

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.

Directors, Board of Directors / Auditors, Board of Auditors

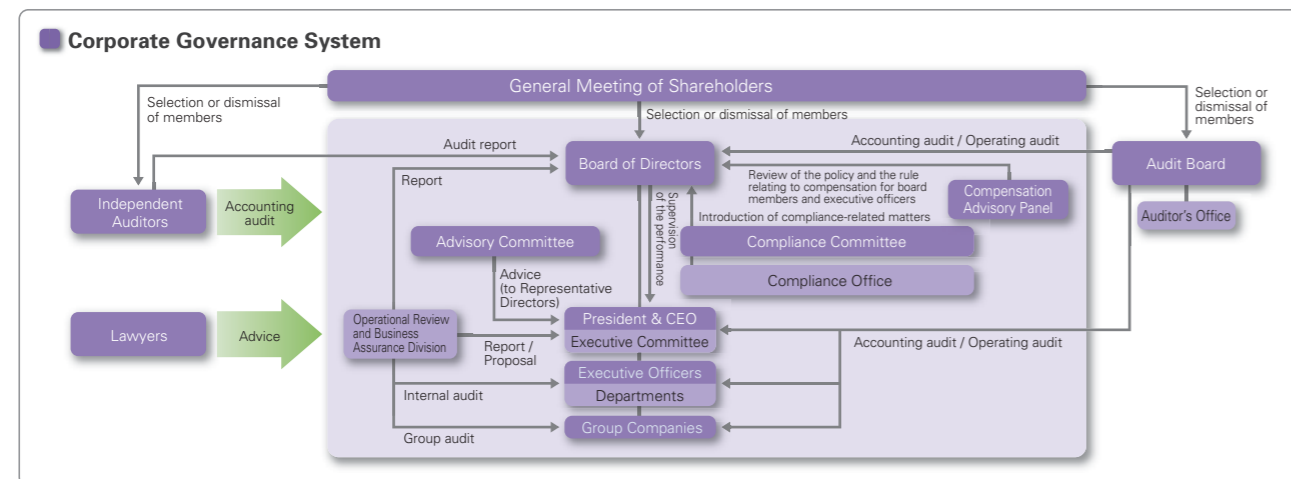
The Board of Directors—which is tasked with developing the JT Group's management strategy, making decisions on important issues, and supervising all the group's operations—meets once a month in principle and on more occasions, if necessary, to make decisions regarding the matters specified by laws and 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.

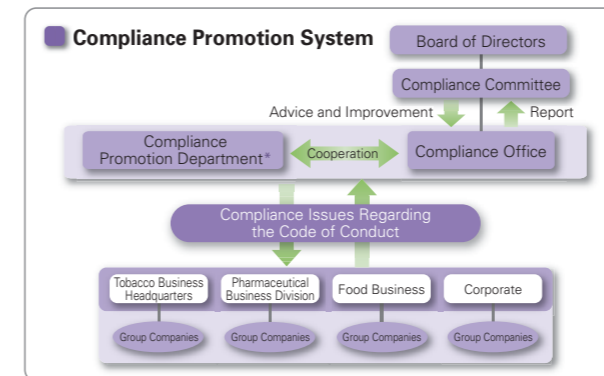
Auditors are entitled to attend not only meetings of the Board of Directors but also other important meetings, and they usually attend meetings of the Executive Committee.



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.



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

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.

Consultation and Reporting System

Compliance 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.

Risk Management

Risk Management System

With the Risk Management Guidelines and Disaster Preparedness Manual in place, the JT Group strives to prevent and reduce risks. In the event of an emergency and a disaster, JT is ready to set up a crisis management task force headed by the President and supervised by the Corporate Strategy Division and a local emergency response headquarters in disaster-stricken areas, and to make prompt and proper responses through close cooperation between the relevant departments and divisions.

The Disaster Preparedness Manual was revised in FY 2011 to better deal with disasters. Specifically, key items such as initial actions by employees, the chain of command, a safety confirmation system for employees, disaster relief programs, and business continuity were reviewed on the basis of lessons learned from the Great East Japan Earthquake, and measures to deal with disasters on holidays and at night were also revised. Each division's business continuity plan will also be reviewed, and revised as necessary, in view of the nature of its business.

The JT Group strives to meet the expectations of consumers and society by minimizing disaster damage, ensure the safety of its employees, and resume business operations quickly.

Strengthening Information Security

The "Information Security Policy" helps the JT Group to protect from threats, by ensuring safe and proper use of its information assets.

The "Information Security Handbook," posted on the intranet and available to all JT Group employees, provides a set of guidelines and rules on information security.

In addition, e-learning programs are offered every year to improve employees' awareness on information security.

Protection of Personal Information

JT issues a statement about the protection of personal information. Protecting personal information in every phase of operations is not only a legal requirement but also a social responsibility. Based on this recognition, the JT Group establishes systems, regulations, safety control measures, and other relevant programs which reflect the contents of the statement. At the same time, in-house training is offered to employees to raise awareness of personal information protection.

Privacy Statement
URL www.jt.com/privacy

Human Resources Management

Human Resources Management Policy

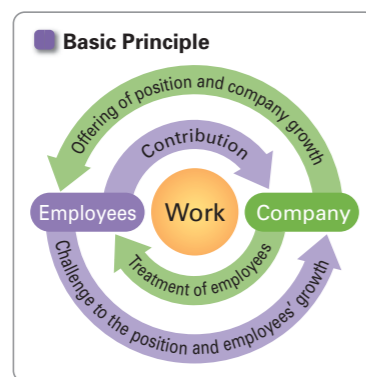
Based on the recognition that “the growth through practice of the JT Group Way by each individual JT Group employee drives the growth of the JT Group in a changing business environment,” four basic principles are in place.

- 1) Providing all employees of the JT Group companies with opportunities to grow and develop in their careers
- 2) Setting transparent rules and standards
- 3) Treating all employees of JT Group companies fairly
- 4) Respecting the diversity, while seeking talents widely

We respect fundamental human rights as we respect each employee as an individual, under a universal principle of not discriminating against employees on account of gender, race, nationality, creed, handicap, employment status, etc.

Management Focusing on Employee Growth

JT has a human resources management system that is based on the concept that “employees contribute to the company through their work and the company treats them fairly, thereby growing together.” Specifically, the emphasis is on definition of the significance and nature of each job, specialties, qualification-based salary, fair treatment based on the performance-based appraisal system, and support for employees’ self-sustained development, while efforts are underway to put these into practice.



Number of JT Employees

As of the end of March 2012 (number of employed workers)

		FY 2009	FY 2010	FY 2011
Number of employees	Male	7,973	7,948	7,933
	Female	988	980	1,003
	Total	8,961	8,928	8,936
Average age		42.8	43.0	43.4
Average service years		21.6	21.7	21.9
Consolidated number of employees*1		49,665	48,472	48,529
Number of Employees of Overseas Consolidated Group Companies*2		27,768	27,014	27,139

*1 Number of employees of JT and its consolidated subsidiaries

*2 Number of Employees of Group Companies Headquartered Abroad

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.

Recruitment Results

		FY 2010	FY 2011	FY 2012
Recruitment	University graduates (including those with graduate school degrees)			
	Main career track	104	112	121
	R&D personnel	56	54	44
	Technical college and high school graduates	34	38	36
Mid-career personnel (main career track, R&D personnel)	92	55	—	
Job separation rate (within three years of employment)*		2.0%	2.0%	1.2%

* Based on the percentage of new graduates who have not left a job within three years of employment as of April 1st each year

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 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.

Basic Policy on Human Rights Education

1. Respect for human rights and ban of discrimination
2. Establishment of the Committee of the Promotion of Human Rights Education
3. Fair recruitment and appointment of persons in charge of fair recruitment and human rights education
4. Implementation of human rights educational seminars
5. Promotion of human rights education at JT Group companies
6. Others

- 1) Respect for human rights in accordance with the globalization of business
- 2) Communication with labor unions
- 3) Response to fake dowa (antidiscrimination) activities, etc.
- 4) Collection and sharing of information, etc.

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.

Driving Diversity

One of JT's management priorities is to create competitive human resources, placing a premium on their diversity. JT is committed to creating an environment and a corporate culture in which a variety of individuals with different backgrounds and perspectives (regardless of gender, age, nationality and handicap) make the most of their abilities, thereby contributing to future growth.

Opportunities for Female Employees to Work Actively

As part of its program to encourage diversification, JT is creating an ideal working environment for female employees, while providing them with opportunities at various departments at home and abroad to exhibit their talents and abilities. In fact, a female executive is in office, with the number of female managers increasing.

Work-Life Balance

JT believes that all employees are entitled to achieve a work-life balance and fully exhibit their talents and abilities with high motivation and a sense of fulfillment. A variety of efforts are thus underway to help employees continue working with a sense of security and do what they ought to do as a member of their family, when faced with life events such as raising children and caring for someone sick or the elderly in the family. JT was certified by the Ministry of Health, Labour and Welfare for the second time in July 2010 as a company taking measures to nurture the next generation and for its efforts to create an environment friendly to those who are raising children.

In addition, all employees are entitled to take leave to act as volunteers, be hospitalized for bone marrow transplantation, and participate in the Japan Overseas Cooperation Volunteers (JOCV), thus encouraged to contribute to society.



Next Generation Certification Mark (known by the nickname "Kurumin")

Working Hours and Major Systems in Place

	FY 2009	FY 2010	FY 2011	
Annual Working Hours	1,643	1,640	1,650	
Overtime hours (hours/month)	18.3	18.7	18.7	
Holidays Administrative leave	Number of paid holidays used (days)	15.9	16.0	15.7
	Percentage of paid holidays used (%)	85.8	83.8	80.0
	Volunteer leave (persons)	2	19	121
	JOCV leave (persons)	0	0	0

Child-Care and Family-Care Leave Taken

		FY 2009	FY 2010	FY 2011	
Child-care leave	Number of employees who took child-care leave*1	29	37	38	
	Breakdown	Male	1	1	2
		Female	28	36	36
Percentage of those who took child-care leave and returned to work (%)*2		96.6	91.9	100	
Family-care leave	Number of employees who opted for short-time work	40	47	56	
	Number of employees who took leave to care for a sick child	6	12	16	
	Number of employees who took family-care leave	0	1	3	
	Number of employees who opted for short-time work	0	1	2	

*1 Number of employees who took child-care leave in respective fiscal years
*2 Calculated with "the number of employees who took child-care leave in respective fiscal years" as a denominator and "the number of those who returned to work within three years (including those who are scheduled to return to work)" as a numerator

Leveraging the System to Continue Working While Raising Children

I have a son in the first grade and a three-year-old daughter. I took child-care leave twice until they turned one year old. When I returned to work, I enrolled myself in a short-time working program, where I went to work an hour later and got away from it an hour earlier than usual. When my son started elementary school, meanwhile, I switched to another short-time working program, where I got away from work an hour earlier. My boss and colleagues were supportive enough to help me deal with emergencies, business trips, and meetings. In fact, they were more concerned than I was when I got a call from a nursery because my child had a fever. However, I'm amazed at how fast kids can grow. It's not easy to work every day while cherishing the time you spend with your kids, but thanks to JT's well-established system, I'm quite satisfied with my work-life balance.



Compliance Office
Tomoko Hayano

Re-Employment System

With the minimum age for receiving the public pension raised, JT adopted a re-employment system to provide employees with more options for employment, extending their retirement age to 65.

Employment of Persons with Disabilities

Efforts are underway to create better workplaces for employees with disabilities. To help them make the most of their capabilities, for instance, they are assigned duties for which they are qualified, while facilities and installations are being improved, with due consideration given to the convenience of commuting to and from their workplaces. The percentage of employees with disabilities in the total workforce stood at 2.52% as of the end of March 2012, well above the legal employment rate of 1.8%.

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.

Total Lost Time Incidents at JT's Factories

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Number of victims	6	3	3	5	4
Frequency rate*1	1.48	0.75	0.77	1.38	1.13
Severity rate*2	0.406	0.029	0.027	0.064	0.012

*1 Occupational accident frequency rate = (Number of occupational accident victims / Number of person-hours) × 1,000,000
*2 Occupational accident severity rate = (Work-days lost / Number of person-hours) × 1,000

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.

JTI's EHS Measures

Japan Tobacco International (JTI), the core of JT Group's international tobacco business, employs about 24,000 people worldwide.

JTI is committed to providing a safe and healthy workplace and aims to eliminate all occupational injuries and illnesses. To achieve these commitments, JTI has embedded the Safety Change Program in manufacturing operations and the Defensive Driving Program in sales and marketing operations.

The Safety Change Program is a comprehensive program based on two principles: providing a safe working environment; and ensuring people consistently work in a safe way. In 2011, the key focus area for JTI was to provide in-house factory based technical training. Furthermore, "Safety Leaders" training was provided to the management teams in several factories. In-line with JTI's EHS Plan, a pilot Safety Change Program was launched in the CIS Region (broadly Eastern Europe, including Russia and Kazakhstan). Following a successful implementation, the Program will be extended to other JTI markets. The results of the trainings are now showing, with JTI's lost time injury (LTI) rate*1 falling by 27% between 2010 and 2011. Since 2003, across JTI, the LTI rate has decreased by over 70%. Taking the manufacturing part of the company, the LTI rate has fallen by 90%.

The greatest safety risk faced by any JTI employee occurs while driving. A Defensive Driving Program was implemented in 2004, to minimize the risks of this activity. The program continued in 2011, with 2 train-the-trainer sessions providing 27 qualified Fleet Safety Trainers for JTI. The results of the program are clear, with a reduction in the rate of vehicle accidents*2 by 48% since 2003. However, there was a small increase in the rate of vehicle accidents in 2011 compared to 2010.

*1 Lost time injury rate: The number of lost time injuries per 200,000 working hours.
*2 Rate of vehicle accidents: The number of vehicle accidents per million kilometers.



Workshop at the sales and marketing departments