[This is an English translation prepared for reference purpose only. Should there be any inconsistency between the translation and the original Japanese text, the latter shall prevail.]

Last update: February 4, 2016

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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 [updated]

Our belief is that corporate governance is the means for conducting transparent, fair, timely and decisive decision-making for pursuing JT's management principle, the "4S model". Specifically the 4S model aims "to balance the interests of consumers, shareholders, employees and the wider society, and fulfill our responsibilities towards them, aiming to exceed their expectations."

We have set out the "JT Corporate Governance Policies", and continuously strive to make enhancements based on our belief that it will enable us to achieve mid- to long-term sustainable profit growth and increase corporate value, which will contribute to the development of our group's stakeholders and eventually the economic society as a whole.

URL of "JT Corporate Governance Policies":

http://www.jt.com/investors/at_a_glance/governance01/pdf/20160204_21.pdf

2. Capital Structure

Combined equity stakes of foreign shareholders	30% or more

[Status of Major Shareholders]

Name	Number of Shares Held	Ratio (%)
The Minister of Finance	666,930,000	33.35
The Master Trust Bank of Japan, Ltd. (Trust Account)	48,016,600	2.40
Japan Trustee Services Bank, Ltd. (Trust Account)	44,042,200	2.20
JPMorgan Chase Bank 380055 (Standing proxy: Mizuho Bank, Ltd., Settlement Sales Department)	40,614,441	2.03
State Street Bank and Trust Company (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	37,725,319	1.89
State Street Bank and Trust Company 505223	37,079,564	1.85

(Standing proxy: Mizuho Bank, Ltd., Settlement Sales Department)		
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust & Banking Co., Ltd.	33,800,000	1.69
State Street Bank and Trust Company (Standing proxy: Mizuho Bank, Ltd., Settlement Sales Department)	33,575,126	1.68
HSBC Bank plc A/C The Children's Investment Master Fund (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	28,362,300	1.42
JPMorgan Chase Bank 385632 (Standing proxy: Mizuho Bank, Ltd., Settlement Sales Department)	16,560,688	0.83

Controlling Shareholders (excluding parent company)	—
Parent Company	None

[Supplementary Information]

The Japan Tobacco Inc. Act (hereinafter referred to as the "JT Act") obligates the Government of Japan to hold JT shares. As of the end of December 2014, the government held 33.35% of all outstanding JT shares as shown in the Status of Major Shareholders above.

3. Corporate Attributes

Listed Stock Exchanges and Market Segment	Tokyo (First Section)
Closing Month of the Annual Account Book	December
Business Sector	Foods
Number of Employees (Consolidated basis) at the end of the previous fiscal year	1,000 or more
Net Sales (Consolidated basis) at the end of the previous fiscal year	¥1 trillion or more
Number of Consolidated Subsidiaries at the end of the previous fiscal year	100 or more and less than 300

4. Policies for Measures to Protect Minority Shareholders When Conducting Transactions with Controlling Shareholders

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5. Other Factors Which May Materially Affect Corporate Governance

- The JT Act obligates the Government of Japan to hold JT shares.
- The Minister of Finance has the authority to supervise JT under the JT Act and the Tobacco Business Act.

- 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 (Audit & Supervisory Board Members)

[Matters Related to Directors]

Number of Directors Stipulated in Articles of Incorporation	15
Term of Office for Directors Stipulated in Articles of Incorporation	2 years
Chairman of the Board of Directors	Chairman (excluding where serving concurrently as President)
Number of Directors	8
Appointment of Outside Directors	There are sitting Outside Directors
Number of Sitting Outside Directors	2
Number of Sitting Outside Directors Designated as Independent Executive	2

Relationship with JT (1)

Name	Attribute	Relationship with JT*										
		a	b	c	d	e	f	g	h	i	j	k
Motoyuki Oka	Originally from another company								Δ			
Main Kohda	Originally from another company											

* Conditions met regarding the relationship with JT
* "○" is put if the principal presently satisfies or has recently satisfied the condition, and "Δ" is put if the principal satisfied the condition in the past.
* "●" is put if a close relative presently satisfies or has recently satisfied the condition, and "▲" is put if a close relative satisfied the condition in the past.

a. A person who executes business in a listed company or a subsidiary of a listed company
b. A person who executes business or a non-executive director in the parent company of a listed company
c. A person who executes business in a sister company of a listed company
d. A supplier of which a listed company is a major customer, or, if the supplier is a corporation, a person who executes business in the corporation
e. A major customer of a listed company, or, if the customer is a corporation, a person who executes business in the corporation
f. A consultant, professional accountant or lawyer who receives a large amount of money and other economic benefits other than officers' compensation from a listed company
g. A major shareholder of a listed company (if the major shareholder is a corporation, a person who executes business in the corporation)
h. A person who executes business (limited to the principal) in a corporation that is a customer of a listed company other than customers falling in either category of d, e and f above
i. A person who executes business (limited to the principal) in a corporation at which an outside officer of the company concurrently has a position of outside officer
j. A person who executes business (limited to the principal) in a corporation to which a listed company offers donation
k. Others

Relationship with JT (2)

Name	Inde-pendent Executive	Supplementary Explanation to Corresponding Item	Reason for Appointment
Motoyuki Oka	○	He concurrently serves as Advisor of Sumitomo Corporation, with which JT has a business relationship. Although JT has had a business relationship related to manufacturing machine, etc. with Sumitomo Corporation, for which he had served as Chairman of the Board of Directors until June 22, 2012, the transaction amount accounted for just about 0.02% of our consolidated sales revenue in the fiscal year ended December 31, 2014, which we believe this has no material impacts to generate special interest. For more details, refer to the "Criteria for Evaluating Independence of Outside Directors and Outside Audit & Supervisory Board Members" (mentioned below in "Other Items Related to Independent Executives") established by resolution of the Board of Directors.	We expect that he will reflect his abundant experience and extensive insight into the management of global companies in the management of JT. JT designated him as an independent executive defined by financial instruments exchanges based on its judgment that there is no risk of causing conflicts of interest with general shareholders.
Main Kohda	○	—	We expect that she will reflect in the management of JT her abundant insight into international finance, her extensive experience in teaching as a university professor and serving on governmental advisory bodies, etc., and her deep insight and objective point of view developed through her activities as a fiction writer, as well of other literary works. JT designated her as an independent executive defined by financial instruments exchanges based on its judgment that there is no risk of causing conflicts of interest with general shareholders. For more details, refer to the "Criteria for Evaluating Independence of Outside Directors and Outside Audit & Supervisory Board Members" (mentioned below in "Other Items Related to Independent Executives") established by resolution of the Board of Directors.

Presence or Absence of Optional Committee Equivalent to Nominating Committee or Compensation Committee	Present

Establishment of Optional Committee, Composition of Committee Members and Attribute of Committee Chair

	Name of committee	Number of committee members	Number of standing committee members	Number of Inside Directors	Number of Outside Directors	Number of external experts	Number of others	Committee Chair
Optional committee equivalent to nominating committee	—	—	—	—	—	—	—	None
Optional committee equivalent to compensation committee	Compensation Advisory Panel	5	0	1	2	2	0	Inside Director

Supplementary Explanation

The Compensation Advisory Panel has been established as an optional advisory body to the Board of Directors with an aim to increase the objectiveness and transparency of our executive remuneration. The Compensation Advisory Panel is held once a year or more. Upon request, the Panel reviews and provides advice on the policy, framework and calculation method for remuneration of our Directors and Executive Officers. It also monitors whether our executive remuneration level is reasonable.
The Compensation Advisory Panel currently comprises the Director and Chairman, two Outside Directors and two Outside Audit & Supervisory Board Members, and is chaired by the Director and Chairman.

Outside members of Compensation Advisory Panel

Motoyuki Oka, Outside Director of JT
Main Kohda, Outside Director of JT
Yoshinori Imai, Outside Audit & Supervisory Board Member of JT
Hiroshi Ohbayashi, Outside Audit & Supervisory Board Member of JT

[Matters Related to Audit & Supervisory Board Members]

Presence or Absence of the Audit Board	The Audit & Supervisory Board is in place
Number of Audit & Supervisory Board Members Stipulated in Articles of Incorporation	4
Number of Audit & Supervisory Board Members	4

Cooperation among Audit & Supervisory Board Members, Accounting Auditor and Internal Auditing Divisions

While Audit & Supervisory Board Members, internal audit divisions including the Operational Review and Business Assurance Division, and the Accounting Auditor (Deloitte Touche Tohmatsu LLC) conduct audits individually, they endeavor to enhance their cooperation and exchange information and opinions as necessary in order to ensure appropriate audits, for example by sharing information on the results of their respective audits.

Appointment of Outside Audit & Supervisory Board Members	There are sitting Outside Audit & Supervisory Board Members
Number of Outside Audit & Supervisory Board Members	2
Number of Outside Audit & Supervisory Board Members Designated as Independent Executives	0

Relationship with JT (1)

Name	**Attribute**	**Relationship with JT***												
		a	**b**	**c**	**d**	**e**	**f**	**g**	**h**	**i**	**j**	**k**	**l**	**m**
Yoshinori Imai	Originally from another company										Δ			
Hiroshi Ohbayashi	Originally from another company													

* Conditions met regarding the relationship with JT
* "○" is put if the principal presently satisfies or has recently satisfied the condition, and "Δ" is put if the principal satisfied the condition in the past.
* "●" is put if a close relative presently satisfies or has recently satisfied the condition, and "▲" is put if a close relative satisfied the condition in the past.

a. A person who executes business in a listed company or a subsidiary of a listed company
b. A non-executive director or an accounting advisor in a listed company or a subsidiary of a listed company
c. A person who executes business or a non-executive director in the parent company of a listed company
d. A company auditor of a parent company of a listed company
e. A person who executes business in a sister company of a listed company
f. A supplier of which a listed company is a major customer, or, if the supplier is a corporation, a person who executes business in the corporation
g. A major customer of a listed company, or, if the customer is a corporation, a person who executes business in the corporation
h. A consultant, professional accountant or lawyer who receives a large amount of money and other economic benefits other than officers' compensation from a listed company
i. A major shareholder of a listed company (if the major shareholder is a corporation, a person who executes business in the corporation)

j. A person who executes business (limited to the principal) in a corporation that is a customer of a listed company other than customers falling in either category of f, g and h above
k. A person who executes business (limited to the principal) in a corporation at which an outside officer of the company concurrently has a position of outside officer
l. A person who executes business (limited to the principal) in a corporation to which a listed company offers donation
m. Others

Relationship with JT (2)

Name	Inde-pendent Executive	Supplementary Explanation to Corresponding Item	Reason for Appointment
Yoshinori Imai		He previously served for Japan Broadcasting Corporation (NHK). However, although JT pays to Japan Broadcasting Corporation reception fees pursuant to the Broadcast Act, JT judges that, because the payments are routine and immaterial and made in accordance with laws and regulations, there is no risk of causing conflicts of interest with general shareholders. For more details, refer to the "Criteria for Evaluating Independence of Outside Directors and Outside Audit & Supervisory Board Members" (mentioned below in "Other Items Related to Independent Executives") established by resolution of the Board of Directors.	His appointment is based on the judgment that he is qualified to serve as an Outside Audit & Supervisory Board Member 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). In addition, JT designated him as an independent executive based on the judgment that there is no risk of causing conflicts of interest with general shareholders.
Hiroshi Ohbayashi		—	He has gained abundant experience and developed a broad perspective through his service in the judicial world. In addition, JT designated him as an independent executive based on the judgment that there is no risk of causing conflicts of interest with general shareholders. For more details, refer to the "Criteria for Evaluating Independence of Outside Directors and Outside Audit & Supervisory Board Members" (mentioned below in "Other Items Related to Independent Executives") established by resolution of the Board of Directors.

Independent Executives

Number of Independent Executives	2

Other Items Related to Independent Executives

- JT designate all persons who are qualified as independent executives as such.
- At a Board of Directors meeting, JT established a set of criteria for evaluating the independence of outside executives.

According to this set of criteria, a person who fi ts any of the following descriptionsis not designated as an independent executive.

1. A person who belongs or belonged to JT or an affi liate or sister company of JT
2. A person who belongs to a company or any other form of organization of which JT is a major shareholder
3. A person who is a major shareholder of JT or who belongs to a company or any other form of organization which is a major shareholder of JT
4. A person who is a major supplier or customer of JT (if the supplier or customer is a company or any other form of organization, a person who belongs thereto)
5. A major creditor of JT including a major loan lender (if the creditor is a company or any other form of organization, a person who belongs thereto)
6. A certifi ed public accountant who serves as an accounting auditor or an audit advisor of JT, or a person who belongs to an auditing fi rm which serves as an accounting auditor or an audit advisor of JT
7. A person who receives a large amount of fees from JT in exchange for providing professional services for legal, fi nancial and tax aff airs or business consulting services (if the recipient of such fee is a company or any other form of organization, a person who belongs thereto)
8. A person who receives a large amount of donation from JT (if the recipient of such donation is a company or any other form of organization, a person who belongs thereto)
9. A person who has fi t any of the descriptions in 2 to 8 above in the recent past
10. A close relative of a person who fi ts any of the following descriptions:

    (i) A person who fi ts any of the descriptions in 2 to 8 above (if such descriptions apply to a company or any other form of organization, a person who performs important duties thereof)

    (ii) A director, audit & supervisory board member, audit advisor, executive offi cer or employee of JT or an affi liate or sister company of JT

    (iii) A person who has fi t the descriptions in 1 or 2 in the recent past

[Matters Related to Incentives]

Provision of incentives to Directors	Introduction of a performance-linked remuneration system and a stock option

	scheme

Supplementary Explanation Relating to the Relevant Item

Remuneration for the senior officers comprises (1) “basic monthly pay,” (2) an “executive bonus” linked to our business performance in the relevant year, and (3) “stock option grants,” the value of which is linked to our medium-to long-term corporate value.

For more details, refer to the “Policy for Determining Among and Method of Amount and Calculation Method of Remuneration” mentioned below.

Officers eligible for stock option grants	Inside Directors and Others

Supplementary Explanation Relating to the Relevant Item

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 in the mid to long term.

[Matters Related to Remuneration for Directors]

Disclosure status	Individual disclosure of remuneration for Directors is limited

Supplementary Explanation Relating to the Relevant Item

Total remuneration for Directors (excluding Outside Directors) in the fiscal year ended December 31, 2014 is ¥423 million, including basic remuneration of ¥235 million, bonuses of ¥102 million and stock option grants of ¥86 million.

Total remuneration for Audit & Supervisory Board Members (excluding Outside Audit & Supervisory Board Members) is ¥54 million.

Total remuneration for Outside Directors and Outside Audit & Supervisory Board Members is ¥41 million.

The total remuneration on a consolidated basis of over ¥100 million is explained separately in the Annual Securities Report for the 30th Term.

Policy for Determining Among and Method of Amount and Calculation Method of Remuneration	Yes

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

Based on deliberation by the Compensation Advisory Panel, our basic concept of executive remuneration for senior officers is set as follows:

- Setting the remuneration at a level sufficient to secure personnel with superior capabilities

- Linking the remuneration to business performance so as to motivate senior officers to achieve performance
- Linking the remuneration to mid- and long-term corporate value
- Ensuring transparency based on an objective and quantitative framework

In accordance with the above concept, remuneration for the senior officers comprises (1) “basic monthly pay,” (2) an “executive bonus” linked to our business performance in the relevant year, and (3) “stock option grants,” the value of which is linked to our medium-to long-term corporate value. In 2007, JT introduced a stock option program in stock compensation style as an incentive linked to the mid- to long term corporate value of JT.

Remuneration for the Directors is structured as follows:

Remuneration for the Directors also serving as Executive Officers (*shikkoyakuin*) comprises “basic monthly pay,” an “executive bonus,” and “stock option grants,” as their duty is to achieve targets of their assigned business through their daily execution of business. As for the president and the executive deputy presidents, if the amount of their “executive bonus” is a standard amount, the total amount of “executive bonus” and “stock option grants” is set at slightly less than 80% of the aggregate amount of their “basic monthly pay.” For other Directors, this amount is set at approximately 70% of their basic monthly pay.

Remuneration for the Directors not serving as Executive Officers (*shikkoyakuin*) excluding Outside Directors comprises “basic monthly pay” and “stock option grants” as their duties require them to participate in decision making regarding group-wide management strategies and perform a supervisory function.

Remuneration for Outside Directors, which is not linked to business performance from the perspective of maintaining their independence, comprises only “basic monthly pay.”

Remuneration for the Audit & Supervisory Board Members comprises basic monthly pay alone, in light of their major duty of conducting compliance audits.

[Support for Outside Directors (Outside Audit & Supervisory Board Members)]

With a view to contributing to the enhancement of discussion at meetings of the Board of Directors, JT has established a system by which the Corporate Strategy Division and the Secretary’s Office cooperate with Outside Directors by providing them explanation in advance, communicating various relevant matters to them, and offering them materials and other information, in connection with proposals to be submitted to meetings of the Board of Directors.

JT has also established a system to support Audit & Supervisory Board Members in performing their duties by establishing an adequate information communication system as well as by setting up an Auditor’s Office and allocating sufficient staff to the Office so that Audit & Supervisory Board Members, in their capacity as independent agents with a mandate from shareholders, can adequately audit the execution of duty by Directors and Executive Officers (*shikkoyakuin*) in order to ensure sound and sustainable growth and maintain and enhance public trust in the company.

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 company-wide 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 while also serving as the chairman of meetings of the Board of Directors. At the General Meeting of Shareholders on June 22, 2012, JT appointed two Outside Directors in order to strengthen the supervisory function of the Board of Directors and enhance transparency over its management.

For important management issues, particularly management policy and basic plans regarding overall business operations of JT, in addition to matters to be referred to the Board of Directors, JT has a system under which clear decision-making processes are specified and prompt decision making is performed in accordance with internal rules on the allocation of responsibilities and authorities (hereinafter referred to as the “Responsibilities/Authorities Allocation Rules”).

JT has adopted the Audit Board System under which Audit & Supervisory Board Members, 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 and sustainable growth, and maintain and enhance public trust in JT. Moreover, the standing Audit & Supervisory Board Member of JT, Mr. Futoshi Nakamura is eligible as an Audit & Supervisory Board Member with profound expertise and experience concerning financial and accounting affairs including his past experience as the head of JT’s Operational Review and Business Assurance Division after engaging in the accounting division and corporate treasury division. In addition, Audit & Supervisory Board Member of JT, Mr. Tomotaka Kojima, is eligible as an Audit & Supervisory Board Member because he has not only profound expertise and experience concerning financial and accounting affairs including his past experience as Deputy Head of JT’s Finance Group, but also wide-ranging governmental experience and knowledge of corporate governance through his experience at the Japan Association of Corporate Directors.

In preparation against a situation where the number of Outside Audit & Supervisory Board Members falls below the statutory required number, one Substitute Audit & Supervisory Board member is elected.

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 Accounting 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 December 31, 2014 and the persons who assisted the accounting audit work are as follows.

(Certified public accountants)
Yasuyuki Miyasaka, Koji Ishikawa, Takehisa Ohashi

(Assistants for the accounting audit work)
Certified public accountants: 9 persons, Junior accountants: 16 persons, Others: 11 persons

While Audit & Supervisory Board Members, internal audit organizations including the Operational Review and Business Assurance Division, and the Accounting Auditor 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

At the General Meeting of Shareholders on June 22, 2012, JT appointed two Outside Directors in order to strengthen the supervisory function of the Board of Directors and enhance transparency over its management.

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.

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 fiscal 2013 was sent on May 30, 2014 and that for fiscal 2014 was sent on February 27, 2015.
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 fiscal 2013 was held on June 24, 2014 and that for fiscal 2014 was held on March 20, 2015. Neither of them was on the peak day.
Allowing the exercise of the voting right through electromagnetic means	JT allows the exercise of the voting right via the website designated by the company (E-voting).
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 [updated]

	Supplementary Explanation	Presence or absence of a briefing by the Representative Director
Periodic briefings for analysts and institutional investors	JT holds briefing sessions after the announcement of earnings at its offices or neighboring facilities.	Present
Periodic briefings for overseas investors	JT officials visit overseas investors (mainly institutional investers) several times every year to provide briefings.	Present
Publication of IR materials on the website	JT publishes information concerning earnings, other timely disclosure materials, materials used at earnings briefings, annual securities reports or quarterly securities reports, convocation notice for General Meetings of shareholders.	
Establishment of a division (appointment of an officer) in charge of IR	JT has appointed IR contact personnel at the Media & Investor Relations Division who reports to the Seniror Vice President 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	Our management principles are based on the pursuit of the "4S model" ("S" is for satisfaction). The model requires us to balance the interests of consumers, shareholders, employees and wider society, and fulfill our responsibilities towards them, aiming to exceed their expectations. We created our vision and mission based on the "4S model". Our vision is to become a company committed to global growth by providing diversified value that is uniquely available from JT Group. Our mission is to create, develop and nurture our unique brands to win consumer trust, while understanding and respecting the environment and the diversity of societies and individuals. In order to accomplish, we have set "The JT Group Way" as code of conduct which all of the JT Group members should make apply. The JT Group Way requires that we: fulfill the expectations of our consumers and behave responsibly strive for quality in everything we do through continuous improvement and leverage diversity across the JT Group.
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 sustainability 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 in JT as well as the corporate group comprised of JT and its subsidiaries (the "JT Group") 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 Audit & Supervisory Board Members, as is required of a company adopting the Audit Board System.

We will work to maintain and enhance the following systems in each company while consecutively reviewing and revising the current system as necessary, and ensure appropriate business execution.

For the foreign subsidiaries, we will build and operate the necessary system in conformity with the provisions concerning subsidiaries in the following basic policy, in principle, while complying with the laws and regulations in the country in which the subsidiary is incorporated.

(1) System to ensure that Directors and employees perform their duties in accordance with laws and regulations and the Company's Articles of Incorporation

With regard to the compliance system, JT and its subsidiaries have established the code of conduct based on internal rules concerning compliance system in order to ensure that directors and employees of JT and its subsidiaries comply with laws and regulations, respective articles of incorporation, the social norms, etc., and set up the JT Group Compliance Committee as an organization responsible for ensuring thorough compliance. This committee, headed by the company's Chairman, includes outside experts among its members. Meanwhile, an Executive Officer is designated to be in charge of the Compliance Office, which is making overseeing efforts to improve the compliance system across the JT Group and identify compliance problems.

Each division responsible for the promotion of compliance in JT and its subsidiaries works to enhance the effectiveness of the compliance system by allocating the brochure of "JT Group Code of Conduct," which provides information about the code of conduct, and other materials to directors and employees of JT or the subsidiary and by enlightening the directors and employees about compliance through various compliance education programs.

Regarding the internal reporting system (whistle-blower system), each of JT and its subsidiaries has a counter through which employees and others may consult or report in case that they detect any conduct, etc. that may violate laws and regulations. Each division responsible for the promotion of compliance of JT and its subsidiaries 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 JT Group Compliance Committee for deliberation.

Significant issues regarding the JT Group are submitted for discussion or reported to the JT Group Compliance Committee.

In order to ensure the reliability of financial reporting of the JT Group, 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 at JT's headquarters, 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. The said Division plans and promotes the internal audit framework and policy of the JT Group and supplement the internal audit function of each subsidiary in cooperation with the internal audit function of the subsidiary.

(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 and meetings of the Board of Directors in line with laws and regulations.

Information on other important matters such as business execution and decision-making including the conclusion of corporate contracts are stored and managed by specifying the relevant departments and divisions and responsibilities for storage and management in accordance with the Responsibilities/ Authorities Allocation Rules, and by making rules on the supervision of the processes of decision-making, procurement and accounting.

(3) System to report matters regarding performance of duties of directors, etc. of subsidiaries

JT makes subsidiaries to periodically report important information to JT department or section in charge of the subsidiary.

(4) Rules and other systems on management of risk of loss and procedures/arrangements of JT and its subsidiaries

JT has established internal rules of the JT Group on the management of risk of loss relating to monetary and financial affairs, and ensures that relevant reports are made to the President and the Board of Directors on a regular basis.

With regard to risk of loss relating to other affairs, the relevant departments and divisions specified by the Responsibilities/Authorities Allocation Rules identify risk, conduct proper management and report it to the President, depending on the importance of the identified risk, and get the approvals of their measures.

The Operational Review and Business Assurance Division at JT's headquarters, in cooperation with the internal audit function of each subsidiary, 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 with the relevant departments and divisions and subsidiaries.

(5) System to ensure that Directors of JT and directors, etc. of subsidiaries perform their duties efficiently

JT's 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. JT's Board of Directors also receives reports from Directors of JT once per three months and on more occasions on the status of business execution.

With regard to important management issues, particularly management policy and basic plans regarding overall business operations of the company, in addition to matters to be referred to JT's Board of Directors, the "Responsibilities/Authorities Allocation Rules" clearly prescribes the decision-making process, and decisions are promptly made in accordance with the prescribed process.

JT has adopted the Executive Officer (*shikkoyakuin*) System, under which Executive Officers (*shikkoyakuin*) appointed by JT's 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."

JT has been building the system to ensure efficient execution of business in the JT Group through the measures such as the formulation of internal rules and guidelines applied to the JT Group.

(6) System to ensure the appropriateness of business operations within JT as well as the corporate group composed of JT and its subsidiaries

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, JT has been enhancing our systems for compliance (including the internal reporting system), internal audits, financial affairs management, etc. in cooperation with its subsidiaries.

(7) System for employees assisting JT's Audit & Supervisory Board Members and reporting to JT's Audit & Supervisory Board Members, and systems to ensure effective auditing by JT's Audit & Supervisory Board Members

JT has allocated sufficient staff to the Auditor's Office as an organization supporting the Audit & Supervisory Board Members in performing their duties. In addition, JT makes sure to review and reform the staffing structure as necessary based on consultations with the Audit & Supervisory Board.

The Audit & Supervisory Board is involved in the selection of personnel of the Auditor's Office in order to ensure the office's independence from Directors. JT makes the employees belonging to the Auditor's Office to assist Audit & Supervisory Board Members performing their duties under the command of the Audit & Supervisory Board Members, and to concurrently take no position that relates to business execution.

If directors and employees of JT and its subsidiaries detect any evidence of malfeasance in financial statements, etc. or serious breaches of laws and regulations or respective articles of incorporation, they are due to report them to the Audit & Supervisory Board, along with other relevant matters that could affect the company's management.

When directors and employees of JT and its subsidiaries are asked by Audit & Supervisory Board Members 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.

The Compliance Office makes reports to Audit & Supervisory Board Members on the status related to the internal reporting system on a regular basis and as necessary.

JT makes everyone in the JT Group informed about the policy in which no one who consulted or reported under the internal reporting system is treated disadvantageously due to the consultation or report.

When an Audit & Supervisory Board Member requests prepayment of audit expenses from JT, JT will promptly pay the expenses or make a debt disposal unless the expenses or the debt are found to be unnecessary for the performance of duties of the Audit & Supervisory Board Member.

JT makes a budget covering audit-related expenses so as to secure effectiveness of audits by Audit & Supervisory Board Members. JT also bears the portion of audit-related expenses that exceed the budget unless the expenses are found to be unnecessary for the performance of duties of Audit & Supervisory Board Members.

Auditors are allowed to attend not only meetings of JT's Board of Directors but also other important JT's meetings. The Operational Review and Business Assurance Division and the Compliance Office maintain cooperation with Audit & Supervisory Board Members 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.

(2) Efforts to exclude anti-social elements

Designating the General Administration Division at JT's headquarters as the department assuming the responsibility for supervising efforts to exclude anti-social elements at a JT Group level, the Officers 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.

JT also consistently makes enlightening activities to eliminate anti-social forces by making directors and employees of JT and its subsidiaries informed about the rules not to have any relations with anti-social groups and organizations and by educating the directors and employees through providing relevant training as necessary.

V Others

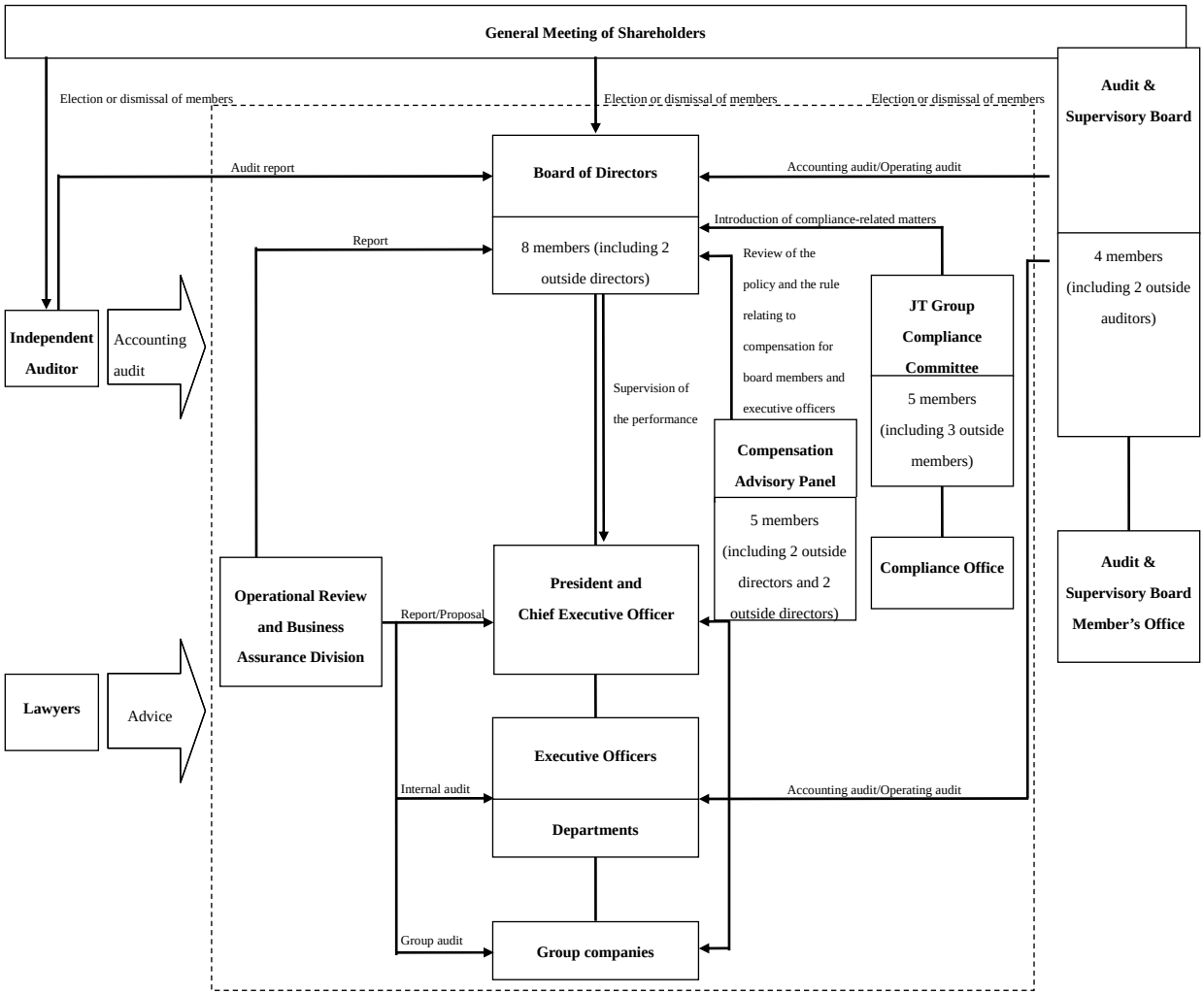
1. Matters Related to Defense against Takeover

Nothing to report

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

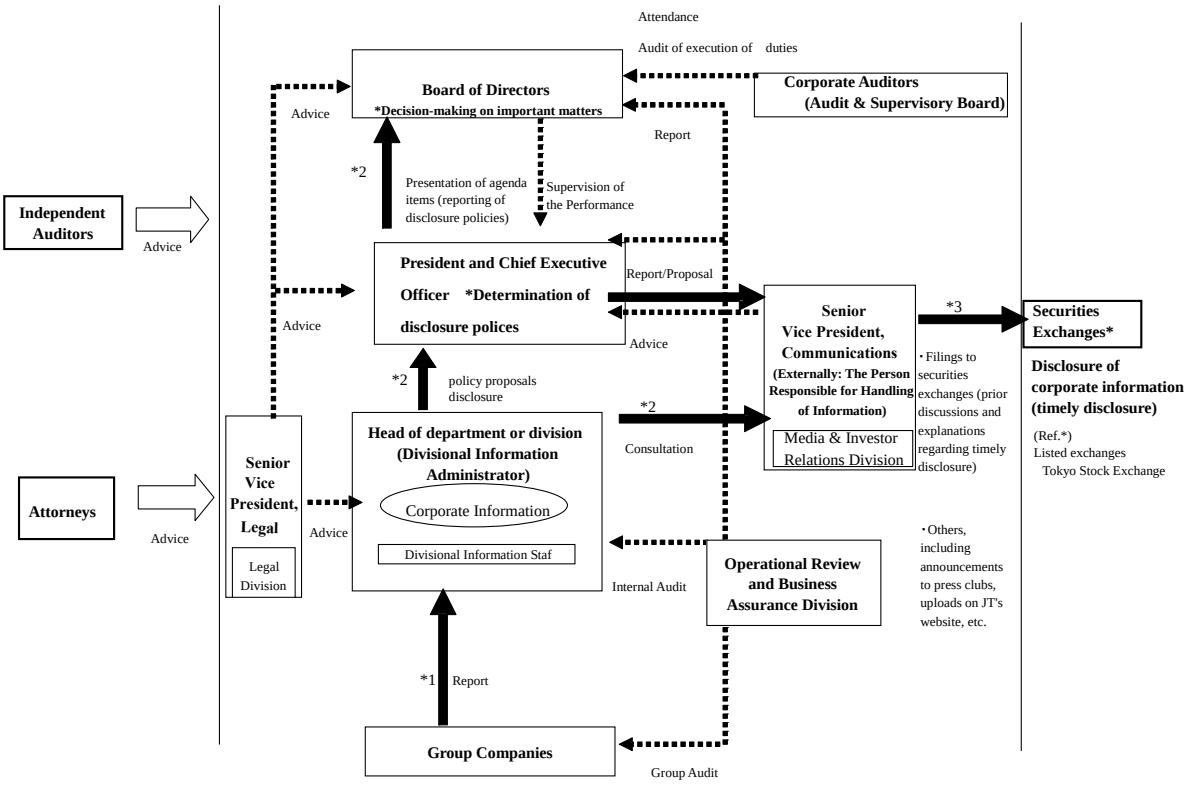
The following is an overview of the status of JT's corporate governance system and timely disclosure system.

[Reference: Organization]



In preparation against a situation where the number of Outside Auditors falls below the statutory required number, one Substitute Audit & Supervisory Board member is elected.

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 Senior Vice President in charge of Communications 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 Senior Vice President in charge of Communications, plans, proposes and implements information disclosure and shares information with Divisional Information Staff.

(5) The Senior Vice President in charge of Communications 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 the Responsibilities/Authorities Allocation Rules, each head of division presents the issues involving external communication including timely disclosure to the Senior Vice Presideng in charge of Communications and gets permission from the President and Chief Executive Officer about 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 Senior Vice President in charge of Communications 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 Senior Vice President in charge of Legal provides opinions, whenever necessary, to the Board of Directors. 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.