consolidated basis of over ¥100 million is explained separately in the Annual Securities Report for the 26th Term.

Total remuneration for Outside Auditors is ¥56 million and total remuneration for Auditors including Outside Auditors is ¥90 million.

Note: The above remunerations are for Directors and Auditors in office during the fiscal year ended March 31, 2011.

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

JT's basic concept of remuneration for Directors and Auditors 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 Directors and Auditors to enhance performance

- Linking the remuneration to medium and long-term corporate value
- Ensuring transparency based on an objective point of view and quantitative schemes

In accordance with the above concept, the remuneration system for Directors and Auditors is made of three components. In addition to the monthly “basic remuneration,” there is a “directors’ bonus,” which reflects the Company’s business performance in the relevant fiscal year, and a “stock option,” which is linked to the medium and long-term corporate value of JT.

The composition of the remuneration for Directors is as follows:

	Role	Composition of remuneration
Directors serving concurrently as Executive Officers (<i>sikkoyakuin</i>)	Achievement of business results through daily execution of their duties	“Basic remuneration” “Directors’ bonus” “Stock option”
Directors not serving concurrently as Executive Officers (<i>sikkoyakuin</i>)	Participating in decision-making regarding company-wide business strategies aimed at increasing the corporate value of JT and performing their audit-related duties	“Basic remuneration” “Stock option”

In the light of the main role of auditors, which is to audit the status of compliance with laws and regulations, remuneration for auditors comprises of “basic remuneration” only.

In addition, decisions on the amount of remuneration are taken after monitoring is carried out of remuneration levels at major Japanese manufacturers whose level of scale and profits are at the same level as JT’s, and which are operating globally, and in the light of deliberation by the Compensation Advisory Panel, whose members include outside experts. Remuneration for Directors is decided through deliberation by the Board of Directors, while remuneration for Auditors is decided through deliberation by the Auditors.

Details of remuneration linked to business performance and the company’s corporate value are as follows.

The “Directors’ bonus” is linked to the Company’s consolidated business performance and the performances of business divisions for each year, while the “stock option” is linked to the company’s medium and long term corporate value. For Directors who serve concurrently as Executive Officers (*sikkoyakuin*), who are in the scope of payment of the “Directors’ bonus,” in the case that the “Directors’ bonus” is a standard amount, the total amount of the “Directors’ bonus” and the “stock option” is set as a percentage of just over 70% of the “basic remuneration.”

[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.(Overview of Current Corporate Governance System)

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 groups 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, 2011 and the persons who assisted the auditing work are as follows.

(Certified public accountants)

Tatsuo Igarashi (6 years), Satoshi Iizuka (4 years), Koji ishikawa(1 year)

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: 12 persons, Junior accountants: 10 persons, Others: 8 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.

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

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 appoint an outside director at the moment, it will continually consider the role expected of an outside director and the qualifications of a candidate.

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

	Supplementary Explanation
Sending the notice of a General Meeting of Shareholders at an early date	The notice of a General Meeting of Shareholders for 2010 was sent on June 2 of the year and that for 2011 was sent on June 6 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 2010 and 2011 was held on June 24.
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.
Participation in Platform for exercise of voting Rights by Electromagnetic Means and other Measures to Enhance Environmental for Exercise of Voting Rights by Institutional Investors	JT participates in an electronic platform for the exercise of voting right for institutional investors that is operated by ICJ, Inc.
Providing Convocation Notice(Summary) in English	The convocation notice and its English translation are published on the company's website and electronic platform for institutional investors.

2. IR-related activities

	Supplementary Explanation	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	Provided

	quarterly securities reports, notices of invitation to General Meetings of shareholders.	
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 Explanation
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 Concept regarding the Internal Control System

1. 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.

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

(1) Basic concept to eliminate Anti-social Forces

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

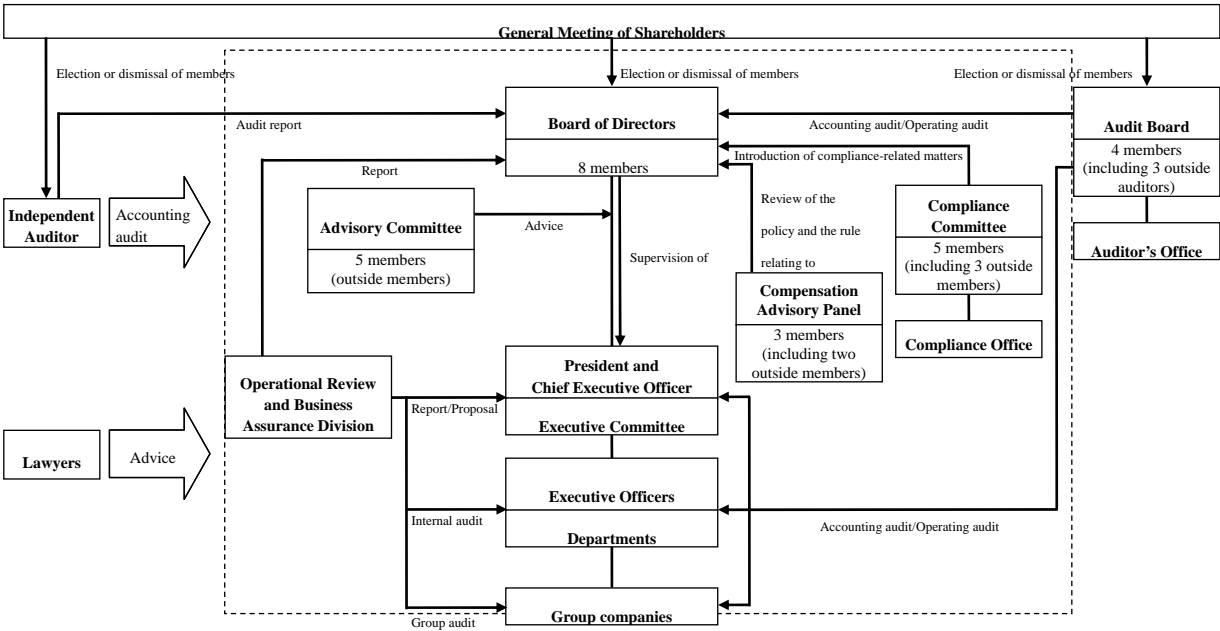
1. Matters Related to Defense against Takeover

Nothing to report

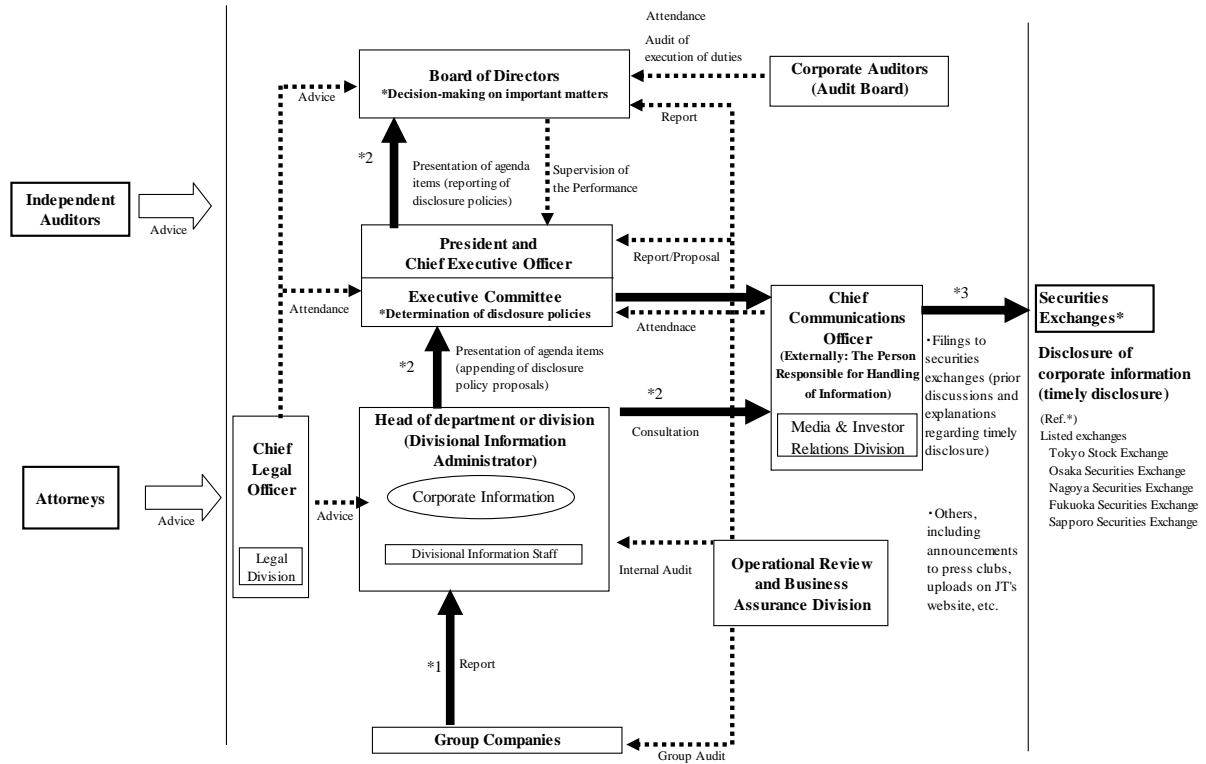
2. Other Matters Related to the Corporate Governance System [updated]

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

[Reference: Organization]



Overview of Timely Disclosure System



➔ Flow of disclosure policy determination and timely disclosure

⋯➔ Internal controls

1. The Person Responsible for Handling of Information

- (1) JT has in place regulations regarding information disclosure in an effort to clarify its authority and responsibilities with respect to all its corporate information and works to disclose information on a timely and appropriate basis.
- (2) JT appoints its Chief Communications Officer as the Person Responsible for Handling of Information required by stock exchanges who is in charge of information disclosure.
- (3) Each head of division is appointed as the Divisional Information Administrator and has Divisional Information Staff who collects and manages departmental information on a centralized basis, including the information on JT Group companies under the control of that division.
- (4) The Media & Investor Relations Division, which is directly under the control of the Chief Communications Officer, plans, proposes and implements information disclosure and shares information with Divisional Information Staff.
- (5) The Chief Communications Officer set forth the timely disclosure criteria to each head of division, letting them know of any changes to timely disclosure rules whenever necessary, and receives reports from them on corporate information.

2. Determination of disclosure policies and timely disclosure

- (1) Each head of division collects and manages departmental information on a centralized basis as a departmental information by not only collecting and managing departmental information itself but also obtaining necessary information from JT Group companies under its control jurisdiction.*1
- (2) When a decision is to be made on important matters based on internal rules on Executive Committee, each head of division presents the issues involving external communication including timely disclosure to the Executive Committee following consultation with the Chief Communications Officer and the Executive Committee deliberates and determines disclosure policies on such facts. Any important item that requires a decision by the Board of Directors based on the internal rules on the Board of Directors is presented to the Board of Directors, to which disclosure policy are also reported.*2
- (3) The Chief Communications Officer effects timely disclosure subsequent to any decision on an important matter based on determined disclosure policies. When disclosing corporate information, JT provides preliminary explanations to securities exchanges according to their timely disclosure rules and, whenever necessary, makes prior consultations with securities exchanges.*3

3. Internal controls

- (1) The Board of Directors decides on items provided by laws and regulations as well as important matters, receives reports on the status of the execution of duties (including disclosure policies) and monitors same.
- (2) Auditors constitute an independent organ of the Company in an adversary capacity with respect to Directors and conduct audits on same. Auditors attend meetings of the Board of Directors and provide opinions whenever necessary.
- (3) The Operational Review and Business Assurance Division examines and evaluates (audits) the internal control systems of JT and JT Group companies – in light of the importance of internal control mechanisms and the risks involved – from an objective viewpoint, in its capacity as an entity independent of the organizations responsible for business execution, and reports its findings and presents proposals to the President and Chief Executive Officer, and provides reports to the Board of Directors.
- (4) The Chief Legal Officer provides opinions, whenever necessary, to the Board of Directors and Executive Committee. The Legal Division provides support to each division with respect to timely disclosure with specialized knowledge.

4. Participation of the Independent Auditor and attorneys

- (1) JT is audited by the Independent Auditor based on the Financial Instruments and Exchange Act and the Companies Act. Regarding the timely disclosure of information on financial results, JT has a system in place for obtaining necessary advice and guidance from such Independent Auditor.
- (2) JT has in place a system to obtain advice and guidance from multiple law firms regarding timely disclosure whenever needed.