



CSR Report 2007 JAPAN TOBACCO INC.

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**CSR Report 2007**  
For the year ended March 31, 2007

**JAPAN TOBACCO INC.**

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●Period Covered (in this report)  
 FY 2006 (April 1, 2006 to March 31, 2007)  
 Some JT policies, objectives and activities scheduled to take effect after FY 2007 are included herein.

●Scope of Report  
 JT activities focused on Japan, and activities of

domestic and overseas companies under the environmental management of the JT Group

●Reference Indexes  
 Environmental Report Guidelines (FY 2005)  
 Environmental Accounting Guidelines (FY 2002)  
 Guidelines for Corporate Environmental Performance Indexes (FY 2002)

\*All published by the Ministry of the Environment

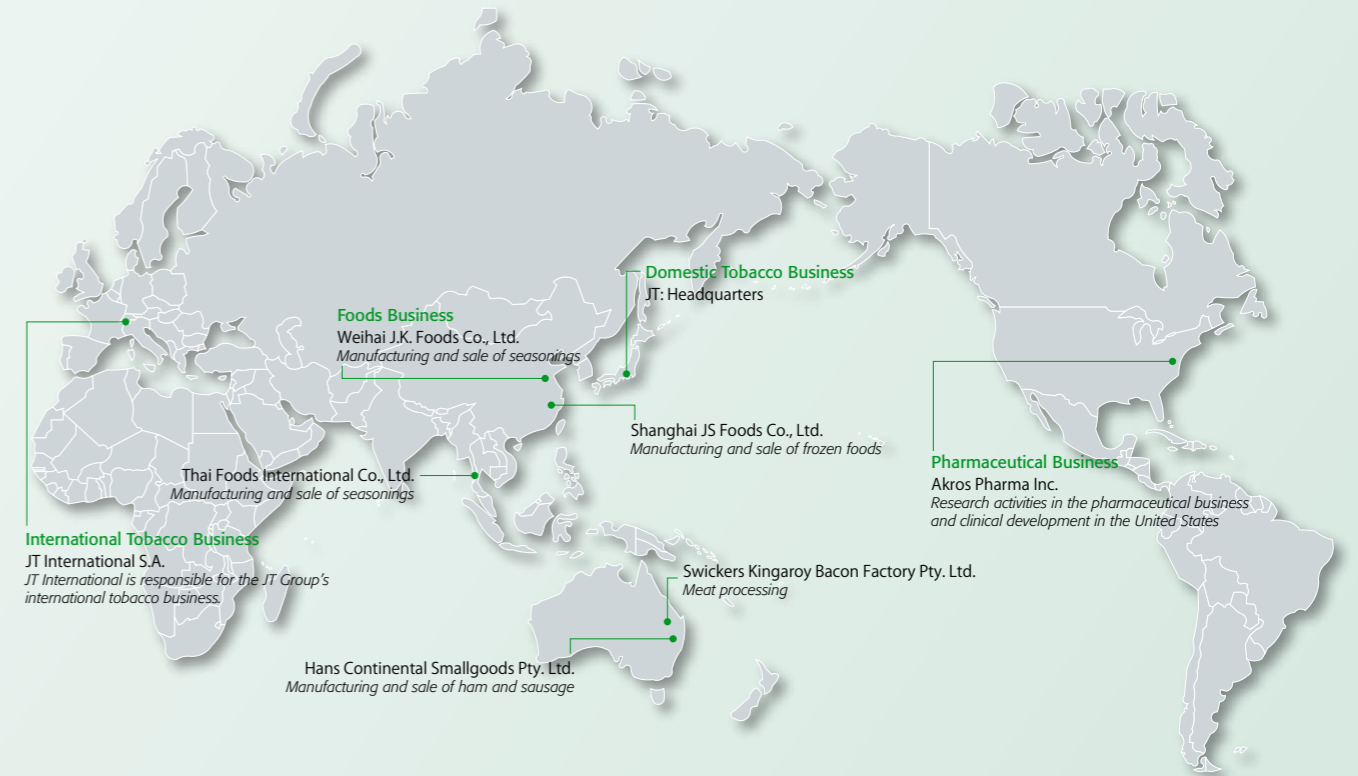
Financial information is posted on the website:  
<http://www.jti.co.jp/JTI/IR/>

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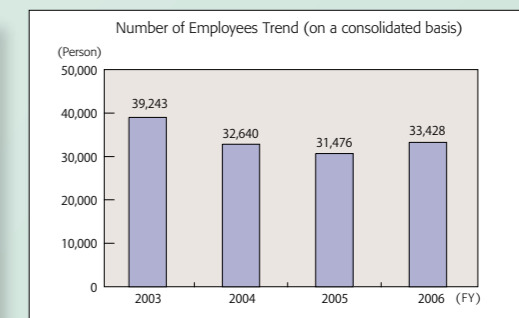
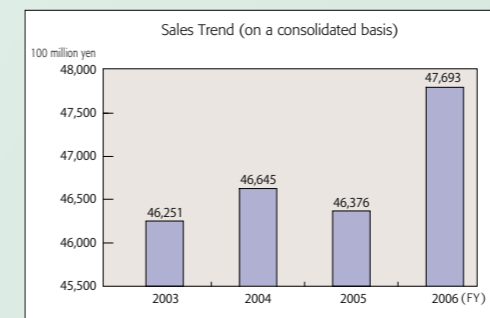


## Company Profile

Corporate Name	Japan Tobacco Inc.
Communication Name	JT
Business area:	In addition to tobacco products, emphasis is placed on pharmaceuticals and foods to enhance the corporate value, with the aim of becoming a "global growth company that develops diversified, value-creating businesses."
Established	April 1, 1985
Capital	100 billion yen
Sales	4,769,300 million yen (on a consolidated basis in FY 2006 ending March 2007) 2,330,400 million yen (on an individual basis in FY 2006 ending March 2007)
Current Profits	312,000 million yen (on a consolidated basis in FY 2006 ending March 2007) 189,700 million yen (on an individual basis in FY 2006 ending March 2007)
President & CEO	Hiroshi Kimura
Number of Employees	33,428 (on a consolidated basis as of March 31, 2007) 8,930 (on an individual basis as of March 31, 2007)
Headquarters	2-1, Toranomon 2-chome, Minato-ku, Tokyo 105-8422, JAPAN
Number of Business Sites	Area Sales Headquarters 25 Manufacturing Factories 14 Regional Leaf Tobacco Headquarters 6 Laboratories 3 Overseas Offices 3 (as of March 31, 2007)

### ●Major Subsidiaries and Affiliates (as of March 31, 2007)

- Domestic Tobacco Business  
 TS Network Co., Ltd., JT Logistics Co., Ltd., Japan Filter Technology Co., Ltd., Fuji Flavor Co., Ltd., JT Engineering Inc., Central Japan Plant Service Co., Ltd., Western Japan Plant Service Co., Ltd., Kyusyu Plant Service Co., Ltd., Eastern Japan Plant Service Co., Ltd., JT V-Net Co., Ltd., Japan Metallizing Co., Ltd.
- International Tobacco Business  
 JT International S.A., JTI-Macdonald Corp., ZAO JTI Marketing and Sales, LLC Petro, JT International Germany GmbH, JTI Tütünleri Sanayi A.S.
- Pharmaceutical Business  
 Torii Pharmaceutical Co., Ltd., JT Pharma Alliance Co., Ltd., Akros Pharma Inc.
- Foods Business  
 Japan Beverage Inc., JT A Star Co., Ltd., JT Foods Co., Ltd., Nihon Shokuzai Kako Co., Ltd., Sunburg Co., Ltd., Ipinangyang Foods Corporation, Asahi Shokuzai Co., Ltd., Saint-Germain Co., Ltd., Hans Continental Smallgoods Pty. Ltd., Thai Foods International Co., Ltd., Weihai J.K. Foods Co., Ltd., Swickers Kingaroy Bacon Factory Pty. Ltd., Shanghai JS Foods Co., Ltd.



The JT Group's CSR boils down to doing what it ought to do in a straightforward and honest manner, a means to continue being part of society as a good corporate citizen.

With its tobacco, pharmaceutical and foods businesses extending their reach worldwide, what does JT emphasize and what philosophy or ideas does it have to fulfill its corporate social responsibility (CSR)? What is the JT Group doing to continue being part of society as a good corporate citizen? The following is an interview with Hiroshi Kimura, president and chief executive officer of JT.



木村 宏

President and Chief Executive Officer, JT  
Hiroshi Kimura

**Interviewer:** There has been growing public interest in corporate social responsibility (CSR) in recent years. What does CSR mean to JT?

**Kimura:** First of all, we're poised to become a "global growth company that develops diversified, value-creating businesses." In addition to tobacco business, therefore, we're focusing on pharmaceutical and foods businesses, while extending our reach worldwide in an effort to enhance our corporate value. In the meantime, it's becoming increasingly important for companies to pursue sustainable management, striking a balance between the economy, the society and the natural environment. We believe that Corporate Social Responsibility (CSR) translates into sustainability, which we've been striving to achieve.

In our case, this sustainability refers to realizing the "JT Brand-ing Declaration," which is the statement of our group mission to provide all stakeholders with "Irreplaceable Delight" through business activities. Delight, in this case, means to offer values unique to JT (such as pleasurable surprise surpassing expectations and satisfaction of our stakeholders) in a well-balanced, highly integrated manner. In doing so, we'll be able to exist as a company that is valued by society and fulfills its corporate social responsibilities. This is what CSR is all about for JT.

**Interviewer:** JT came up with a medium term management plan last year. How does this plan relate to CSR?

**Kimura:** In May 2006, we announced "JT2008," a new medium term management plan following "JT PLAN-V."

The objective of "JT2008" remains the same: to realize JT's management vision and fulfill the responsibilities for all stakeholders, that is, its shareholders; customers employees and society, in a well-balanced and highly integrated manner, thereby enhancing their satisfaction. This, I believe, is exactly the key principle of management. We're committed to following this principle, having a strong sense of crisis – which refers to the fulfillment of JT's CSR.

**Interviewer:** How do you describe JT's CSR activities? Is there anything unique to JT?

**Kimura:** As I mentioned at the outset, we're producing and dealing with tobacco products, pharmaceutical and foods. Tobacco is a controversial product in many ways, pharmaceutical has a direct impact on the lives of people, and foods are naturally intended for human consumption. For that matter, we need to have a high sense of ethics in dealing with these products. Given the nature of the products and services we offer, it's only natural that we should have and maintain the world's highest levels of corporate ethics.

JT's corporate culture, in my personal view, boils down to doing honestly what should be done. We should even be absolutely honest in this regard.

For example, JT took over RJR Nabisco's international tobacco business in 1999. In the course of this business consolidation, we've carried out a series of measures to improve quality, conserve the environment and ensure occupational safety and health, all from a medium-to long-term perspective. No innovative measures at all; we've just done what should be done, though in a speedy manner. These approaches have contributed to gaining customer confidence as well as the success of the international tobacco business.

In the meantime, we may have been a bit shy, meaning that we may have been a little lazy in creating a better understanding of JT among the public. So it's essential that day-to-day operations, that cannot be expressed in numbers be made known to everyone. We should make more efforts in this regard so that we can gain greater confidence as a good corporate citizen and a member of society.

**Interviewer:** I see. Communicating with society is quite important for companies from the CSR perspective. In the meantime, JT reorganized its system last year to promote CSR activities. Can you elaborate on this?

**Kimura:** Sure. We'd carried out programs related to "CSR", but not necessarily under an integrated policy. The promotion of CSR activities, however, requires a broader perspective based on CSR in addition to general guidelines. So we decided to reorganize a CSR promotion unit and set up a committee to develop guidelines and plans for the promotion of CSR activities.

Our CSR is to put the "JT Brand-ing Declaration" into practice, focusing on four areas: the business environment, the global environment, social contribution and the base domain of business management, which includes corporate governance, risk management, compliance, quality management and human resources management.

As I mentioned earlier, we should strive to make our CSR activities known to everyone so that we can gain greater confidence as a member of society. "JT2008," therefore, emphasizes optimized communication with external parties as well as



coexistence with society. JT is stepping up efforts to fulfill its CSR.

**Interviewer:** JT, as you mentioned, is now extending its reach worldwide as a global company. Then, how do you describe JT's global approaches to CSR?

**Kimura:** While the JT Group is becoming increasingly diversified and globalized, it consists of 153 consolidated subsidiaries and a total of about 33,000 employees as of the end of March 2007. Companies nowadays are assessed on a consolidated basis, not on an individual basis. CSR activities should thus be globalized. However, race,

language, culture and lifestyle vary from country to country and from region to region. In order for the JT Group to continue growing as a global company, each individual employee should more than ever share a sense of values and ethics with one another, a sense that should serve as a code of conduct. Based on this, we need to act responsibly and appropriately.

With this recognition in mind, a variety of programs are underway to optimize the JT Group, some of which include sharing of policies and rules, review of missions and coordination of common functions.

Take compliance for example. We're creating an integrated system of the JT Group and actively working on compliance activities with overseas JT Group companies included. Our compliance offices in and outside Japan have been exchanging information and sharing good tools with one another.

Step-by-step efforts to make a leap forward involve bilateral approaches. Specifically, different values and backgrounds should be respected and close communication should be maintained with all stakeholders at home and abroad.

**Interviewer:** Lastly, please let me know in what direction JT's CSR activities should be heading.

**Kimura:** We've been stepping up efforts to fulfill our corporate social responsibility ever since our incorporation in 1985, and we are committed to doing so in the future. We will never change what should never be changed, that is, the world's highest levels of quality and corporate ethics. At the same time, we're poised to take aggressive measures to keep up with changing times, contributing to society through business activities, and making further efforts to continue existing as a company and a member of society.

Interviewer  
Kumiko Nishiyama

Director, MISUZU Sustainability Certification Co., Ltd.

## Working Seriously and Thinking About How to Better Achieve Accountability



JT Kansai Factory (351 Hishikawa-cho, Hadukashi, Fushimi-ku, Kyoto-Prefecture)

Kansai Factory is one of JT's four major cigarette factories in Japan. The factory is capable of manufacturing 180 million pieces of cigarettes a day (Mild Seven, Caster, etc.) with state-of-the-art cigarette making and packing machines designed for 16,000 pieces per minute output. The very unique feature of the factory is capability of both mass and variety of small volume production.

The factory —ISO14001 certified in 1999, ISO9001 in 2001 and OHSAS18001 in 2004— also has a role to lead and support JT's other cigarette factories in its region.

In FY 2006, an advanced total management system was established at the factory, with ISO14001, ISO9001 and OHSAS18001 consolidated. As part of an initiative to assess the effectiveness of its environmental information process, examination and certification by a third party were carried out at this flagship factory in March 2007. Hideo Osada, the factory manager, and Shoji Shinomiya, the technical director, talk about the significance of this certification and their findings.



**Osada:** The environmental information examined this time has been addressed in line with in-house regulations (e.g., information gathering, data acquisition/analysis, feedback). However, to have our environmental management system evaluated by a third party based on its viewpoint, which is different from that of ISO14001, was quite significant in improving our approaches to environmental management.

**Shinomiya:** We were all nervous because that was the first time we had such an examination. Fortunately, we were able to obtain a certificate for the effectiveness of the process for collection of information/data and reliability of sampled data, which was our objective. To be honest, I was relieved to hear the results.

**Osada:** So was I. Given



the objective of the certificate, however, this should not be the goal. Rather, we should regard this process as an opportunity that offers important clues for our improvement.

**Shinomiya:** Exactly. In fact, we have set forth improvement of material recycle as a priority theme from FY 2005, stepping up efforts to improve recycling of waste plastics. Specifically, we carried out a variety of programs to recycle



examination provided us with an opportunity to think about what should be done to explain how we're working seriously in addition to we're working seriously. In doing so, our approaches can be better understood and evaluated by stakeholders. Such communication is also important for employees engaged in our environmental programs. Raising the awareness of each individual employee, after all, contributes to improving our environmental approaches.



PP films and the cores of cigarette paper into resin pallets and materials. At the same time, waste disposers were encouraged to inspect waste materials on the spot. We mapped out a yearly plan for each of these cases, following the PDCA cycle. These activities, however, are not necessarily easy to explain to stakeholders. A massive amount of data and information is useless unless we can explain how and why they are being tracked.

**Osada:** We realized that data and information are essential not only to improve operations in our factory but also to explain in plain words our environmental approaches to stakeholders. For that matter, the



**Shinomiya:** I fully agree on that point. In our case, the information that is needed is passed on to each workplace through the lines, while particularly important information is transformed into visual images, etc. In addition, "Environment News" is posted on bulletin boards every month for better communication purposes.

**Osada:** Communication is also the key to approaches in the global environment, occupational safety and health, and social contribution. We received some inputs through the examination for the improvement of "Occupational Safety and Health News," which we began to communicate in FY 2007. In particular, it was an eye-opening experience to realize that all employees should be informed of what to do in case of accidents. We're going to identify opportunities for further improvements based on those inputs.



Environmental News published monthly

## JT Group Management

# Chapter 1

### Verification from Specialists' Objective Perspectives, the Key to Avoiding Self-righteousness

篠原 政美  
Masami Shinohara  
Vice President, CSR Division



The JT Environmental Report, first published in 1997, has evolved from a report on approaches and achievements in global environmental conservation into the "CSR Report," which addresses JT's overall CSR activities. At the same time, the JT Group ECO-NET (Environmental

Information System) was put in place in 2004 to facilitate data gathering and sharing. These are just a few of the efforts that have been underway.

The data we publish should always be accurate. However, no matter how much we strive to ensure its accuracy, we could run the risk of being self-righteous with only a self-evaluation system in place. Moreover, the demands of society change with times, as does our business. So our systems and approaches may fail to keep up with such changes.

With respect to the information in this report, a third party evaluated from its objective perspectives our information gathering system, focusing on the gathering of key environmental information (energy, carbon dioxide and wastes) at the flagship Kansai Factory and headquarters. The inputs provided this time and issues that we think have room for improvement should be communicated across the JT Group to improve CSR activities.

## Company that Embodies JT's Objectives

### JT Group Mission

Through various corporate activities, we promise to deliver "irreplaceable delight" to all of our stakeholders, the surprise and delight beyond expectation that only JT can offer through the creation of added value. We call this commitment "Brand-ing," a commitment which we will strive to fulfill in order to become an integral part of society. In April 2002, we published the "JT Brand-ing Declaration" as our corporate mission.

### JT Brand-ing Declaration

- We aim to become a "Global Brand-ing Company" that develops unique brands that are trusted and respected by our customers.
- We believe that our most significant assets are those unique product brands and "JT" itself, which pursues developing the brands, as the unified corporate brand.
- We commit ourselves to use management resources to continually build our brands and keep them fresh.
- We are committed to developing and increasing the value of the "JT" brands as well as our product brands with pride.

### Medium term Management Plan "JT2008"

Based on the solid results delivered under "JT PLAN-V" (the previous medium-term management plan), we will continue our long-term vision under "JT2008" toward becoming a global growth company that develops diversified, value-creating businesses.

"JT2008" is positioned to make forward looking investment during the three-year period, and will enhance the organizational strength, personnel and business foundations required to overcome challenges in the operating environment, and to achieve sustainable growth beyond "JT2008." The objective of "JT2008" is to achieve long-term sustainable growth while overcoming challenges in the operating environment.

The domestic tobacco business will aim to maintain the profit level achieved during "JT PLAN-V" through to the fiscal year ending March 2009, and to continue to be the core source of profits for the JT Group. The international tobacco business will aim to continue being the driving force for the profit growth for the JT Group. The pharmaceutical business will aim to advance its clinical compounds to higher phases of clinical study and enhance the R&D pipeline, while the foods business will aim to further strengthen profitability.

## Approaches to promote CSR (Corporate Social Responsibility)

The JT Group recognizes that accomplishing JT Group mission's "JT Brand-ing Declaration" itself is the CSR. In order to accomplish this "JT Brand-ing Declaration," JT will promote CSR activities by reorganizing in four areas; Base Domain of Business Management, Business Environment Area, Global Environment Area, and Social Contribution Area. See the related article → p11

### CSR Promotion Policy and CSR Promotion Plan

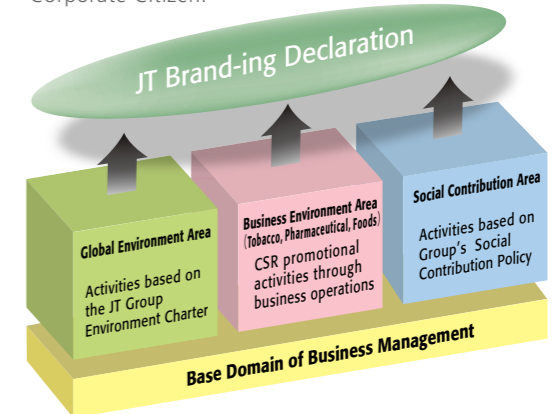
In FY 2006, with the aims of improving existing approaches and promoting CSR on a company-wide basis, we formulated the CSR Promotion Policy. And based on the Policy, we made CSR Promotion Plan.

In the CSR Promotion Plan, we prioritized key activities for three years, from FY 2006 to FY 2008 in four areas. The following table shows the major key activities. Under this plan, we will carry out PDCA cycle.

#### JT Group's CSR Promotion Policy

To achieve "JT Brand-ing Declaration," the JT Group regards Corporate Governance, Compliance, Risk Management, Human Resource Management, Quality Control, etc. as "Base Domain of Business Management," and steadily approaches on CSR (A Social Responsibility).

In addition, the JT Group promotes the harmony of the business environment and the global environment, and proactively drives toward more extensive CSR (A Social Responsibility) in "Business Environment Area," "Global Environment Area" and "Social Contribution Area" from the viewpoint aiming at coexistence with society as "A Good Corporate Citizen."

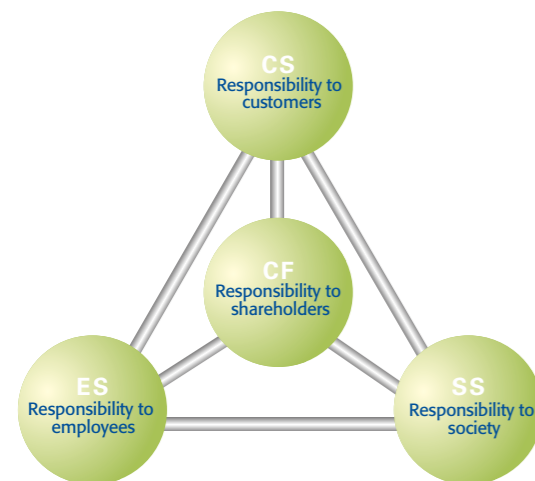


### JT CSR Promotion Plan

	Key Activities		Related pages
Base Domain of Business Management	Corporate Governance	Promotion of Compliance Implementation Plan Appropriate approach based on the risk management system	P15 P13
	Human Resources Management	Human resources management focusing on the growth of employees Realization of fair merit system Support for the self-sustained growth of employees Support for upgrading the level of leaders Promotion of diversification	P16,17
Business Environment Area	Tobacco business	Promotion of Youth Smoking Prevention Approach •Smooth introduction of cigarette vending machine with adult identification functions Coexistence between smokers and non-smokers •Improvement of smoking manners •Launching the "Pick Up, and You will Love Your City" campaign •Installation of smoking areas	P23 P24,60
	Pharmaceutical business	Development and offering of new drugs based on the highest safety standard, strong sense of responsibility and high ethical standard •Strict compliance of pharmaceutical-related laws and regulations •Strengthening appropriate control of chemical substances •Strict compliance of Promotion Code Activities to raise awareness in the medical field	P33
	Foods business	Effort to provide safe and reliable products Upgrading and expanding of traceability Response to the social change	P37,38
Global Environment Area	Global Environment Activities	Activities carried out under JT Group Environmental Action Plans •Reduce CO <sub>2</sub> emissions •Reduce the amounts of natural resource consumption •Reduce waste generation and promote recycling •Launching afforestation and forest conservation activities	P41,42 P45~49 P59,60
Social Contribution Area	Social Contribution Activities	Activities based on Group's Social Contribution Policy	P55~65

### 4S Model

By circulating and expanding funds generated by high-quality business activities, JT is committed to fulfill--to the best of its ability and in a fair and balanced manner--its responsibilities to its shareholders, customers, employees and society and to



ensure their satisfaction with JT's performance. "Brand-ing" promises and delivers "Irreplaceable Delight" to all stakeholders, from the 4S's (Satisfaction) to the 4D's (Delight)

CS: JT seeks to understand its customers' needs in depth, and to meet these needs by continuing to offer attractive goods and services.

ES: JT offers attractive positions to talented people who have ability, drive and a sense of responsibility.

SS: Through its business activities based on high ethical standards, JT intends to become a good corporate citizen welcomed by both global and regional communities.

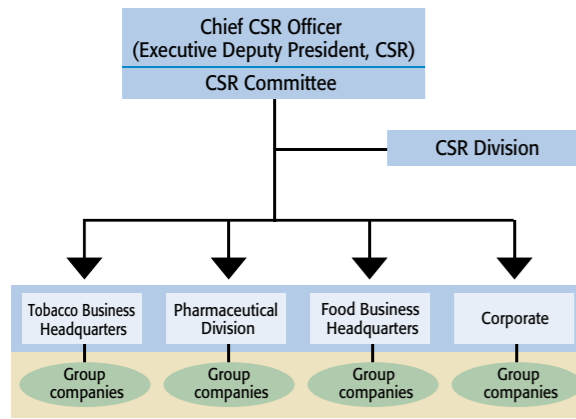
CF: Economic achievement constitutes the basic common language of the organization. Business structure is continually reviewed and reformed to raise corporate adaptability to the ever-changing environment.

### CSR Promotion System

While JT had already been addressing CSR issues in business activities, JT set up the CSR Division in July 2005 to further promote activities. In addition, in October 2006 the CSR Committee, which provides the place to consider and share JT's overall CSR policy, was organized.



CSR Committee



### CSR-oriented procurement

JT has been promoting green procurement on materials and services from the environmental conservation viewpoint, and now plans to spread the procurement policy of the JT Group as a whole in order to enhance CSR-oriented procurement. As a first step, JT developed the JT Group Indirect Material Procurement Policy in FY 2006 for all indirect materials (with some exceptions).

### Communication with Each Stakeholder

The JT Group communicates with various stakeholders through a range of programs and media. We received the "Best Disclosure Award" the Tokyo Stock Exchange in FY 2006, as the company that takes a proactive stance in information disclosure in the communication with shareholders and investors. Also, we are promoting communication with our employees through the reading club or dialogues. [See the related article](#) → p18, p30

## Corporate Governance

### JT's Philosophy of Corporate Governance

**JT recognizes that timely and accurate decision-making and execution of business tasks are crucial to our ability to increase our corporate value and respond appropriately to changes in our business and social environments. Based on this recognition, JT takes a proactive approach to corporate governance, as it believes that strong corporate governance is one of the major tasks of management, and invites outside partners to take part in the Advisory Committee and Compliance Committee.**

### Advisory Committee

The Advisory Committee comprised of five outside experts is in place to solicit a wide range of views on medium- to long-term management objectives, etc. Organized in 2001, the Advisory Committee holds meetings about four times a year to seek advice on the directions of business challenges based on mid- and long-term perspectives, etc.

### Establishment of Compensation Advisory Panel

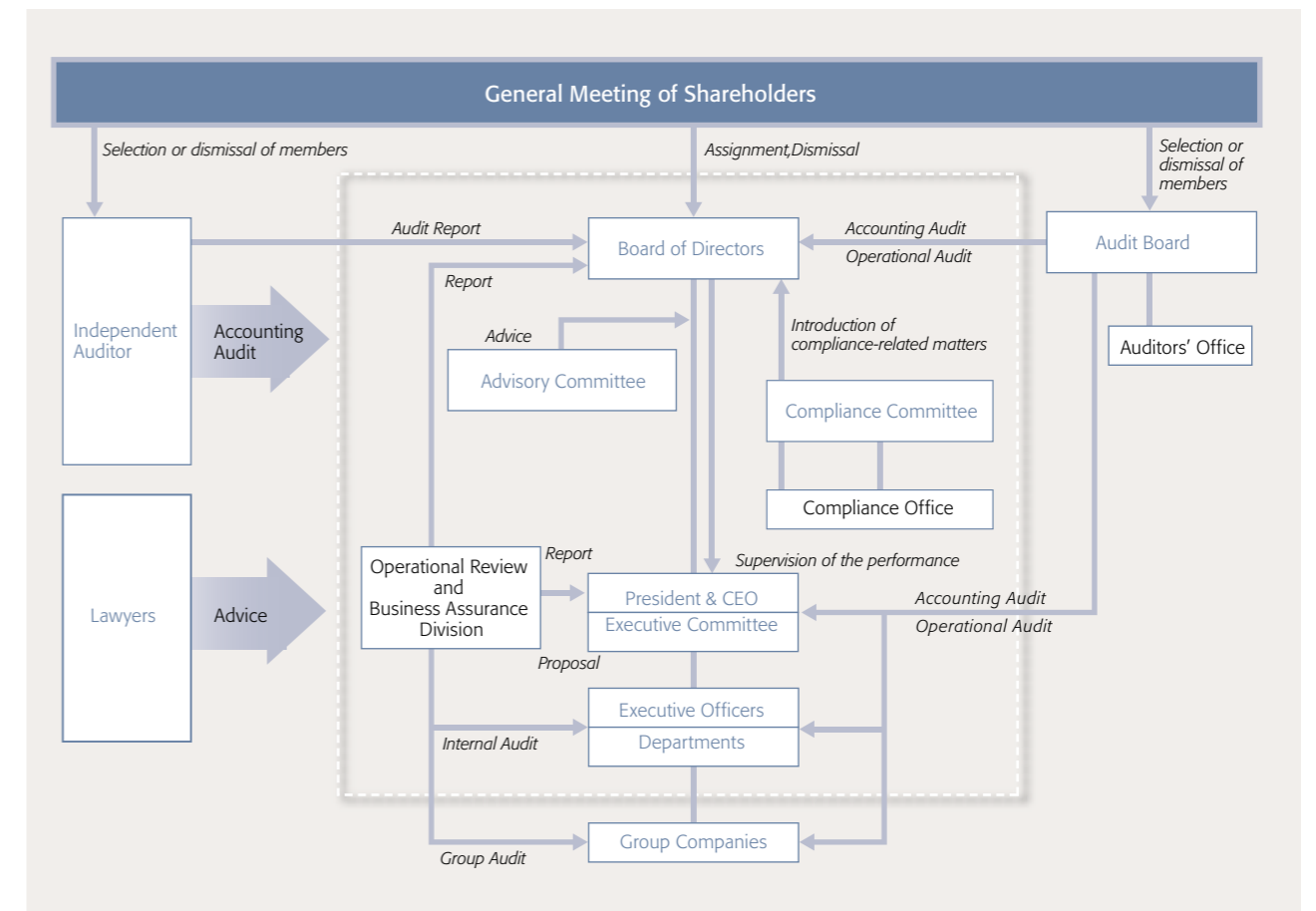
To further strengthen corporate governance, JT established the Compensation Advisory Panel in October 2006 as a voluntary advisory panel to the board of directors aiming at increasing objectivity and transparency of compensation for directors and executive officers.

This Committee, headed by the chairman and comprised of the president, the HR director and two outside experts, undertakes deliberations based on consultations from the board of directors with regard to the compensation policy and system for directors and executive officers.

### Risk Management

JT is making every effort to prevent risks from occurring, however, in the event of an emergency or a disaster, JT is prepared to establish an emergency project system with the Corporate Strategy Division as the executive office, and then deal promptly and appropriately with the situation under the leadership of senior management and in close cooperation with related divisions.

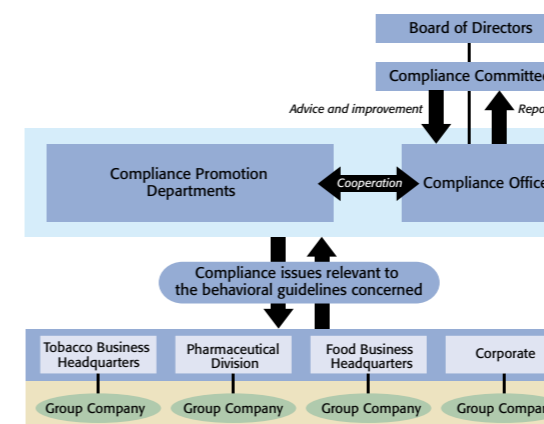
## Corporate Governance System



## JT Group Compliance

**JT defines compliance as "for the shared JT Group Mission to act based on the values and ethics we must hold to become better corporate employees and citizens," rather than merely defining it passively as "not to disturb public order." We are committed to assuring all stakeholders of its realization.**

### Compliance Promotion System



### JT Group "Principle of Conduct" and "Code of Conduct"

The JT Group defines 15 "Principles of Conduct," the basic policy for employees to act in accordance with all stakeholders, and 30 "Codes of Conduct," the guideline for concrete actions. We have prepared an easy-to-understand manual for JT Group Compliance that contains the "Principles of Conduct" and "Codes of Conduct" and have distributed it to employees as an indispensable tool for their day-to-day operations.

We have revised the manual in FY 2006 in accordance with new legislation, revision of the law and the changing internal and external business environment surrounding JT. At the same time, we have improved descriptions to make the contents easier to understand and the manual handy to carry.



Compliance Manual



● Compliance Card

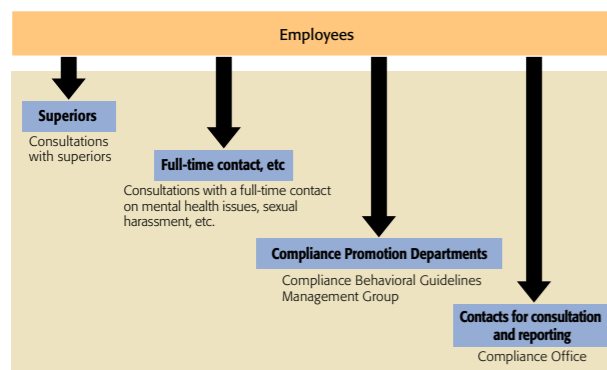
The JT Group encourages employees to carry the compliance card with them. The card stipulates law adherence, fairness, transparency and sincerity, equipping each employee to take appropriate action if he/she wavers in his/her decisions in the course of work.



● Consultation and Reporting Systems

On April 1, 2006, we designated the Compliance Office as the contact point for those who report with information in the public interest, and we have been working on the appropriate operation of the internal contact.

Also, we enhanced our system to respond to consultations from employees, such as full-time contact on mental health issues and sexual harassment, as well as compliance promotion departments, in order to promote good internal communications and self-improvement in the organization.



● Compliance Activities

We try to find and identify issues in compliance activities or from the results of questionnaires to develop an annual plan for promoting compliance.

\* The measures and policies, plans, progress and results of activities are reported to the Compliance Committee to be reflected in the Company-wide Compliance Implementation Plan for the next year.

Company-wide Compliance Implementation Plan

Following the approval of the Compliance Committee, we designed the "Compliance Implementation Plan [for the entire organization]," a company-wide plan to promote compliance, and we are now addressing the key compliance issues.

Plans for each Department

Based on the "Compliance Implementation Plan [for the entire

organization]," each department looks back at its business conduct, identifies issues and challenges in the workplace, and designs the "Compliance Implementation Plan [for departments]" to improve these issues.

In accordance with the plan, we implemented the plan-do-check-act (PDCA) cycle and carried out continuous improvement to a higher quality of operation.

● Compliance Training

We provided various kinds of training to raise the awareness of compliance among employees and to promote activities. Compliance trainings held in FY 2006 were as follows:

Compliance Activities Leaders Training

In order to effectively promote compliance in each department, we have provided trainings four times to foster leaders who learn risk management approaches through the exercises and actually lead compliance activities in their workplaces.

Compliance Seminar

Inviting outside experts, we held a seminar for the directors, all management in HQ and the top-ranking executives of the group companies in order to further promote compliance management.

We also provided compliance trainings for each rank of new employee and newly-appointed management.

In addition to these trainings and seminars, we plan to enhance education in 2007 by providing every employee with narrative case studies using corporate intranet, class exercises in group training, effective use of company magazines, and others.

● Compliance Promotion Month

October is designated as "Compliance Promotion Month," in which each employee is encouraged to review his/her own compliance status, as well as that of his/her workplace in order to improve compliance further.

Employee Questionnaire for Compliance

In FY 2006, we expanded the scope of survey to every employee in addition to regular employees to check their awareness of compliance and the current status of compliance. Having analyzed the results, identified the challenges and issues for the entire company and for each department, and given feedback to each department, we developed measures for improvement to include in the FY 2007 compliance implementation plan and implementation as the key issues.

Workplace Meeting

Workplace Meetings, focusing on Compliance, were held in each location across the country. Employees reviewed their business performance and raised their awareness of compliance.

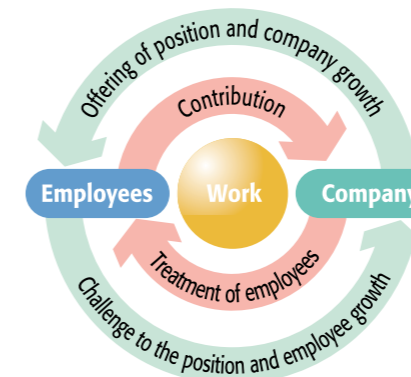
## Human Resources Management

**JT believes it is important for a company to always go ahead of the environmental changes and continue proactive self-improvement on its own will. Accordingly, JT is working on a variety of human resources development programs aimed at achieving the sustainable growth envisioned in "JT2008," the medium term management plan.**

### Activities toward stabilization and penetration of the New Human Resources Management Systems

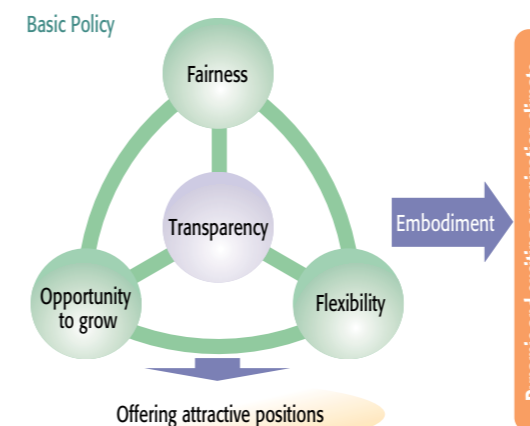
~ Toward Dynamic and Exciting Organization Climate ~

JT launched the new Human Resources Management system in 2006 based on the concept that employees contribute to the company through their work and the company treats them fairly, thereby growing together. The system focuses mainly on clarifying the difference and significance of each job, establishing a compensation system in accordance with role and responsibility by emphasizing skill and specialty, treating employees fairly based on the performance-based appraisal system, and supporting employees to achieve self-sustained growth.



- Employees contribute to the company through their work, and the company treats employees in accordance with their contributions.
- The company grows through diversified and global launching of value-creating businesses.
- Employees grow on their own and through work.

To achieve these, we work on activities in accordance with the following Human Resources Management Policy.



● Stabilization of Fair Merit System

We promote employee understanding by introducing the Grading System by Occupation emphasizing skill and specialty reflecting the difference and significance of each job, and by the announcement of job information through guidebooks or intranet, or through various interviews. We also continue to work, not only on simple revising or introducing of the system but also on penetration and stabilization of the fair merit system by holding appraisers meetings in each department and workplace aiming at standardization of appraisers' insights that conforms to the new system, and so forth.

● Support for Employee Self-Sustained Growth

Based on the recognition that human resources are the largest corporate asset, JT believes it is important that all employees make the most of their abilities and achieve self-sustained growth.

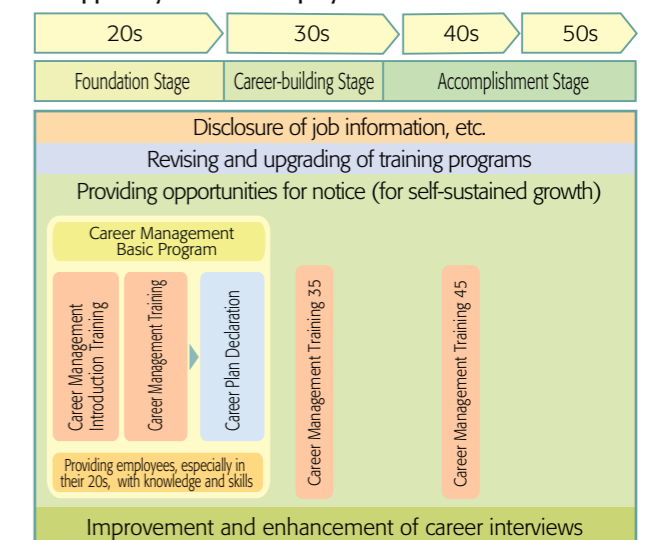
As an approach to support growth for each employee, we are working to improve and upgrade training programs as the first step. Many employees have participated in optional style seminars and trainings that provide basic knowledge of business, skills, and other such courses. Also, to support building employee careers, we provide Career Management Training for employees in their third and sixth years with the company, and at the ages of 35 and 45, and further provide all-round support, such as career interviews and job information to employees.

● Support to Upgrade Skill Levels for Leaders

We think it indispensable to upgrade skill levels for leaders to support the stabilization of fair merit system and employee self-sustained growth.

Therefore, we provided step-by-step trainings to newly-appointed management several times to reinforce organizational power. Further, we are newly developing practical leader training to improve management abilities, such as communication skills.

■ Support Systems for Employee Growth



**Contents of Lecture "2006 Human Resources Optional Seminar STRIKE"**

Title of lecture	
Marketing	Fun Marketing (Introduction)
	Useful Marketing (Intermediate grade)
Finance/Accounting	"New" Learn from the News - Introduction to Statement of Accounts
	Introduction to Profit-making Accounting
	Introduction to Financial Analysis and Business Finance
	You can learn it in a single day! - Introduction to Income Tax
Basic knowledge of all kind of businesses	You can learn it in a single day! - Introduction to Corporate Tax/Consumption Tax
	Introduction to Credit Management
Thinking and idea generation skills	Innovative Idea Development and Practice Course
	Turn it into your job! "Hypothesis/Validation" Thinking
Communication	"Anthropology" to Foster Better Human Relationship
	Debate and Negotiation
	Presentation Skill Development
	"Writing" Skill
	Basics of English Business Skills
	English Presentation Skill Development
Enhancement of organizational power	English Debate & Negotiation
	Introduction to Facilitation Skill
	Counseling Mind
	Coaching
	Project Management
	Motivation Management using EQ

**Creating a Rewarding Workplace**

**● Encouraging Diversification**

Recognizing that one of the key challenges JT faces is enhancing the competitiveness of its workforce and organizational power, based on diversity of employees, JT has been striving to create a working environment and a corporate culture in which a variety of personnel with different backgrounds and characteristics (gender, age, nationality, etc.) can make the most of their talents, thereby contributing to JT's growth. To further progress these efforts, JT in April 2006 launched a new project designed to offer a wider range of opportunities to employees, in particular, regardless of their gender. Further, JT is actively promoting interactive talent exchanges with its overseas subsidiary, JT International (JTI). [See the related article](#) → p18

**● Work-Life Balance**

JT has a variety of systems in place to help employees reconcile their work and private lives – which is vital for all employees.

Child-care Assistance System	Care Assistance System
Child-care leave Exemption from overtime work Exemption from midnight shifts Short-time work Absence due to nursing etc.	Nursing care leave Cap on overtime work Exemption from midnight shifts Short-time work Absence due to nursing care etc.
Re-employment System	
With the minimum age for receiving the public pension having been raised, JT has put in place a re-employment system to provide employees with opportunities to extend their employment, targeting those in their early 60s.	

**Supporting Development of the Next Generation**

Based on the "General Business Owner Action Plan" of the Law for Measures to Support Development of the Next Generation, JT has implemented the following measures:

- Every employee is provided with a copy of the "Guide book to Reconciliation of Work and Private Life" so that he/she can better understand and make use of the available support systems.
- Introduced a child-care leave system that entitles both male and female employees to participate.
- Those on child-care leave are treated fairly and their return to work is encouraged.
- Extended the period of maternity leave for male employees from two days to five days.
- Implementation of financial support for child care and family care

**● Employment of Persons with Disabilities**

Efforts are underway to create better workplaces for employees with disabilities. For example, to help them make the most of their capabilities, they are assigned duties for which they are qualified. At the same time, facilities and installations are being improved, with due consideration of location of work as well as being given to convenience of commuting to and from their workplaces. JT's persons with disabilities employment rate stood at 2.56% as of the end of FY 2006, well above the legal employment rate of 1.8%.

**● Employees' Social Participation**

JT encourages employees to participate in social contribution activities.

**Volunteer Leave System**

Employees are entitled to take a maximum of five days a year of volunteer leave if they participate in supporting activities for victims of a disaster or people with disabilities.

**Marrow Donor Leave System**

An employee is entitled to take time or days of leave required for marrow bank registration, medical examination or hospitalization for marrow transplantation.

**Japan Overseas Cooperation Volunteers (JOCV) Leave System**

An employee is entitled to take administrative leave for the term of dispatch (approximately two years and three months) to serve as a member of Japan Overseas Cooperation Volunteers.

**Creating Workplaces Where Employees are Grati ed and Rewarded**

**● Improvement and Promotion of Occupational Safety and Health**

**Approaches to Safety and Health Management**

A company is responsible for ensuring the safety and health of its employees at their workplaces. Recognizing this responsibility, JT formulated its unique "Industrial Accident Prevention Five-year Plan" and is now working on further improvement of safety and health management by setting goals for maintaining and promoting employees mental and physical health and reducing the number of industrial accident casualties by more than 20% from those reported in the previous plan.

**Promotion of Occupational Safety and Health Management**

All JT tobacco factories have obtained globally accepted OHSAS 18001 certification in FY 2006, which can be attributed to JT's occupational safety and health management.

OHSAS 18001: OHSAS (Occupational Health and Safety Management Series) is a tool for supporting organizations that strive to minimize risks for their management and employees in an effort to improve business performance and occupational safety and health measures.

**● Health Management**

**Medical Checkups with Follow-up and Support**

Recognizing that "each employee needs to stay both physically and mentally healthy in order to achieve continuous high performance," JT has stationed full-time medical personnel (13 physicians and 30 public health nurses) at 11 locations nationwide. All employees undergo periodic medical checkups and the results are communicated to them, followed by interviews. In addition, programs such as health seminars are in place to help employees live healthier lifestyles.

**Mental Health Programs**

JT has a variety of programs designed to enhance the mental health of employees, some of which include: lectures and seminars on "self-care approaches;" seminars on care approaches for line managers; consultation services by specialists and counselors; counseling services by external specialist institutions; telephone counseling services.

**● Human Rights Education**

JT developed the "Basic Policy on for Human Rights Education" in July 2000, in an effort to "create a discrimination-free corporate culture and an agreeable workplace." Human rights issues are also being discussed from an international perspective, in line with the increasing globalization of JT's operations.

**Basic Policy on Human Rights Education**

- (1) Completely respecting and protecting human rights at the workplace
- (2) Establishing the Committee of the Promotion of Human Rights Education
- (3) Appointing members to the Committee of the Promotion of Human Rights Education for Fair Employment Procedures
- (4) Providing systematic and continuous training in human rights
- (5) Responding to "fake Dow a (antidiscrimination) Activity"
- (6) Exchanging ideas with our labor union regarding human rights issues
- (7) Promoting education in human rights among JT Group of companies
- (8) Respecting human rights, and introducing and distributing study materials in response to the internationalization of our business

**Good Labor-Management Relationship**

We believe that it is essential to maintain common awareness between labor and management regarding the state of things, and to establish a common base between the two sides, as regards the business environment and business trends, in order to ensure business growth and development. We therefore provide for meetings to develop mutual understanding between labor and management as regards such important management issues as business environment, business planning, and the financial situation, to promote serious discussion regarding future issues.

As a means for implementing proposed measures, we hold prior consultation through which both sides engage in sincere discussion to arrive at conclusions. The two sides act with responsibility on the matters they have agreed upon, which results in good relations between labor and management, based on trust.

**Diversification Promotion Project / First "Women's Forum" was held  
Concrete plans were presented for the "Workplace where women can play active roles"**



Diversification Promotion Project (Policy Enforcement Team for Women Participation), which aims to work out measures for female employees to take more active roles in their workplace, held its first Women's Forum on March 22,

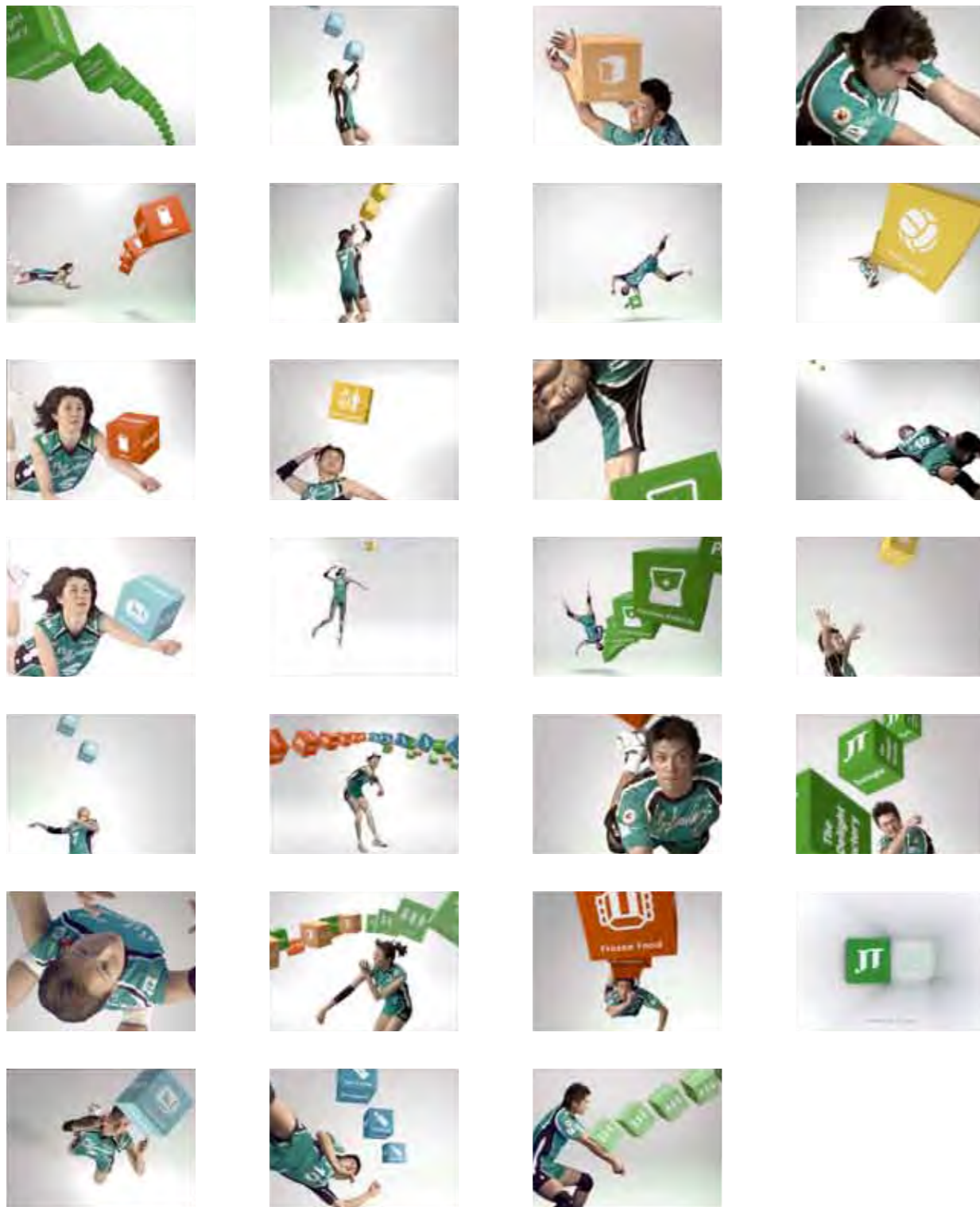
2007 at JT Headquarters. Fifteen female employees from each department at JT HQ participated in the forum and, after the lively exchange of views, participants recommended several concrete measures to realize a workplace where more and more women can take active roles.

After the organizer explained the purpose of the project and the current situation, the forum was divided into three groups to discuss each theme, the conclusions of which were presented by the leaders of each group. The participants were powerful in discussions and presentations, although time was limited to about two hours.

As JT has always viewed the enhancement of human resource competitiveness and organizational power based on the diversity of employees as one of the most important issues, it launched a project in April 2006 in order to make substantial progress. Diversification involves various challenges, such as human resources management regardless of gender and nationality or employment of older people or persons with disabilities, however, JT has started to work on issues facing women. Then, the findings and lessons from understanding such issues that women face will be applied to other types of diversification.



## Organization TVCM



As of June, 2007

CSR Activities in JT's Business

# Chapter 2

## Message from the Top of the Tobacco Business



Ichiro Kumakura  
President, Tobacco Business

Based on the basic understanding of tobacco and our strengths in this business, we're striving to add value to our brands to satisfy our valued customers – a means to becoming the top tobacco manufacturer in the global market.

Our business should at all times meet the expectations of those who are directly and indirectly involved in JT's business. Our mission, therefore, goes beyond simply manufacturing and delivering products; we should be committed to fulfilling our corporate social responsibility.

We think it desirable that a society be created where smokers

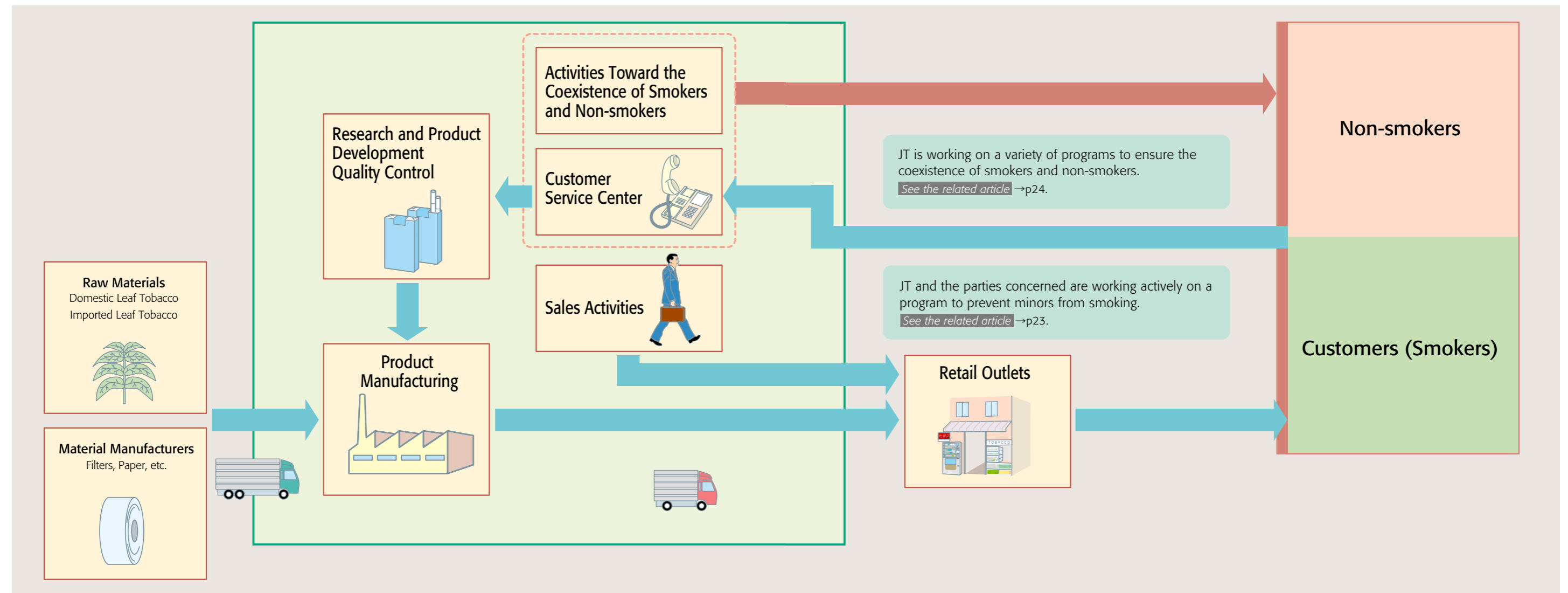
and non-smokers live in harmony. To this end, we're working on the improvement of smoking culture, some of which includes smoke separation in public places and smoking manners campaigns. Specifically, efforts are underway across the country to provide smoking areas in collaboration with municipalities and to improve smoking manners through advertising.

Citizen participation cleanup activities dubbed the "Pick Up, and You Will Love Your City" campaign are also underway in cooperation and participation with municipalities, schools, volunteers and local communities. Since the startup in 2004, more than 310,000 citizens have participated in this nationwide

campaign, designed to develop a mindset "not to litter."

We're also making a number of efforts to prevent minors from smoking, which we think is a critical issue. For example, we and the parties concerned are gearing up for the nationwide service of cigarette vending machines with adult identification functions in 2008. Each of these vending machines is equipped with a device that reads an IC card ("taspo") issued exclusively to adults.

We continue to push ahead with such programs in an effort to fulfill the corporate social responsibility of a tobacco manufacturer.



## CSR Activities in the Tobacco Business

JT, as a tobacco manufacturer, always listens to customers in accordance with the "Tobacco Branding Declaration," which expresses our understanding of and approaches to tobacco products. At the same time, a variety of programs are underway to create a better social environment, including measures aimed at youth smoking prevention and accommodation between smokers and non-smokers.

### Approaches to Youth Smoking Prevention

Minors should never smoke. In fact, minors are legally prohibited from smoking. They are in the process of developing, both physically and mentally, with their personalities, lifestyles and discretion yet to be established.

Youth smoking is a problem that cannot be solved by tobacco industry alone. It is a social problem that needs to be addressed by society as a whole, including households. JT continues to work on youth smoking prevention and is extending its cooperating with concerned parties.

#### Community Youth Smoking Prevention Programs

In cooperation with municipalities, police stations, tobacco retailer cooperatives and other concerned parties in each community, JT organizes the "Youth Smoking Prevention Council," participates in educational campaigns and supports a variety of seminars.

The Japan Tobacconist Federation is rolling out a youth smoking prevention program, placing stickers and posters (designed and provided by the Tobacco Institute of Japan (TIOJ), of which JT is a member) in retail outlets, while promoting the "I Care About You" campaign.

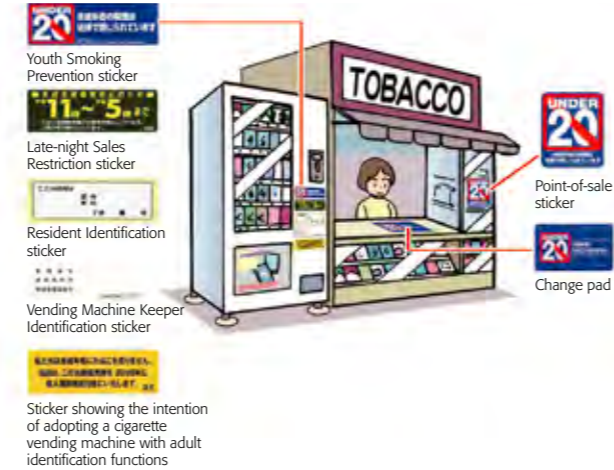
In addition, TIOJ conducts additional youth smoking prevention campaigns twice a year during promotional months.



Poster urging minors not to smoke

#### Voluntary Restrictions on Late-night Sales through Outdoor Vending Machines

In April 1996, the Japan Tobacconist Federation introduced voluntary restrictions on late-night sales through outdoor cigarette vending machines (between 11 p.m. and 5 a.m.); these also apply to vending machines owned by JT and other tobacco companies.



#### Educational Activities Through Newspaper Ads

JT supports an industry-wide initiative to prevent youth smoking and runs ads twice a year in 50 national and local newspapers.

#### Promotion of Cigarette Vending Machine with Adult Identification Functions

The Tobacco Institute of Japan (TIOJ), the Japan Tobacconist Federation and the Japan Vending Machine Manufacturers Association are working together on a variety of programs, including educational campaigns, in an effort to prevent youth smoking.

As part of these efforts, we're gearing up for the nationwide service of cigarette vending machines with adult identification functions in July 2008 to prevent minors from buying cigarettes. On October 19, 2006, we released the details about "taspo" (an IC card designed for the vending machines) including card design, applications for issuance and the scheduled date of service.

In Kagoshima and Miyazaki Prefectures, where the vending machines will be put into service on a trial basis, applications will be accepted from December 2007 onward, with service scheduled for March 2008. For other areas comprised of three regions, applications will be accepted from February 2008 onward, with service scheduled to start in succession by July 2008.



Cigarette vending machine with adult identification functions

- Cigarettes can be purchased by bringing "taspo" (an IC card issued exclusively to adults) into contact with the reading device.
- "taspo" is equipped with "Pidel" (a prepaid electronic money system).

For details, please refer to the following URL: The Tobacco Institute of Japan  
 URL [http://www.tioj.or.jp/work/f3\\_7.html](http://www.tioj.or.jp/work/f3_7.html)

## Approaches to "Coexistence between Smokers and Non-smokers"

We advocate reasonable solutions to accommodate smokers and non-smokers, in the hope of providing a pleasant environment for both groups.

### Providing Smoking Areas for Coexistence

#### Installation of Smoking Areas

JT and municipalities are jointly setting up street smoking areas, which are making a significant contribution to smoke separation and better smoking manners.

Specifically, various types of smoking areas are being set up across the country to foster better smoking manners – contributing to the prevention of "smoking while walking" and "littering of cigarette butts."



Smoking Areas Near Ebisu Station (Shibuya-ku, Tokyo)

#### Smoke Separation in Public Places

JT, municipalities and facility administrators are jointly setting up smoking areas in public places.

In addition, JT offers smoke separation consulting services. Leading-edge technology is the key to smoke separation in smoking areas set up in terminal stations, airports and large-scale commercial facilities crowded with students, businessmen, tourists, and families.



Smoking lounge at the South Pier of the Haneda Airport Smoking area at LaLaport Yokohama

### SMOKERS' STYLE AKIHABARA

JT and the Chiyoda Ward Office (Tokyo) jointly set up "SMOKERS' STYLE AKIHABARA" at the east exit of the Akihabara Station – a free smoking area designed to contribute to "cleaning up the street" and "realizing the coexistence of smokers and non-smokers." JT's long-established expertise in smoke separation played a key role in providing a comfortable environment in this area, which is offered to both smokers and non-smokers who wish to take a break.



## Improving Smoking Manners Toward Coexistence

### Promoting Better Smoking Manners

JT is promoting the need to improve smoking manners through advertising campaigns that encourage smokers to show more consideration for non-smokers and society in general.



Graphic Advertising

### "Pick Up, and You will Love Your City" Campaign

JT is rolling out a nationwide cleanup campaign in cooperation with municipalities, schools, volunteers and local communities for developing a mindset "not to litter" by picking up trash.



See the related article → p60, p70

### Promotion of Portable Ashtrays

JT aims to have more than 50% of smokers carry portable ashtrays with them. To this end, and to showcase portable ashtrays, the Mobile Ashtray Museum (MAM) was launched in April 2006.

At the same time, JT's commercials are on the air, encouraging smokers to "always carry manners with them." We see a scene where a smoker carries a portable ashtray with him, suggesting that a portable ashtray is a must item for smokers.

MAM (Mobile Ashtray Museum)  
 JT Bldg. 1F,  
 2-1, Toranomon 2-chome,  
 Minato-ku, Tokyo  
 Phone: 03-5572-4950



TV commercial: Always carry manners with you

Approaches to realizing the coexistence of smokers and non-smokers are posted on the following website:

SMOKERS' STYLE Website  
 URL <http://www.jti.co.jp/ssstyle>

## Our Philosophy as a Tobacco Manufacturer

We have developed "Tobacco Brand-ing Declaration" as a tobacco business version of our corporate mission, "JT Brand-ing Declaration." It clarifies our recognition on tobacco product and our commitments towards actions based on the recognition in conducting tobacco business.

"Tobacco Brand-ing Declaration" consists of three sections: "Our Recognition on Tobacco," "Tobacco Business Mission" and "Tobacco Business Management Guideline."

We take pride in the brands we provide to consumers through our tobacco business. We aim to be an 'ir-replaceable company' by keeping our commitment to "Tobacco Brand-ing Declaration."

### Tobacco Brand-ing Declaration



Tobacco Brand-ing Declaration  
URL <http://www.jti.co.jp/ssstyle/branding/index.html>

#### ● Our Recognition on Tobacco

We, as JT Group, recognize our main product, Tobacco, as follows:

##### Tobacco for Customers

Almost one third of the adult population of the world smokes. People smoke for various reasons; some people smoke for pleasure, to enjoy tobacco's rich taste and flavor, others to relax and gain a peace of mind, or to focus.

On the other hand, with smoking pleasure come real risks. There are many people who report difficulty with quitting. We believe adults have the freedom to choose smoking as a personal pleasure, being fully informed about the risks.

##### Tobacco for Society

Tobacco has been commonly used as an item to promote communication between people; to break a moment of

silence or sometimes to gain relief from tension.

However, people who do not smoke are often irritated by tobacco smoke. Smokers should at all times be courteous and pay full attention to non-smokers.

From a socio-economic standpoint, tobacco is the product of a wide range of industries, from growers to retailers. Many people in the world rely on tobacco for their livelihoods.

It should also be noted that tobacco taxes stemming from cigarette sales are borne by smokers and contribute to a significant part of government revenues across the world.

##### Tobacco in History

Tobacco has a long history going back to the days of the Mayan civilization. Many unique and interesting cultures can be traced back to its natural proximity to people's everyday lives.

In modern times, tobacco became an important agricultural product with significant economic value. The manufacturing of tobacco products, starting off as family-run businesses, went through rapid technological innovation and became one of the first industries to globalize at the end of the 19th century.

On the other hand, some countries have, from time to time, banned tobacco, considering smoking as an unnecessary pastime, and for various reasons. In recent years smoking has become controversial in terms of its effects on health.

While tobacco has been a controversial product through history, it is a product that people have enjoyed for more than 500 years.

#### ● Tobacco Business Mission

Bearing in mind our recognition on tobacco, we manage and operate our business in order to satisfy and deliver pleasure to our customers and to meet our stakeholders' expectations.

We strive to become a leading global tobacco manufacturer through increased added brand value, taking advantage of our core competence – "Brand-ing":

##### Customers

We enhance customer satisfaction by offering a range of first class quality and value-added brands to adult smokers. To this end, we will not compromise in recognizing and addressing the various needs of our customers.

We are committed to offering comprehensive support to smokers' pleasure.

##### Society

We operate our business with high ethical standards, dedicated efforts towards protecting the environment and showing respect for local communities and the cultures of different countries. We strive to be a good corporate citizen welcomed by both local and global communities.

Minors should not smoke. We will continue to aggressively address this social problem and are committed to playing a significant role in the prevention of youth smoking.

We are aware that smoking is controversial. This is why we will continue our efforts to listen to non-smokers' opinions and to achieve sensible accommodation where smokers and non-smokers can work together and coexist.

##### Employees

We, as employees of one of the leading tobacco companies, take pride, dedication and responsibility in providing valued tobacco brands to our customers.

We will provide attractive business opportunities for those who are capable and motivated.

We will continue our efforts so that we can enhance employee satisfaction.

##### Shareholders

Our mission is characterized by the development of consistent positions in individual markets through selection and concentration, in order to generate long-term value in the tobacco business. We operate an open and transparent business in accordance with social rules and regulations in order to safeguard shareholder interests.

#### ● Tobacco Business Management Guideline

Tobacco is a controversial product, and public authorities have determined that with smoking come health risks. As a tobacco business operator, we therefore recognize that we must meet high social expectations of honesty and transparency.

We have established management guidelines by which we discipline ourselves in order to meet these expectations, and are committed to the following principles:

##### Openness about the risks of smoking

Public authorities have determined that smoking causes or is an important risk factor of a number of diseases. We support efforts to advise smokers accordingly. No one should smoke without knowledge about the risks of smoking.

##### Transparency about our product

Smokers should be informed about the products. We acknowledge and take on the responsibility to tell them what we put into our cigarettes.

##### Endeavoring to reduce the risks of smoking

We do not believe that smoking risks can be completely eliminated, but there are ways in which we may be able to reduce the risks. We are committed to developing cigarettes that have the potential to reduce the risks of smoking.

##### Youth smoking prevention

Minors should not smoke. Youth smoking is a societal problem and cannot be solved by tobacco companies alone. We are committed to playing a full role in the prevention of youth smoking.

#### Accommodation of smokers and non-smokers

People who do not smoke are often irritated by tobacco smoke.

Cigarette littering spoils the environment, can cause fires, and smoking in a crowd can be dangerous.

At all times, smokers should show more courtesy to non-smokers and to society.

We advocate reasonable solutions to accommodate smokers and non-smokers.

### JT's Perspective on Health and Smoking

Opinions about tobacco abound; however, the common conclusion of government authorities around the world is that smoking involves risks. We support their initiatives to provide smokers with advice about such risks.

In order to fulfill our corporate responsibility and meet the expectations of society, we have discussed various problems relating smoking and health, the results of which discussions are posted on our website.

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



SMOKERS' STYLE Website

### Voluntary Standards for Advertising and Sales Promotion

In an effort to further fulfill the corporate social responsibility for youth smoking prevention, JT conforms to voluntary regulations for advertising and sales promotion in the domestic market. These regulations have been in place since the days of the Japan Tobacco & Salt Public Corporation, with advertising through the media phased out since 1969.

In addition, the tobacco industry has been in compliance with voluntary regulations set by the Tobacco Institute of Japan (TIOJ) since its establishment in 1987 – TV and radio advertising was discontinued in April 1998, followed by suspension of advertising on public transport in October 2004 and billboard advertising in April 2005.

For details, please refer to:  
URL <http://www.tioj.or.jp/>

## International Tobacco Business – Improving Environmental, Health & Safety Performance

JT International (JTI) controls the production, marketing and sales of the JT Group's cigarette brands in more than 120 countries around the world. With 12,000 employees, and 18 factories (sixteen cigarette/semi-finished goods and two stemmeries) in 15 different countries, JTI has developed robust systems to manage Environment, Health and Safety (EHS). This section provides a snapshot of JTI's EHS Performance and Programs. For more detailed information please refer to JTI's Annual EHS Report at [www.jti.com](http://www.jti.com)

### Environment, Health and Safety (EHS) Management in JTI Operations

JTI has set up systems to manage EHS in alignment with the JT Group Environmental Charter and Health and Safety Policies. This Framework includes policies, standards, tools and activities that support and help the business to manage EHS

and drive continuous improvement. All systems have been set up in accordance with international standards with 16 factories certified to the international standards for environment (ISO 14001) and health and safety (OHSAS 18001).

### Driving EHS Performance

#### Environment

JTI sets quantitative targets for five environmental Key Performance Indicators (KPIs) to drive continuous improvement. Three year targets were set in 2003, for the period 2004-2006, for energy consumption, CO<sub>2</sub> emissions, water consumption, production waste and waste recycling rate. The KPIs have been set on a per unit of production basis, to normalize for production volumes. JTI data is externally verified and, achieved all the factory environmental targets for 2004-2006. This performance continues to be driven by resource efficiency programs, such as the Cost Determination and Reduction (CDR), which brings together a cross-functional team within JTI's factories to identify and implement EHS projects that reduce environmental impacts.

#### Focusing on Safety

The safety of employees and contractors is a high priority for JTI. Structures and programs have been set up to manage and improve safety, and targets were also set in 2003 for the period 2004-2006. Although the aggressive targets were not met, the overall company Lost Time Incidence Rate and the Vehicle Accident Frequency Rate were reduced over 2003.

JTI has also started a 3-year Global Safety Change Program, in partnership with DuPont Safety Resources, to develop a world-class safety culture and performance across its business. The program will deliver safety leadership training for all managers and supervisors and deliver coaching and support tools at all factories.



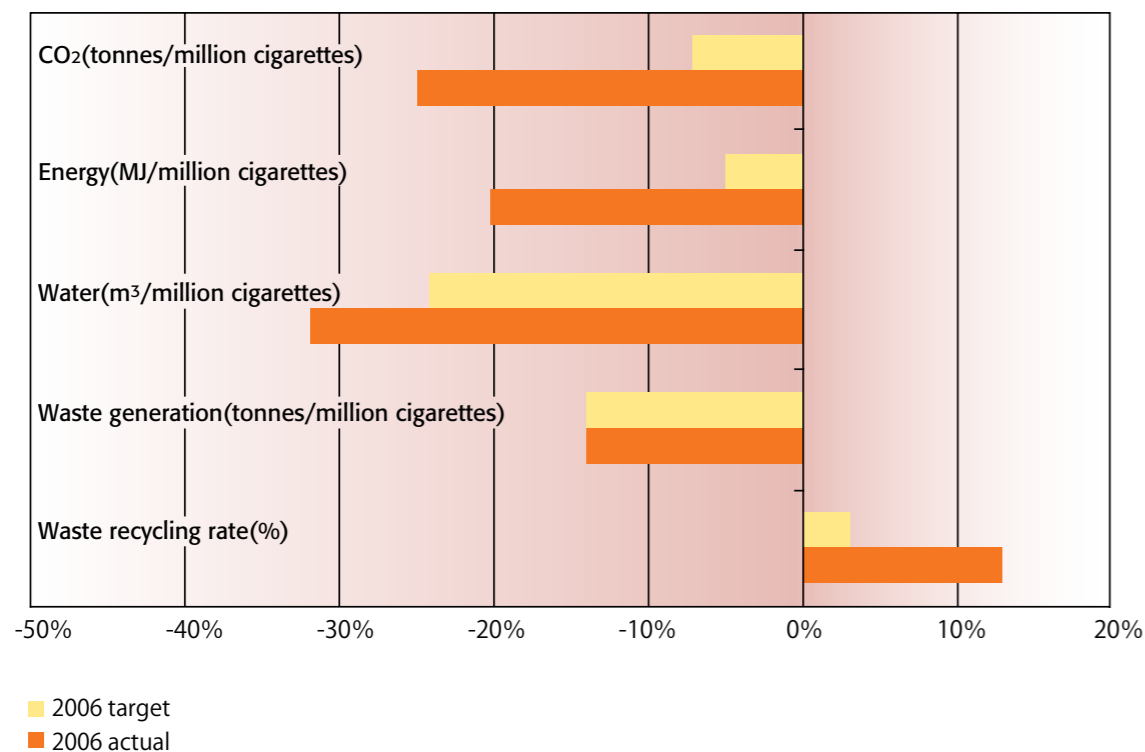
Executive Safety Leadership Workshop in Romania, February 2007

### JTI's Environmental Programs in the External Supply Chain

In addition to addressing EHS impacts in its own operations, JTI initiated two programs in their external supply chain in 2006. In the first program, Green Procurement, a questionnaire was sent to JTI suppliers to get baseline information and to encourage sound environmental management. The survey showed that 50% of JTI's main suppliers are certified to ISO 14001.

The second program was developed to encourage self-sufficiency and sustainable forestry in developing countries, where we procure tobacco and where large amounts of wood are used in tobacco production. This program was developed in close cooperation with JT. Further details of this program are explained on page xxx of this report

Figure 1 Targets and Actual Performance for JTI Environmental Key Performance Indicators



### JTI EHS Excellence Awards

JTI has also run its second Annual EHS Excellence Awards, to recognize excellent efforts and achievements in EHS across the business. The following summarizes the 2006 winners.

#### Environment Category

Taiwan - Mangrove Forest Ecological Tour

A proactive initiative to protect and educate about a local and sensitive environmental ecosystem – the Mangrove Forest



#### Health and Safety Category

Germany - Personal Protective Equipment Box

A simple and effective project to encourage ownership of Personal Protective Equipment (PPE) and change the culture of PPE use.



#### Teamwork Category

Germany - Apprentices energy reduction project

An excellent initiative to harness the enthusiasm of young people, delivering 50 projects to reduce energy consumption.

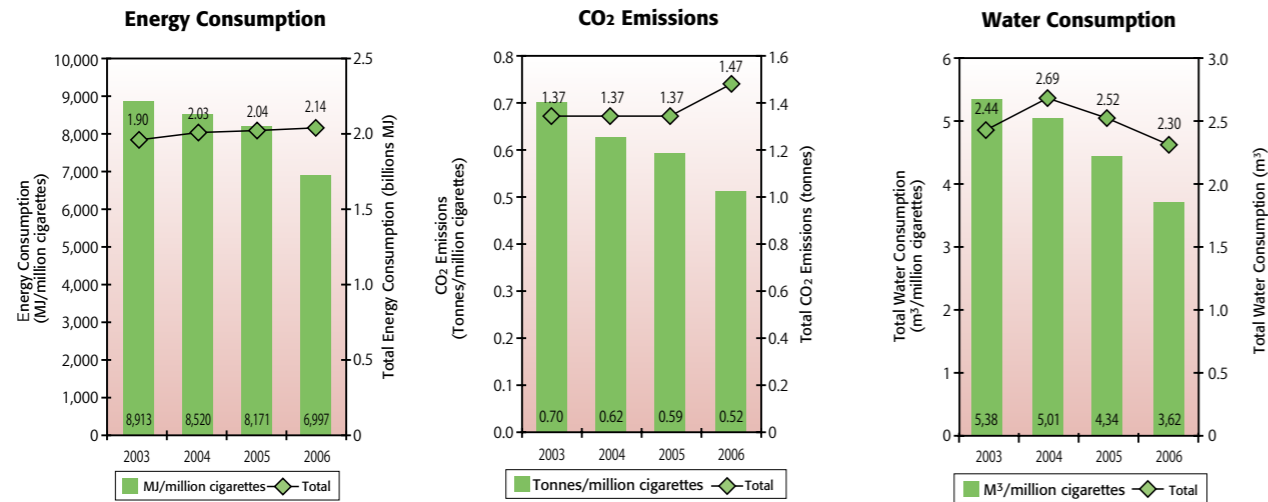


Front-line Activities

Meeting the Expectations of Society  
- JT Tachikawa Area Sales Headquarters

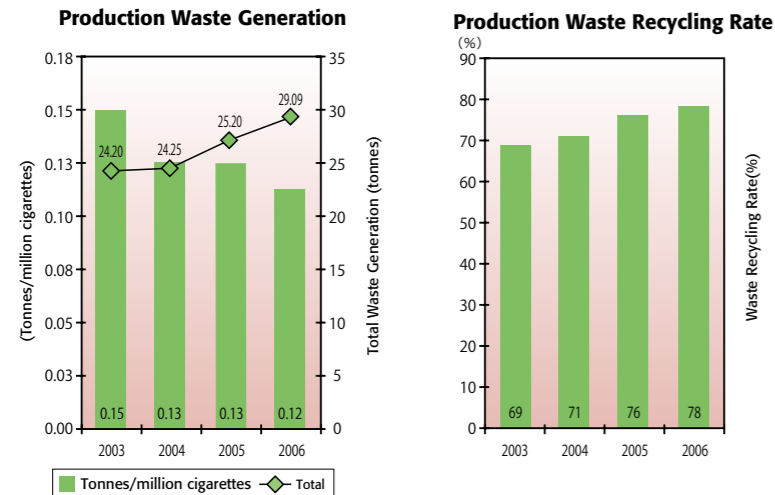
The tobacco business, the core of JT's business, is not only offering products to consumers but also striving to create a society where smokers and non-smokers live in harmony. Accordingly, a variety of proactive programs are underway at business locations across the country to meet the expectations of society, including JT Tachikawa Area Sales Headquarters.

JTI Environmental Trend Data



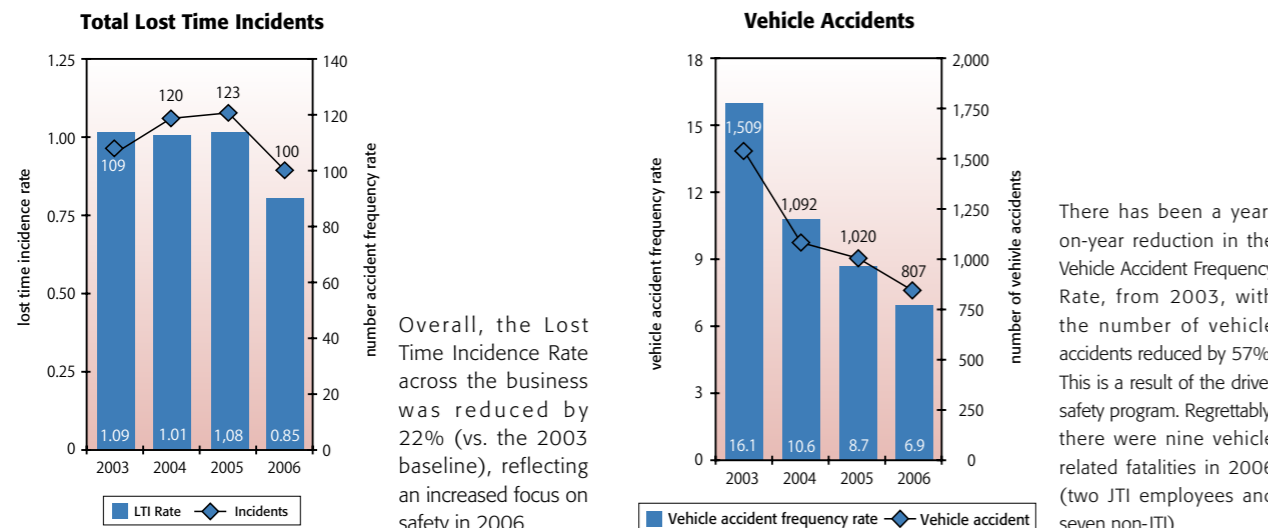
Based on 2003, factory energy consumption per unit of production has been reduced by over 20% in the cigarette factories. CO2 has been reduced by 25%.

Based on 2003, factory water consumption per unit of production has been reduced by 32% in the cigarette factories.



Based on 2003, factory production waste per unit of production has decreased by 15% in the cigarette factories. Recycling has increased by 10%.

JTI Health and Safety Trend Data



Overall, the Lost Time Incidence Rate across the business was reduced by 22% (vs. the 2003 baseline), reflecting an increased focus on safety in 2006.

There has been a year-on-year reduction in the Vehicle Accident Frequency Rate, from 2003, with the number of vehicle accidents reduced by 57%. This is a result of the driver safety program. Regrettably, there were nine vehicle related fatalities in 2006 (two JTI employees and seven non-JTI)

Approaches to Prevent Youth Smoking

**Shinohara:** JT, which deals with tobacco products, is receiving attention from various quarters. First off, what efforts are underway at the Tachikawa Area Sales Headquarters?

**Sumiya:** Our current programs to fulfill social responsibility include "prevention of youth smoking," "provision of smoking areas" and "improvement of smoking manners."

**Shinohara:** Youth smoking prevention is a subject of public interest. Specifically, what programs are being sponsored and implemented?

**Sumiya:** Cigarette vending machines with adult identification functions will be in operation in 2008 across the country. So we're now working with tobacco retailer cooperatives in Yamanashi and Tokyo (the Tama area), and have held about 20 briefings and demonstrations of the machines. For tobacco retailers, "seeing is believing." Their responses were very encouraging.

**Sakoda:** As tobacco retailers are mostly older people, there were some concerns that the machines are somewhat difficult for them to operate. However, they were all in favor of the introduction, as they've always wanted to do something about youth smoking prevention. I think expectations for the machines are pretty high.

**Sumiya:** The demonstrations in Yamanashi got quite a lot of press coverage, with reporters from the press and TV stations showing up. We also received inquiries from the police and the youth affairs department of the prefectural government. Actually, we were surprised at the responses and expectations. Additional demonstrations were held at karaoke boxes and game arcades, whose owners and staff members were eagerly attentive to our presentation. We realized that youth smoking prevention is a subject of interest not only for the tobacco industry but also for the public.

**Inage:** Many vending machines have yellow

stickers on them to let consumers know about the introduction of those with adult identification functions, leading to a growing interest in the machines.

**Shinohara:** While the law prohibits minors from smoking, the awareness of youth smoking prevention is growing steadily. So I think it's important to make our efforts known to everyone.

Providing Smoking Areas for Harmonious Coexistence

**Shinohara:** We're rolling out programs designed to bring harmony between smokers and non-smokers. For smokers, meanwhile, having smoking areas is their primary concern. What are we doing for this?

**Sakoda:** We've visited many places and found that the awareness of communities is changing a lot, which surprised us. Event planners as well as municipalities earnestly ask for the provision of smoking areas. Moreover, many of them are willing to volunteer to pick up cigarette butts and clean ashtrays in order to have smoking areas provided.

**Inage:** A growing number of local shopping streets are interested in installing ashtrays in streets. Merchants offer collaboration - we install ashtrays and they take care of the ashtrays, including cleaning.

The Tachikawa Area Sales Headquarters covers Yamanashi Prefecture, which is visited by thousands of tourists inspired by "Furinkazan," a popular historical TV drama. So there're a lot of tourist information boards in the prefecture, for which we offered ashtrays. Demand for such ashtrays is likely to increase.

**Sumiya:** In addition to Yamanashi Prefecture being popular with tourists, the Tachikawa Area Sales Headquarters has control over the Tama area, home to many high schools and universities. So programs, such as prevention of youth smoking and provision of smoking areas, are being discussed with municipalities and other public institutions.

**Sakoda:** We've received many requests from many quarters to provide more smoking areas not only for the benefit of smokers but also to help improve smoking manners. Then how

should we meet such requests? That's the challenge we face.

Approaches to Improve Smoking Manners

**Shinohara:** JT has been rolling out campaigns to improve smoking manners, which I think are beginning to take root. Are people thinking more about their smoking behavior?

**Sakoda:** Actually, we've called for the improvement of smoking manners, put up campaign posters and presented portable ashtrays. These efforts, I think, are bearing fruit.

**Sumitani:** Our campaigns through the website and TV commercials seem to be paying off. In fact, a growing number of people are asking for a smoking manners campaign at events, festivals and other occasions, as our partners, such as tobacco retailer cooperatives and JCI (Junior Chamber International). In fact, we call for better smoking manners at events and concerts at requests from municipalities.

**Shinohara:** Campaigns involving external parties are quite effective.

**Sakoda:** Speaking of the involvement of third parties, inquiries about the "Pick Up, and You will Love Your City" campaign are increasing. This campaign is a cleanup initiative designed to go hand in hand with local festivals and events. At the beginning, we had to look for opportunities to roll out this campaign. Now a growing number of sponsors for such festivals and events are asking for the campaign.

**Inage:** The "Pick Up, and You will Love Your City" campaign is taking root. As a result, many people have become interested in cleanup activities themselves in recent years. The results of a questionnaire showed that many of the respondents "never litter" which is encouraging for us. The campaign is playing a part in developing a mindset "not to litter."

**Shinohara:** Companies can play a key role in raising the public's awareness of manners. For that matter, JT's responsibility is growing further. I hope all of you will take an active part in creating a society where smokers and non-smokers live in harmony. Thank you for being with me today.



Masami Shinohara  
Chairman  
Vice President, CSR  
Division



Tsumoru Sakoda  
General Manager,  
General Administration  
Division



Noriaki Sumiya  
Manager,  
General Administration  
Division



Hisao Inage  
Manager,  
General Administration  
Division



## Message from the Top of the Pharmaceutical Business



Noriaki Okubo  
President, Pharmaceutical Business

### Contributing to Society with a Strong Sense of Responsibility and Ethics Involving Human Life

JT's mission is to continue existing as a "company that is indispensable to today's society." There are still a great number of diseases that are incurable, and therein lies our raison d'être – to provide suffering patients with the drugs they need. With this sense of responsibility in mind, day after day we strive to develop "world-class drugs innovative."

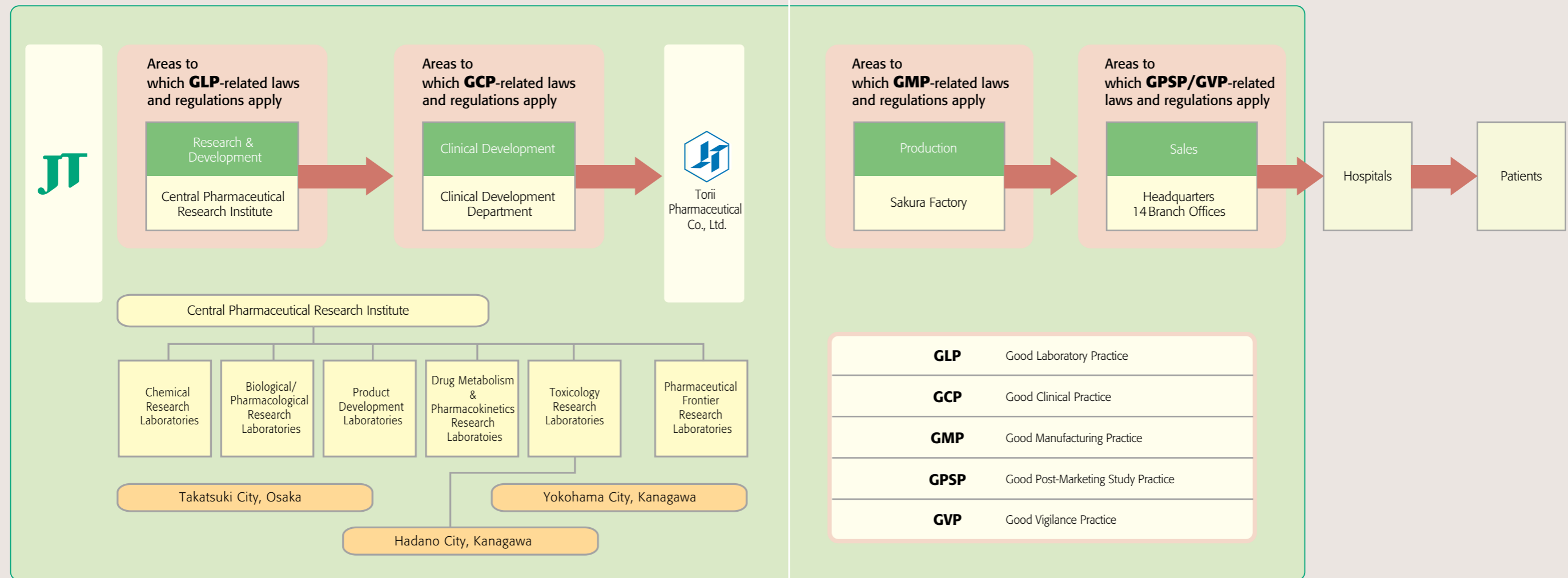
However, the creation of new drugs is never an easy task. Developing new drugs involves considerable risk and requires a

great deal of time and effort, which may come to nothing if even one experimental result turns out negative. While science and technology are advancing at an extraordinary pace, it's becoming increasingly difficult to develop new drugs – a situation that is described as the "depletion of new drugs."

In contrast, the pharmaceutical business is subject to relevant laws and regulations as well as to detailed guidelines. We also have elaborate in-house regulations that set out operational procedures, with the Operational Review and Business Assurance Division and the internal auditing team of the Pharmaceutical Division constituting a foolproof audit system. In addition to observing such procedures and regulations, we always need to

be clear in our minds that what we are doing has a direct impact on human life. That is, we always need to have a strong sense of responsibility and ethics.

We feel a sense of pride and challenge in taking up the development of world-class innovative drugs as our corporate mission. Moreover, we are tackling this mission with real determination, creating what is original and attempting to do what can only be done by JT. We do this so that patients and medical professionals all over the world will be able to say "We could not have done without JT's drug."



## CSR Activities in the Pharmaceutical Business

The Pharmaceutical Division, tasked with coming up with "original new drugs," has a high-level safety control system in place for drug discovery and clinical development, following strict operational procedures. Torii Pharmaceutical Co., Ltd., meanwhile, is responsible for production and domestic sales activities, with its factory striving to reduce their environmental impact. Efforts are also underway to train medical representatives and raise their level of awareness.

### ● Abiding by Drug-related Laws and Regulations While Conducting Strict In-house Audits

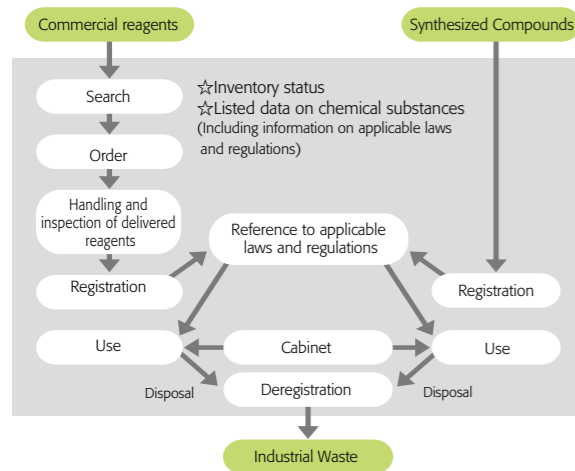
A number of laws and regulations apply to new drug development, some of which include verification of the safety of drug candidate compounds at the preclinical stage and assurance of safety of trialists during clinical development. In addition to improving the system in compliance with related laws and regulations, JT controls the safety of its drugs through strict in-house audits to check if the prescribed operational procedures are appropriately followed. At the same time, a variety of measures are in place to provide patients with drugs in an effective and safe manner, based on data for their efficacy and side effects.

### Activities at the Central Pharmaceutical Research Institute

#### ● Proper Management of Chemical Substances

The Central Pharmaceutical Research Institute sees to it that various laws and regulations, such as those for the management of designated chemical substances, are complied with. It also ensures proper management of chemical substances by setting strict in-house regulations and educating employees on safety control. For example, a business contact is designated for the receipt of purchased reagents, which are checked for compliance with applicable laws and regulations before they are handed over to supervisors or users in accordance with in-house regulations. Moreover, reagents and compounds that should be placed under strict control are kept in a cabinet fitted with several

#### Chemical Substances Management System



locks, the keys for which are managed by two or more employees (all the keys are needed to open the cabinet); they are transferred to a portable locked cabinet for delivery to the places where the reagents are used, always accompanied by two or more employees.

### Environmental Approaches of Torii Pharmaceutical Co., Ltd.

#### ● Environmental Conservation Activities at the Sakura Factory

In line with the JT Group's environmental action plan, Torii Pharmaceutical is gearing up to achieve medium-term targets for reducing its environmental impact, with focus on energy consumption (electricity, heavy oil, etc.), waste generation, the amount of waste, recycling rates, disposal of poisonous/hazardous substances and green purchasing.



Sakura Factory of Torii Pharmaceutical Co., Ltd. (Sakura City, Chiba)

#### ● Training Programs in Response to the Growing Role of MRs

Medical representatives (MRs), who make direct contact with and provide medical information to those who are engaged in medical services, are tasked with two missions: assurance of safety (provision of information to medical institutions to ensure the proper administration of drugs) and post-marketing study practice (collection and feedback of research/test data on new drugs). As these missions are both significant, the "MR promotion code" must be strictly observed. Torii Pharmaceutical, moreover, holds seminars and workshops at its headquarters and branch offices to raise the awareness of MRs and improve their expertise, as the distribution of drugs is changing and roles are becoming increasingly complex and specialized.



#### ● Awareness Raising Campaign in the Field of Medical Care

Torii Pharmaceutical co-sponsored the "STOP! Sexually Transmitted Diseases" campaign, which was rolled out between November 2006 and January 2007, primarily in Fukuoka, to raise public awareness of medical care.

This campaign was held in conjunction with the "World AIDS Day 2006," which was sponsored by the Fukuoka prefectural and municipal governments. A variety of programs were offered to a wide range of people during the campaign period through media, such as radio programs, press coverage, leaflets and websites, to report on the status of HIV and sexually transmitted diseases and to emphasize the need for prevention.

## Front-line Activities

### Approaches to Ensuring Compliance and the Observation of Promotion Code— Torii Pharmaceutical Co., Ltd.

Torii Pharmaceutical, as a pharmaceutical manufacturer, sees to it that all its operations are in compliance with applicable laws and regulations, while striving to observe the promotion code in its day-to-day sales activities with a high sense of ethics in mind. What measures is Torii Pharmaceutical putting in place and what awareness does each MR have of its mission?

Recognizing the Importance of the Compliance Regulations and the Promotion Code through Seminars and Workshops



Rina Hashimoto  
Medical Representative  
Ochanomizu Office, Tokyo Branch Office

We, the medical representatives, have direct contact with medical experts in a variety of settings, offering and collecting medical information in an effort to ensure the proper administration of drugs. However, we should always remember that there are patients behind those medical experts. And it's our compliance regulations and the promotion code that serve as the basis of our services.

While we do have the promotion code, which is intertwined with our day-to-day activities, we often come across situations where we cannot make decisions. In such cases, we should always consult with the sales planning department.

In contrast, each of us must achieve sales targets and other goals in an increasingly competitive drug market. So, whenever we're caught in a dilemma between this reality and the promotion code, the top management's "emphasis on the code rather than on sales" gives us the motivation to observe the code. In addition, a monthly MR seminar and an annual workshop on compliance and the promotion code provide us with an opportunity to enhance our awareness of how important it is to maintain a sense of ethics.

As an MR working for a pharmaceutical company, which is tasked with saving the lives of people, I'm proud of having a high sense of ethics. At the same time, I'm committed to creating a relationship of trust with medical experts in the long term.

**Address:** Torii Nihonbashi Bldg., 3-4-1 Nihonbashi-Honcho, Chuo-ku, Tokyo  
**Capital:** ¥5,019,000,000  
**Number of employees:** 854 (as of March 31, 2007)  
**Business area:** Production, sales and trade of pharmaceuticals

Providing Visual Solutions to MRs



Shigehiro Sugiyama  
Assistant General Manager (Post-marketing Study),  
Sales Planning Department

As we're dealing with drugs that have a direct impact on the lives of people, we should always act with a high sense of ethics. We, therefore, launched a "compliance program" in 2001 and set up a "compliance committee" in 2004 in a bid to improve our system for ensuring compliance. The compliance committee holds meetings twice a year to review the activities and action plans of each department, the results of which serve as the basis of workshops held every fall at each branch office, with the secretariat of the compliance committee taking charge of compliance issues and the sales planning department, the "promotion code."

The promotion code refers to the voluntary regulations for MRs set by the Japan Pharmaceutical Manufacturers Association. It makes provisions for 1) the learning of medical and pharmacological knowledge, 2) provision of information on the efficacy of delivered drugs, 3) the compliance with applicable laws and regulations along with a sensible course of action and 4) the prohibition of giving money and goods to medical institutions (a practice that may cause misunderstanding). In addition, we regularly update our MRs on these issues, for which we have our own strict regulations.

However, there are many cases where MRs cannot make decisions regarding the interpretation of rules or other standards when they do business with medical experts in various settings. The sales planning department is thus summarizing and analyzing inputs provided by MRs via telephone, with each of which is tabulated in a table. The results will be discussed in seminars and workshops.

Each branch office, meanwhile, offers a seminar every month to help MRs maintain the qualification, which includes a program on ethics involving the promotion code. We have a system in place where the person in charge of each branch office and related departments can work together on this particular issue as needed.

We're making company-wide and branch-specific efforts to ensure compliance and observe the promotion code. We're also committed to doing our best in creating a long-term relationship of trust with medical institutions, with a high sense of ethics in mind.

## Message from the Top of the Foods Business



Mutsuo Iwai  
President, Food Business

### A Quest to Deliver Tasty, Safe and Secure Products

In keeping with the sentiment that "We want our foods to be eaten by the most important persons," JT's foods business is strengthening its systems for R&D, product development and health/quality control, focusing on beverages, processed foods and seasonings. The objective is to maintain product quality as an integrated foods manufacturer that can realize the synergies among multiple business categories.

It's a matter of course that we, as a food manufacturer, improve techniques to manufacture products appreciated by customers. However, our primary concern is "safety and reliability." As we're manufacturing foods for direct human consumption, it's imperative

that we ensure "safety and reliability" with a high sense of ethics. To this end, we're stepping up efforts to procure quality raw materials, ensure traceability and develop technologies for health/quality control.

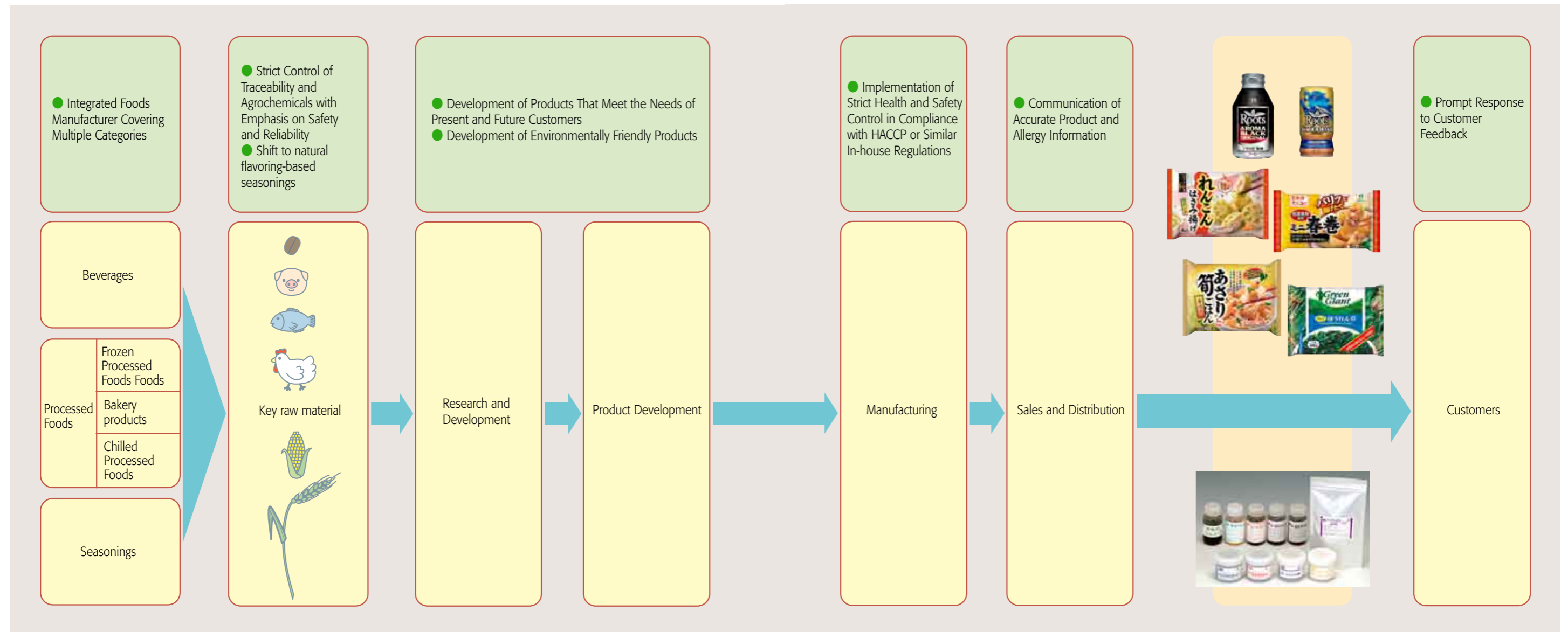
As our business is about the manufacturing of food, an integral part of our lives, we can contribute to society in a variety of ways. In fact, we continue to manufacture products that meet the needs of customers and develop new products, with the needs of future generations in mind. "We really love JT's products." These are the words we expect to hear from customers.

So, we should always be honest to customers and society, while

improving the transparency of our business. For that matter, we continue to communicate the information on the thinking behind JT's products and services, the process through which they are delivered and the ingredients of each product, in an accurate and straightforward manner.

In addition to disclosing such information, it's also important that we are attentive to the opinions of customers and continue upgrading ourselves. For we believe that only through a dialogue with customers and society can we determine the direction in which we should be heading.

We are all committed to making down-to-earth efforts to become a company trusted by customers and society.

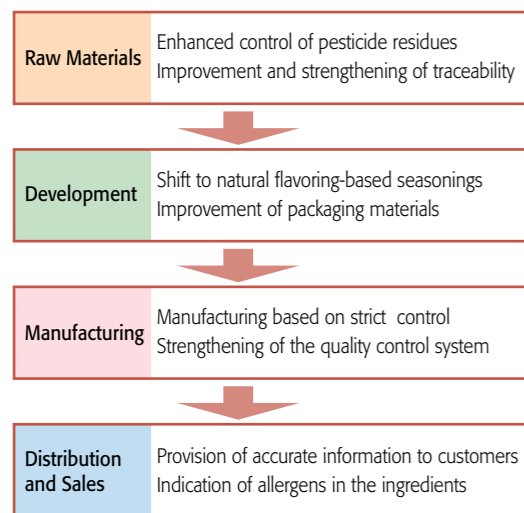


## CSR Activities in the Foods Business

JT is upgrading and strengthening the food business to come up with new products and value that meet the needs of customers, placing a premium on "safety and reliability." We continue to pursue safety and reliability as our products are intended "We want our foods to be eaten by the most important persons."

### Delivering Safer and More Reliable Products to Customers

The following measures are in place at each stage to ensure safety and reliability to customers:



#### Raw Materials

#### ● Strict Control of Pesticide Residues

While JT has strict in-house regulations for the control of chemical fertilizers and pesticides, an improved system for the control of pesticides is now in place as the Positive List(\*) System took effect in May 2006. Specifically, efforts are underway to conduct strict inspections of pesticide residues, keep track of data, select pesticides in accordance with new pesticide application standards and prevent JT farms from being contaminated by drifting pesticides – all designed to reduce pesticide residues.

\* Positive List: This system, which took effect in May 2006, prohibits the distribution and sales of foods that contain more than the specified amount of pesticides, for which residue standards are not available. The system sets forth residue standards for designated pesticides by crop, encompassing all food products, including fresh and processed foods.

#### ● Adherence to Traceability

JT's "pork extract" (pork bone extract manufactured by an Australian subsidiary) is made from quality raw materials with

full traceability(\*); a solid system is in place to trace hog raisers/breeders and feed manufacturers, which makes it possible to keep track of the breeding and drug administration history for each lot of hogs.

JT has its own factory and a contract farm on Chongming Island (Shanghai City), which together manufacture some of the "Green Giant" series (frozen vegetables), with JT representatives selecting varieties and supervising cultivation. In addition, the soil and water quality are inspected on site and pesticide residues are regularly checked at both the factory and in Japan to prevent products from being contaminated by illegal pesticides. The details of these approaches are posted on the website.

\* Traceability: Traceability refers to a system designed to trace manufacturing, consumption and disposal of products, focusing on raw material suppliers, food manufacturers and distributors.

JT Gourmet World  
URL <http://www.jti.co.jp/food/>



#### Development

#### ● Improvement of Packaging Materials

JT is replacing conventional packaging materials with environmentally friendly ones. For example, the plastic inner tray of "Nishuno taretsuki nikudango" (frozen meatballs with two types of sauces) was replaced with a paper tray – which contributes to reducing consumption of depleting resources and the volume of waste. [See related article](#) → p39

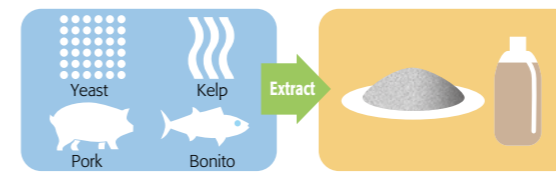


At the same time, a program is underway to reduce the weight of shrink film labels for beverage PET bottles.



#### ● Shift to Natural Flavoring-based Seasonings

JT is stepping up efforts to develop natural flavoring-based seasonings. JT's products for processed food manufacturers – such as natural extracts (derived from kelp, bonito, pork, and others) and yeast extracts are used widely in the food service industry as well as for school meals. Seasonings for processed foods are also being replaced with those made from natural ingredients.



#### Manufacturing

#### ● Manufacturing Based on Strict Health and Safety Control

Each of the JT Group's food factories has a strict health and safety control system in place in compliance with HACCP (\*) or JT's own regulations.

\*HACCP (Hazard Analysis Critical Control Points): This system is an international program designed to prevent contamination by pathogens and their growth, and by extension, accidents, such as food poisoning. Specific measures include health and safety control of each process from handling of raw materials to manufacturing of finished products in line with scientifically based manuals.

#### ● Strengthening the Quality Control System

JT's quality control department is tasked with field studies and supervision, with an inspection system and a traceability program being promoted. The objective is to establish a system to ensure safety and reliability and raise the awareness of manufacturers and suppliers at home and abroad.

#### Distribution and Sales

#### ● Provision of Accurate Information to Customers

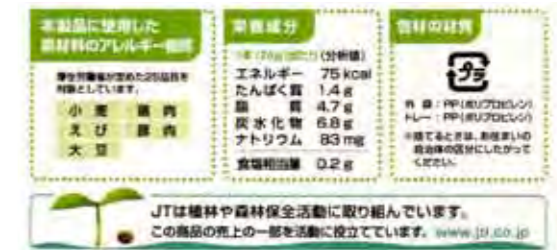
JT gives special consideration to the design of product packages to provide customers with accurate information. For example, programs are underway to improve ingredient labeling and introduce novel recipes on product labels. On the packages of the "Green Giant" series, meanwhile, farm codes are printed; each individual product can be traced by its farm code and expiration date. New information about foods, food ingredients and recipes is posted on the website from time to time.

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



#### ● Indication of Allergens

In addition to mandatory information, allergens in the ingredients of 25 items designated by the Ministry of Health, Labour and Welfare are printed clearly on the packages of JT's frozen processed foods to provide customers with a sense of security.



#### Keeping Pace with Changes in Society

#### ● Development of Products that Meet the Needs of Present and Future Customers

Focusing on Japanese menus, JT offers the "Imadoki Wazen" series (frozen processed foods). Various other frozen foods are in the development pipeline to meet the needs of the aging society with fewer children and keep pace with changes in the lifestyle and preference of customers.

The "Roots" series – canned coffee drinks with the original taste and flavor of coffee – is produced through the HTST (High Temperature Short Time) process (patent pending), which is JT's proprietary technology designed to minimize the loss of flavor. The "Roots" series comes in a wide-mouth bottle, the first of its kind for canned coffee drinks. JT continues to develop and improve products to deliver "tastiness" to customers.



#### ● Communication with Customers

The customer service center gathers valuable feedback from customers, while answering their inquiries in a prompt and faithful manner. Those inputs from customers are fed into the database and shared among all related departments to improve products and services. In addition, a system is in place to quickly identify the cause of defects should they occur, followed by adoption of preventive measures.

## The Basics of Manufacturing Lies in a Customer-oriented Mindset and Careful Work

Keeping pace with changes in society – this is what JT's food business aimed at in its CSR promotion plan for the FY 3/2007. One such example is the development of "Nishuno taretsuki nikudango" (frozen meatballs with two types of sauces) using a paper tray. Two staff members in charge of product planning talk about this product, focusing on the concept and the approaches they adopted.

### Designing Products for the Convenience of Customers: Easy to Handle and Eat



Ikuko Nakagawa  
Section Chief, Product Planning, Food Business

Frozen meatballs are widely used in box lunches. Sunburg Co., Ltd., a JT Group company, specializes in ground meat products, such as hamburger steaks and meatballs, with its products valued by the food industry. So, we wanted to develop a product for home use through Sunburg's production techniques.

First of all, we aimed to develop a product that meets the needs of customers. That is, we wanted to develop a product that saves customers time and trouble – one that can be prepared quickly during the busy morning hours. Giving consideration to the environment was another priority. These are the ideas that served as the basis of the development. So, we began to work on developing a paper inner tray to do away with conventional plastic trays.

When we first showed a white paper tray to housewives at a home use test, they were surprised to find that it was made of paper, while their response was very encouraging. Preparing box lunches every day using several frozen foods produce a fair amount of waste. Plastic trays are convenient, but they end up in bulky waste, which appears to be a concern to customers. Lightweight paper trays were well received because they can be folded into a small size and are not made of plastic, a material made from depleting oil resources.

Our principle boils down to "customer-oriented, careful manufacturing." Put differently, we emphasize the convenience of customers when designing products, which should be easy to handle and eat. We'll stick to this principle, while continuing to improve packaging materials.

### Commercializing Products Through Retrofitting and Fine-tuning of Production Lines



Mika Uehara  
Superintendent, Product Planning, Food Business

The shift from plastic trays to paper trays caused a number of problems, to include halting production and stacking trays. However, we were able to solve these problems by changing the tray specification, retrofitting the production lines and fine-tuning the speed and timing of feeding.

Our presentation of "Nishunotaretsukinikudango" (frozen meatballs with two types of sauces) to supermarket buyers, etc., who serve customers every day to keep track of their needs, was a success. They highly valued the paper tray. Meatballs are very popular in box lunches – so much so that little ingenuities such as the adoption of paper trays with common sayings printed on them, and two types of sauces (sweet-and-sour and teriyaki) were well received, resulting in their high rating of the product.

It's very important to have a "customer-oriented mindset," which in part resulted in a paper tray. We also give due consideration to the design of packages, including the indication of allergens and the use of eye-friendly colors. We should always bear in our minds that such ingenuities are the basics of manufacturing – our principle in developing and improving products.



## Approaches to the Global Environment

# Chapter 3

## JT Group Environmental Management

With a premium on approaches to the global environment, JT and JT Group companies share with each other the principles and agenda for environmental conservation in accordance with the "JT Group Environment Charter" and are striving to implement the "JT Group Environmental Action Plans 2005-2008."

For details about the group companies that are implementing environmental management, please refer to p72.

### Developments in the JT Group Environmental Action Plans 2005-2008

JT Group's environmental management is underway at 20 group companies in Japan (including JT) and JT International (JTI). In accordance with the "JT Group Environmental Action Plans 2005-2008," performance targets are in place for CO<sub>2</sub> emissions, waste generation, recycling rates, water use, and other targets.

For example, JT reduced CO<sub>2</sub> emissions by 33.8% between FY1995 and FY2006, and JT group companies in Japan, by 23.1% between FY2003 and FY2006, through energy-saving measures and fuel shift.

JT Group factories in Japan achieved a 15.3% reduction in waste between FY2003 and FY2006 in part by reducing the

amount of sludge through optimization of wastewater treatment at tobacco factories. As a result of waste recycling promotion programs, moreover, 28 JT locations (15 factories and 13 branch offices, etc.) and five JT Group company locations achieved zero emissions.

For water use, overseas tobacco factories conserved water, domestic tobacco factories recycled air conditioning cooling water and food factories reuse treated wastewater for cooling towers. Through these measures, JT Group factories (including those located overseas) achieved a 45.8% reduction between FY2003 and FY2006.

JT and JT Group companies, as these figures show, have considerably reduced their environmental impact. Not only review of business operations but also improvement of production facilities and operation methods, and an increase

in the awareness of environmental conservation among employees played a part in these achievements. Of the key environmental management indexes, the targets for CO<sub>2</sub> emissions, waste generation and water use were revised, based on the performance in the first half of FY2006.

We plan to implement environmental management at more group companies, improve our environmental conservation programs, develop environmentally-friendly products and reduce the use of packaging materials for tobacco products, frozen processed foods, and other products.

We are also promoting afforestation and forest conservation activities at home and abroad. In addition to JT Forest Nakahechi and JT Forest Kosuge, we launched JT Forest Nahari in Japan and reforestation and forest conservation programs in Tanzania and Malawi.

	Objective	Target (FY2008)	Target Companies	Results in FY2006	Plans for FY2007	Related Page
Management System	Improve environmental management of the group	Expand the targets of group companies for environmental management	A	Reviewed the adoption of environmental management at Thai Foods International	Survey the performance of Thai Foods International	43, 66
				ISO14001 The Central Japan and Kyushu Regional Leaf Tobacco Headquarters and Japan Metallizing acquired ISO14001 certification. Asahi Shokuzai will file an application for 14001 certification in FY2007 (delayed due to the aftermath of a tornado).	ISO14001 Have Asahi Shokuzai acquire ISO14001 certification	
				ISO14001 environmental management systems Revised a model document to comply with the ISO14001: 2004 version Each business site revised the manual and confirmed through mutual auditing its compliance with it	ISO14001 environmental management systems Have more business sites put environmental management systems in place	
Products and Services	Promote development of eco-products	Continue to develop and launch eco-products	B	<b>Tobacco</b> Developed new eco-products based on the eco-product definition	Continue to develop eco-products	37, 46, 47
				<b>Food</b> Released an environmentally-friendly product (frozen processed food), introduced environmental impact survey sheets, reduced the weight of shrink film labels for PET bottles	Release environmentally-friendly products	
Process and Supply Chain	Reduce CO <sub>2</sub> emissions	<b>JTG</b> Reduce total CO <sub>2</sub> emissions by 20% of the level in FY2003 <b>JT</b> Reduce total CO <sub>2</sub> emissions by 32% of the level in FY1995	C	<b>JTG</b> Reduced by 23.1% between FY2003 and FY2006 <b>JT</b> Reduced by 33.8% between FY1995 and FY2006	Retrofit production facilities and continue energy-saving programs Continue to abide by the revised Energy Saving Law and the revised Global Warming Measures Law	27, 33, 46, 49
		<b>JTG</b> Increase the low emission vehicles for company-owned cars by 50% <b>JT</b> Maintain a modal shift ratio of more than 50% for long-distance shipping related to domestic tobacco business (railway, ships)		<b>JTG</b> The percentage of low emission vehicles: 53.9% <b>JT</b> The modal shift rate: 61.7%	Replace ordinary vehicles with low emission vehicles as the ordinary vehicles come off lease Maintain the modal shift rate at certain levels	
	Reduce the amounts of natural resources	<b>JTG</b> Reduce the amount of water used at factories per unit of sales by 40% of the amount in FY2003 <b>JT</b> Reduce the total use of water by 56% against FY1995	B	<b>JTG</b> Reduced by 45.8% between FY2003 and FY2006 <b>JT</b> Reduced by 57.6% between FY1995 and FY2006	Continue to reduce water use	27, 48, 49
		Proper management of chemical substances and reducing their use amount	Manage chemical substances properly in accordance with local laws and regulations in each country, sharing chemical substance management policy	B	The environmental audit team surveyed two business sites, with no non-compliances pointed out	Continue to manage chemical substances properly
	Comply with management classification determined by JT Group chemicals management guidelines, and reduce the use amount of those substances		C	Reduced the total amount of chemical substances subject to PRTR by 7.0% year on year	Explore alternative chemical substances to reduce the use of existing chemical substances and the risks involved, with a shift to those alternatives in mind	
	Reduce the waste generated and promoting recycling	<b>JTG</b> Reduce the total amount of waste generated at our factories by 14% of the amount in FY2003 <b>JT</b> Achieve zero emissions at all of factories and the headquarters, increase recycling rate for natural resources by more than 60% at offices	C	<b>JTG</b> Reduced by 15.3% between FY2003 and FY2006 <b>JT</b> Factories: 15 out of 17 factories achieved zero emissions Headquarters: achieved zero emissions Offices: the recycling rate of waste stood at 90.7%	Continue to reduce the amount of waste	27, 33, 47, 49
		Increase the recycling rate of waste to over 90% at factories	B	The recycling rate of waste stood at 84.0%	Continue to recycle waste	
	Promote green procurement of office supplies and equipment, and green procurement of raw materials	<b>JTG</b> Establish the standards for green procurement standards for office supplies and equipment and for assuring that such items are purchased according to those standards <b>JT</b> Increase the rate of green procurement of office equipment and supplies to over 80%	B	<b>JTG</b> The system was improved to keep track of the green purchasing rate of each business site. Increased the number of items to which green purchasing applies (21 items in total) <b>JT</b> The green purchasing rate: 73.9% (up 14.0% year on year)	Review items to which green purchasing guidelines apply	28, 33, 48
		<b>JTG</b> Establish the standards for green procurement for containers and packaging materials, as well as procurement targets thereof, by FY2006 (achieving those objectives targets by FY2008) <b>JT</b> Establish green procurement targets for containers and packaging materials in divisions by FY2005 (achieving this target by FY2008)		<b>Tobacco</b> Achieved 91% of the green procurement target set for raw material suppliers (83% of which have environmental management systems in place)	Set green procurement standards for packaging materials	
		Require that major supplier for raw materials establish the environmental management system	D	<b>Tobacco</b> Informed suppliers of environmental guidelines through posters and requested them to cooperate	Track and request the establishment of environmental management systems at major suppliers	
Environmental Education	Raise awareness for the environment among employees	Develop and conduct environmental education programs for employees and management	B	Offered training programs to incoming employees and environmental representatives Provided employees with environmental education tools through the Intranet	Continue to offer training programs Continue to offer environmental education through the Intranet	50
Environmental Communication	Support government and environmental organizations	Continue to provide support for environment-related projects promoted by government and organizations involved in activities for environmental conservation	E	Supported organizations engaged in environmental conservation activities	Continue to support organizations engaged in environmental conservation activities	—
	Afforestation projects	Conduct of afforestation activities for the conservation of ecosystems and forest resources	E	Implemented afforestation and forest conservation programs "JT Forest" at Nakahechi, Kosuge and Nahari in Japan Launched overseas programs in Africa (Tanzania and Malawi) to plant trees and improve agricultural productivity and living standards	Implement afforestation and forest conservation programs at home and abroad	50, 59
	Appropriate disclosure of environmental information	Improve the contents of reports from the perspective of the entire JT Group	E	Published JT Social and Environmental Report 2006, featuring not only environmental issues but also social issues and information on JT Group company activities	Publish this report, enrich the articles on CSR, as part of the CSR promotion plan	—

[Definition of Target Companies] The entire JT Group (A), Of JT Group companies tasked with environmental management – JT Group companies (domestic and overseas): (B), JT Group companies (domestic): (C), major JT Group companies: (D), JT only: (E)

\* Sales refer to those exclusive of tobacco tax in order to eliminate the effect of changes in the tax rate

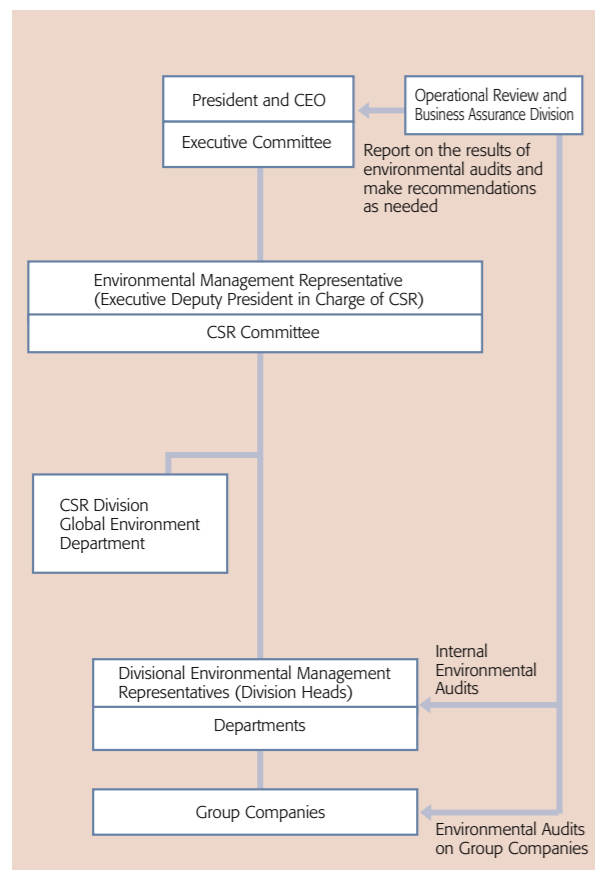
## Environmental Management Systems

### Environmental Management Promotion Systems

The executive deputy president in charge of CSR, as an environmental management representative, supervises the JT Group's environmental management, while the head of each division, as an divisional environmental management representative, controls environmental management of its division and the group companies concerned.

Based on the JT Group Environmental Action Plans, each business division sets, implements and improves environmental action plans of its own and the group companies concerned. Accordingly, each business location sets its environmental action plan, which is regularly checked and reviewed by its environmental management committee.

The CSR Committee – comprised of environmental management representative and divisional environmental management representatives, etc. – discusses and reviews issues, such as developments in the JT Group Environmental Action Plans, environmental management and specific measures, in a bid to improve the JT Group and each business division's environmental management.



### ● Environmental Management Systems Based on ISO14001 standards

The JT Group designs ISO14001 environmental management systems in accordance with the characteristics of each business site – e.g., business activities, the impact of products and services on the environment, functions and scale of operations.

All JT's factories had been accredited with ISO14001 certification by FY2003, and the headquarters, branch offices and laboratories had established environmental management system conforming to ISO14001 standards by FY2004.

JT Group companies, to which environmental management applies, are also designing an ISO14001 environmental management system, with 13 manufacturing companies already accredited with ISO14001. Non-manufacturing companies, meanwhile, are developing either environmental management system conforming to ISO14001 standards or similar simplified system involving development and implementation of environmental action plans, with two of them accredited with ISO14001. [See the related article](#) → p66

	JT	JT Group Companies
ISO14001 Certification	Factories	Manufacturing companies (and part of non-manufacturing companies)
Environmental management system conforming to ISO14001 standards	Offices (headquarters, branch offices, etc.) and laboratories	Non-manufacturing companies
Simple environmental management system (developing and implementing environmental action plans)		

### ● Gathering Information Through Environmental Information System

In FY2004, the JT Group began to collect environmental information through environmental information system "JT Group ECO-NET," focusing on the environmental performance of JT Group companies (to which environmental management applies), chemical substance management, PCB waste management, awards received, training records, qualifications and environmental management manuals – each of which is fed into a database.

"JT Group ECO-NET" makes it possible to monitor the JT Group performance and tabulate/analyze the performance of each business, company and business site. It serves as an effective tool to track the JT Group Environmental Action Plans and promote environmental activities.



## Environmental Auditing

### ● Auditing Standards and Status

Business sites adopting an environmental management system based on ISO14001 certification or in accordance with ISO14001 standards conduct self auditing as well as cross organizational auditing (i.e. a mutual auditing system whereby a business site conducts a review of another business site in the same area, with the areas predefined in a number of blocks). In addition to this, our company headquarters has conducted environmental audits encompassing the entire JT Group, including factories, research facilities, and branches of JT as well as JT Group companies since 1996.

With regard to environmental audits conducted by the headquarters, the Operational Review and Business Assurance Division, our internal auditing function, performs reviews for sites selected each year, focusing on compliance with environmental laws and regulations, and key environmental issues pertaining to business. The key environmental issues for FY2006 included the management of chemical substances based on the "Chemical Substance Management Guidelines", and the management of storage locations at consolidated storage facilities handling equipment using PCBs.

Business sites are required to develop action plans to address observations arising from the audit. Findings that are considered important are reported to the President together with corresponding action plans. At the same time, they are communicated to the business sites and the division supervising those business sites. The Operational Review and Business Assurance Division subsequently perform follow-up audits as necessary to review the status of action plans.

### ● Auditee

Seven of JT's business sites were audited in FY2006.

[See the related article](#) → p66

### ● Laws and Regulations Covered by Environmental Auditing

Environmental auditing is designed to review compliance with 15 environmental laws and regulations.

[See the related article](#) → p66

### ● Audit Results

We noted noise levels in excess of those permitted at one site, due to the air-conditioning unit installed in the office building. This has subsequently been addressed.

Day-to-day Control	Noise levels in excess of the local regulation at one site (caused by the air-conditioning unit installed in the office building)	one site
--------------------	---	----------

### Report from Business Sites Other than Those Concerning Environmental Audits

While each business site is striving to abide by environmental laws and regulations concerning pollution control and environmental conservation four cases were reported in FY2006 where measurement values were exceeded standards

(both compulsory and voluntary). Of these, three cases were dealt with in FY2006, with corrective action already in place. For the remaining one case, the facilities will be retrofitted in FY2007.

No business site was penalized for violating environmental laws and regulations in FY2006, and thus far no lawsuit has been filed against JT for failure to comply with any of them (concerning emissions, effluent, etc.).

### ● Summary of Environmental Audit in FY2006

The environmental audit in FY2006 focused on compliance with 15 environmental laws and regulations, the management of chemical substances based on JT's "Chemical Substances Management Guidelines", as well as the management of consolidated storage facilities handling equipment using PCBs. JT's environmental management activities are yielding results and we have seen a decline in the number of our audit observations, as the ISO14001 certification and our environmental management system designed in line with ISO14001 standards, are obtained or introduced.

Several factors were taken into account in selecting business sites for the audits, such as complaints from neighboring communities, the need to comply with relevant laws and regulations and the number of years that have passed since the last audit.

For FY2006, we conducted audits at 7 sites, including the pharmaceutical research facility and tobacco sales branches.

We noted noise levels in excess of the local regulation at one site, due to the air-conditioning unit installed in the office building in one of the sites we audited.

With regard to key business-related environmental issues, our audit objective for this year was to assess the management of chemical substances and consolidated storage facilities handling equipment using PCBs at selected sites. The results indicated that each site was managed appropriately in accordance with the company's policy and no findings have been noted from our audit.

Findings noted during audit fieldwork are communicated to auditees on site with our recommended action plan to support smooth implementation of corrective action. Furthermore, those findings pertaining to cross-organizational issue are advised to responsible divisions, in order to facilitate the status monitoring and the implementation of actions.

Each site obtains updates on revisions to environmental laws mainly from the Global Environment Department of the CSR Division. As a result, we expect JT to continue to comply with environmental laws and regulations.

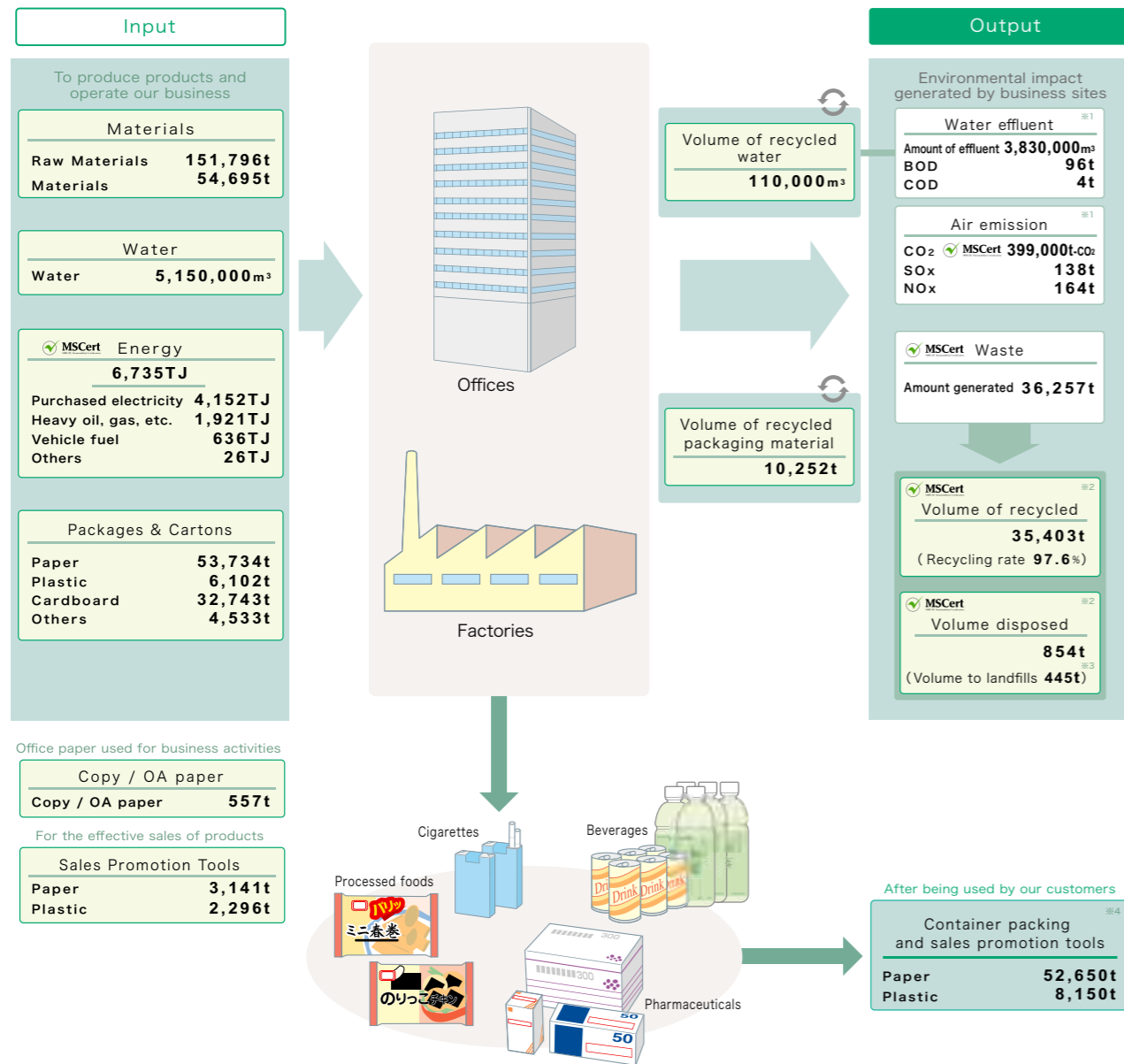
Nobuhiro Hayamichi  
Vice President, Operational Review and Business Assurance Division  
Japan Tobacco Inc.  
March 31, 2007

早道信宏

# Approaches to Reduce Environmental Impacts

## Business Activities and Environmental Impacts

(Number of companies in the scope of JT Group EMS: 20 companies in Japan including JT)



**Calculation method volume of emissions released into the air**

CO<sub>2</sub>: CO<sub>2</sub> emission coefficients from the Environment Activity Evaluation Program (The Environment Agency, September 1999) were used. Regarding purchased electricity, figures were computed using a coefficient for thermal power generation of 0.55kg-CO<sub>2</sub>/kWh. Figures for city gas were computed after emission coefficients for each type of gas were established.

NO<sub>x</sub>: NO<sub>x</sub> emission coefficients from the Environment Activity Evaluation Program (The Environment Agency, September 1999) were used.

SO<sub>x</sub>: Calculation of SO<sub>x</sub> emissions by conversion of the sulfur content, density, effectiveness of desulfurization equipment etc., for each fuel used. Regarding purchased electricity, figures were computed using 0.00024kg/kWh (performance indicated by a FY1999 survey conducted by the Federation of Electric Power Companies).

\*1 Amount of waste water, BOD (biological oxygen demand), COD (chemical oxygen demand), SO<sub>x</sub> and NO<sub>x</sub> were surveyed only at factories.

\*2 Volume disposed is the total of waste that has undergone intermediate processing (incineration, compression, neutralization, crushing, etc.) and has been sent to landfill through a commission agreement with an external company. It does not include the amount of recycled waste.

\*3 The volume to landfill is the combined total of that volume which is removed from the company to landfills and that volume which is disposed of at landfills after intermediate processing outside of the company. This does not include the portion remaining after the natural resources have been recycled outside of the company, and which becomes landfill.

\*4 The volume of waste coming from packaging materials after customers have finished using them, and sales promotion tools, is estimated from the sales results, and does not reflect actual figures.

The following is an overview of the JT Group's approaches in Japan to reduce its environmental impact. (See p27 for details about those for the international tobacco business)

**Approaches to Address Global Warming in Japan**

To address global warming, such as the Kyoto Protocol, in place, the JT Group is striving to save energy and reduce greenhouse gas emissions.

In fact, a variety of programs are underway to streamline manufacturing processes, reduce energy consumption, use nighttime electricity and switch from heavy oil to natural gas.

See the related article → p49

As a member of the "Team Minus 6%," a national campaign launched by the ministry of the Environment, JT is stepping up efforts to address global warming through control of office air-conditioning and participation in COOL BIZ and WARM BIZ campaigns.

The revised Energy Saving Law (Law Regarding the Rationalization of Energy Use), which took effect in April 2006, set forth and stepped up measures to save energy in the transportation, industrial, residential and building sectors. In accordance with this law, the JT Group is working on registration of the amount of freight and periodic reports in FY2006 and plans for FY2007.

Meanwhile, freight ton kilometers of JT, such as raw materials, tobacco products, beverages products, etc., totaled 443 million in FY2006.

Efforts are also underway to promote modal shift\*, increase the loading rate of trucks and switch to low emission vehicles.

The tobacco business transports a significant part of its products and raw materials by rail, resulting in a modal shift rate of 61.7% in FY2006. In addition, a program has been underway to improve the loading rate of trucks, which stands at 99.9% (on a pallet basis) for 10-ton trucks hauling finished products from factories to distribution centers.



Railroad transportation (raw materials and products)



Tobacco delivery truck



Beverage delivery truck

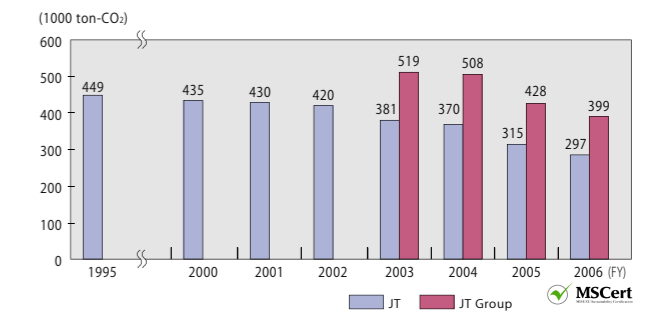
The JT Group fleet of sales vehicles, meanwhile, is switching to low emission vehicles – 4,358 out of 8,082 units are low emission vehicles as of the end of March 2007, with 1,139 units introduced in FY2006 alone (accounting for 53.9% of the total).

At TS Network Co., Ltd., 27 natural gas-powered trucks (which emit less CO, NO<sub>x</sub> and CO<sub>2</sub> than gasoline-powered vehicles) are in service to distribute JT's tobacco products.

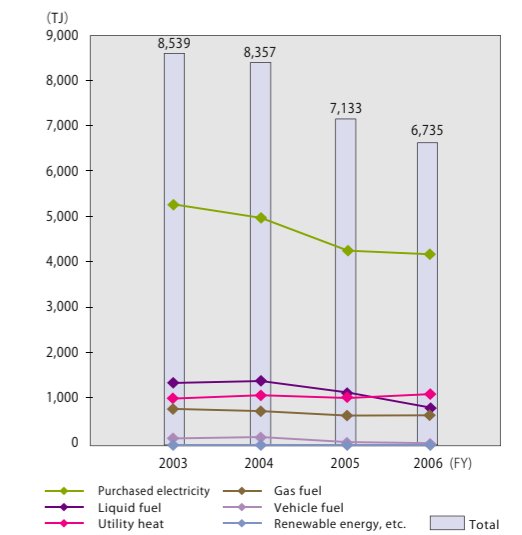
Trucks and sales vehicles for the beverage business are also being replaced with low emission vehicles.

As a result, JT reduced its CO<sub>2</sub> emissions by 34% between FY1995 and FY2006, and the JT Group, by 23% between FY2003 and FY2006.

Trends in CO<sub>2</sub> Emissions



Energy Consumption by Item



\*Modal shift: "Modal shift" is a shift to a mass transportation mode (railroad and marine transportation) with less environmental impact. The "modal shift rate" refers to the share of railroad and marine transportation in long-distance transportation (over 500 km) in terms of cargo volume.



**Promoting 3R of Waste (Domestic)**

The JT Group is promoting 3R (Reduce, Reuse and Recycle) of waste in an effort to conserve limited resources. Accordingly, the JT Group Environmental Action Plans establishes targets for reducing waste at the JT Group's factories, and the headquarters and offices of JT.

The JT Group in Japan reduced the amount of sludge and redesigned manufacturing processes in FY2006, which resulted in an 11% decrease in waste between FY2003 and FY2006.

JT achieved zero emissions at 28 locations (15 factories and 13 branch offices, etc.). The recycling rate stands at 99.96% at factories, 100% at the headquarters and 90.7% at offices. Likewise, the JT Group achieved zero emissions at 33 locations, with their average recycling rate standing at 97.6%.

The JT Group, moreover, is striving to reduce waste not only from factories and offices in Japan but also from the packaging materials of its products.

For example, box-type cigarette packs are redesigned to reduce the weight by shortening the folded portion of the lid. At the same time, a packaging simplification program in the domestic market, to reduce the use of paper and plastic film, with a switch from carton packaging (10 packs per carton wrapped in film) to parcel packaging (packaging paper only) has been completed in FY2006, except for a few brands that are being test-marketed.



Carton packaging



Parcel packaging

Reductions in the use of packaging materials (10 packs per carton: PIANISSIMO One)	
Paper	23g→9g
Plastic film	2g→0g

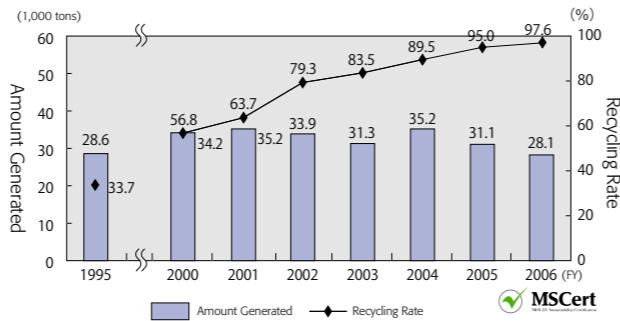
The packaging of frozen processed foods, too, is becoming environmentally friendly; a similar program is at work to change packaging materials and reduce their weight.

*See the related article* → p37, p39

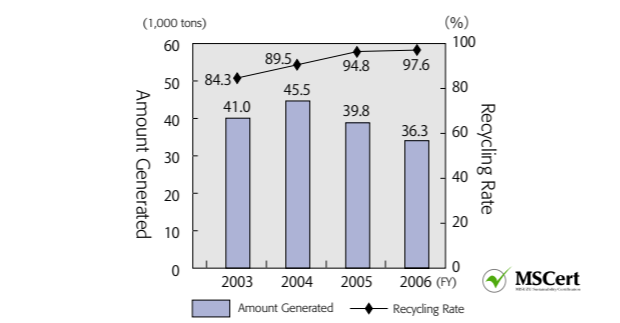
JT's environmental consciousness goes beyond packaging materials: sales promotion tools (posters, stickers, etc.). Polyvinyl chloride materials were phased out in FY2000 and the paper used for posters, etc. is made of partly recycled paper.

JT opted in December 2006 to lease fluorescent lamps used in its factories, offices and tobacco vending machines instead of purchasing in order to promote recycling and dispose of properly. Used fluorescent lamps are collected and recycled properly. A total of 19,958 units were leased between December 2006 and March 2007.

Trends in Waste Generation and Recycling Rates (JT)



Trends in Waste Generation and Recycling Rates (JT Group)



**Conserving Water Quality and Reducing Water Use (Domestic)**

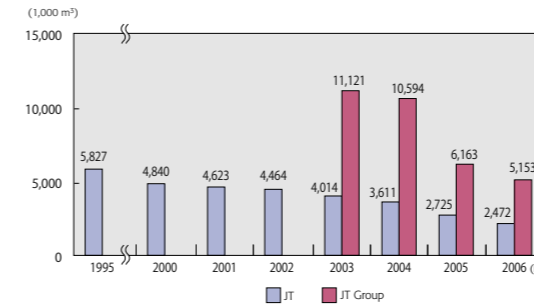
In addition to conserving water quality through wastewater management, JT is working on reducing water use.

In fact, programs are in place to retrofit facilities (through improvement and integration of manufacturing processes), optimize water use and recycle water. Employees are also encouraged to save water.

As a result, JT reduced water use by approximately 58% between FY1995 and FY2006, and the JT Group, by approximately 54% between FY2003 and FY2006.

*See the related article* → p49

Trends in Water Use



**Managing and Reducing the Use of Chemical Substances (Domestic)**

The JT Group continues to appropriately manage chemical substances at its laboratories and factories in accordance with the "Chemical Substance Management Guidelines," which are in line with a total of 20 laws and regulations related to chemical substances. The objective is to prevent pollution of the surrounding business site areas and ensure the safety of employees. In particular, all the laboratories have an integrated system in place to manage the purchase, use and disposal of reagents in accordance with their own manuals based on the "Chemical Substance Management Guidelines."

Six substances were subject to the PRTR Law in FY2006 (a total of 17 tons handled by seven business sites); the amount released into the atmosphere and transferred to other locations was duly reported. For acetnitrile and chloroform used for R&D, both their emissions and disposal are under close control. Incidentally, the fuel for factory forklifts contains xylene and toluene, and the refrigerant for freezing machines, chlorodifluoromethane.

As a result, the total amount of chemicals reported under the PRTR Law decreased by some 7% year on year in FY2006.

Trends in Release and Transfer of Chemical Substances under the PRTR Law (JT Group)

Chemical Substances	Amount Released		Amount Transferred	
	FY2005	FY2006	FY2005	FY2006
Toluene (t)	0.73	0.83	0.09	0.03
Xylene (t)	0.06	0.00	0.27	0.29
Acetnitrile (t)	0.04	0.04	7.66	7.55
Chloroform(t)	0.14	0.13	7.56	7.19
Chlorodifluoromethane (t)	2.03	1.23	0.00	0.00
Dioxins (mg-TEQ)	5.53	0.17	17.7	8.73

\* Number of business sites reported: 10 in FY2005 and 7 in FY2006

**Managing and Storage of PCB Wastes (Domestic)**

JT has a system in place to properly store and manage PCB wastes (high-voltage transformers, fluorescent lamp ballasts, etc.) in accordance with the "PCB Waste Management Regulations" – in-house regulations established in accordance with the Waste Disposal and Public Cleaning Law and the Law Concerning Special Measures Against PCB Waste. PCB wastes were stored at 29 business sites as of the end of FY2006.

JT signed a PCB wastes disposal consignment agreement with Japan Environmental Safety Corporation (JESCO), a special company wholly owned by government that operates five regional treatment facilities to treat the PCB wastes. PCB wastes are appropriately stored and managed until they are entrusted to JESCO for disposal.

Storage of PCB Waste (JT)

Types of wastes	Transformers, capacitors, etc.	Fluorescent Lamp Ballasts	Waste PCB oil (in containers)	Others
Amounts of Units	883	82,169	412	873

\* As of the end of FY2006

**Promoting Green Purchasing (Domestic)**

JT sets forth the "Green Purchasing Guidelines," which specify standards and procedures for green purchasing, to encourage the purchase of goods that have less environmental impact. Goods to which the guidelines apply are expanding to include office supplies, items used for welfare purposes, printed matter, office furniture, office automation equipment, vehicles and uniforms; their number increased from 990 in FY2005 to 1,011 in FY2006.

All goods are purchased or leased through an intranet-based purchasing system, with an electronic catalogue listing cost-effective and environmentally-friendly goods to increase the green purchasing rate. As a result, JT's green purchasing rate increased from approximately 60% in FY2005 to approximately 74% in FY2006 (in value terms).

### Reducing Environmental Impact at Each Business Site

The JT Group's business sites are working on a variety of programs to implement the JT Group Environmental Action Plans.

#### ● Global Warming Prevention

##### JT Kansai Factory

Energy-saving Project

Management of air conditioning at the tobacco manufacturing lines is essential in the quality control of products. The Kansai Factory is thus working on a project to optimize its air conditioning system in an effort to save energy. Specifically, the areas where heat-generating machines are installed are intensively cooled, with air conditioning nozzles relocated and adjusted to improve the overall cooling efficiency. As a result, the factory saved about 1.2 million kilowatt hour of electricity in FY2006.

##### JT Kita-Kanto Factory

Using Nighttime Electricity and Promoting Energy Shift

The Kita-Kanto Factory has the NAS Battery Power Storage System, which is less dependent on fossil fuels, in place to make use of nighttime electricity. Currently nighttime electricity accounts for about 50% of the factory's power consumption.

At the same time, the factory switched from Bunker A to town gas in FY2006, which resulted in a 2% year-on-year decrease in CO<sub>2</sub> emissions. (Town gas is more efficient than heavy oil in term of the amount of CO<sub>2</sub> emissions per calorie.)



##### The JT Headquarters

Energy-saving Initiative

As part of the efforts to reduce CO<sub>2</sub> emissions, all the lights of the office are put out between 12:15 and 13:00 and at 19:30, with part of it illuminated only when necessary. For air conditioning, a program is in place to optimize temperature and operating hours.

#### ● Promoting 3R of Waste

##### JT Tachikawa Area Sales Headquarters

Approaches to Zero Emissions

The Tachikawa Area Sales Headquarters tracks waste segregation and recycling programs in a bid to achieve zero emissions. Specifically, waste materials are segregated into paper, plastics, metals, materials containing metals, cloths (cotton waste, etc.), batteries, etc. Posting notification, which

clarifies how to separate the waste materials, in the disposal area has made separation easier. Also, the unique idea of attaching the name to each waste disposal bag was proposed by the sales representative. These approaches, coupled with the heightened awareness and action of each individual employee, contributed to a dramatic increase in the recycling rate, followed by the achievement of zero emissions in December 2006.



##### lipingsyang Foods Corporation

Approaches to Reduce Sludge

As part of its waste reduction program, lipingsyang Foods Corporation is working to reduce the amount of sludge generated by wastewater treatment facilities. In fact, the amount of sludge has been reduced by more than 20%, with a system in place where bacteria in a pre-treatment wastewater tank break down nutrients.



#### ● Reducing Water Use

##### JT Hamamatsu Factory

Water Use Optimization Program

The Hamamatsu Factory carried out a program to optimize the cleaning of rotors in the manufacturing lines, which resulted in a saving of 8,200 tons of tap/industrial water in FY2006.

##### Nihon Shokuzai Kako Co., Ltd.

Treated Wastewater Reuse Program

Nihon Shokuzai Kako has a system in place to reuse treated wastewater for cooling towers, rooftop sprinkler systems (during summertime), etc. – which reduces the cooling load of air conditioning systems and hence saves electricity.



## Environmental Communication

**JT places a premium not only on reducing its environmental impact but also on human resource development and internal/external communication.**

### Educating Environmental Representatives

Training programs are offered to environmental representatives to promote environmental management, while the information needed for their day-to-day operations is provided through the intranet.

#### ● Offering Training Programs to Environmental Representatives

Training programs are underway to familiarize environmental representatives with environmental management system conforming to ISO14001 standards, and improve their skills in environmental auditing. In addition, newly-appointed representatives learn how to use JT Group ECO-NET.

See the related article → p66



Environmental representatives at a training program

#### ● Providing Information to Environmental Representatives

Environmental representatives are provided with the information they need through the intranet, including updated in-house regulations and environmental laws and regulations. The intranet also features the "Environment Consultation," to which environmental representatives are invited to submit opinions and questions for information sharing purposes.



Intranet

### Offering Environmental Education Programs and Information to Employees

The JT Group disseminates and shares environmental information through the intranet and company magazines so that each individual employee can have a clear understanding of environmental issues and measures to address them.

With environmental education tools, moreover, the intranet provides employees with information on environmental activities and performance to raise their awareness of environmental issues. The "JT Forest," activity meanwhile, provides participants (JT employees and their families) with opportunities to learn about afforestation and conservation through activities such as afforestation, weeding and thinning.

See the related article → p59



### Company Magazines Featuring Environmental Activities

The JT Group uses a variety of tools to provide stakeholders with information on group environmental activities.

- |                                  |  |
|----------------------------------|--|
| Environmental reports            | Report on JT Group environmental policy, activities and performance  |
| Eco Report                       | Brochures featuring an overview of JT Group environmental activities   |
| Internet                         | JT Group's environmental activities are posted on the website<br>URL <a href="http://www.jti.co.jp/JTI/environ/">http://www.jti.co.jp/JTI/environ/</a> |
| Newspaper ads and TV commercials | The JT Group's environmental activities are publicized through newspaper ads and TV commercials  |



Eco Report

**JT Group Company's Approaches to Environmental Communication**

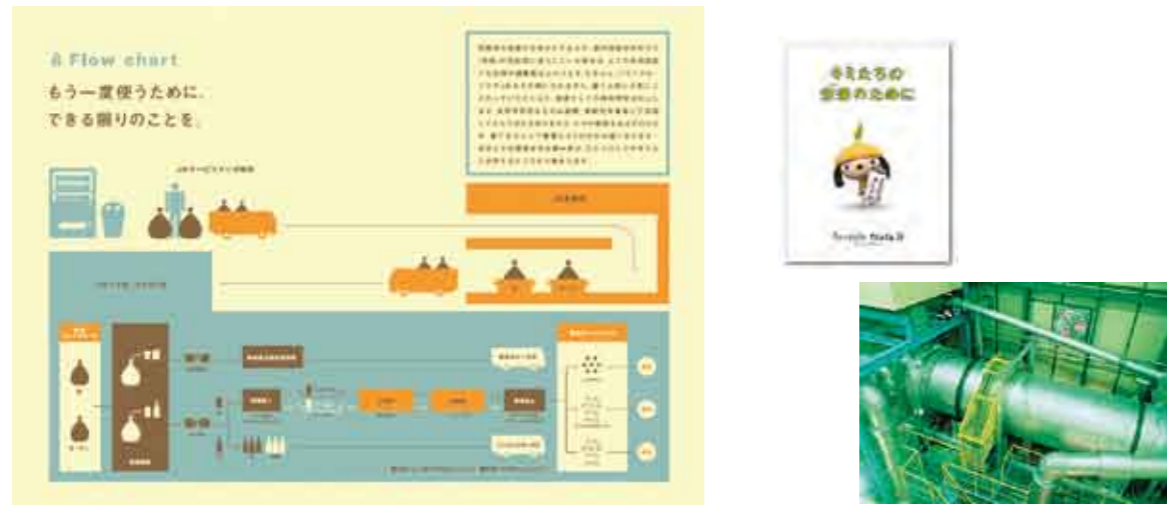
"Recycle Plaza JB," an intermediate treatment plant for used beverage containers jointly set up by Japan Beverage Inc. and JT, treats aluminum and steel cans with heat to produce high-purity pellets. The plant was recently retrofitted with compressors to treat a growing number of PET bottles.

"Recycle Plaza JB" is also unique in that it provides the public with a learning environment, with a passage for visitors and an environmental education room. In addition, exhibits and information boards play a part in raising the public's awareness of environmental issues.

The challenge in addressing environmental issues boils down to this: Will the Earth still be beautiful when our children grow up? We want to provide children, who will play the leading role in the future, with meaningful time and space where they can think about "protecting their wonderful future by themselves." This commitment has culminated in the programs currently underway at "Recycle Plaza JB."

"Recycle Plaza JB," meanwhile, has won a variety of awards for its pioneering approaches to recycling.

Japan Beverage Inc.  
 URL <http://www.jbinc.co.jp/ecology/plaza.html>



**Internal and External Communication**

JT is engaged in internal and external communication through questionnaires and other approaches to track where it is, with findings analyzed to come up with corrective action.

**● Eco Report: Questionnaire Postcard**  
 A questionnaire postcard is attached to "Eco Report" to gather opinions on "Eco Report" and the JT Group's environmental conservation activities. To date, we have received 101 replies, some of which are shown below. We continue to issue "Eco Report," while communicating our environmental approaches both internally and externally.

- JT should step up efforts to publicize its environmental approaches
- There should be more community-based citizen participation programs, such as cleanup activities.

**● Online Survey**  
 We are conducting surveys via the Internet in order to determine how our environmental conservation activities are recognized and rated; a total of 2,400 adults completed questionnaires in FY2006.

While the "Good Smoking Manners" campaign, the "Pick Up, and You Will Love Your City" campaign and the provision of smoking areas (separation of smoking areas) are well recognized and rated, worthy of special note is a breakthrough in afforestation and forest conservation programs, which are recognized and rated much higher than they were in the previous survey.

The results of the questionnaires show that JT should work harder on the following:

- Development of highly biodegradable cigarette filters
- Reduction and recycling of waste
- Afforestation and forest conservation (the "JT Forest" program)
- Adoption of packaging materials that can be readily segregated and recycled

**Front-line Activities**

**To Make a Step Forward in Ensuring Safety and Addressing Environmental Issues –Sunburg Co., Ltd.–**

**JT's tobacco and food businesses use plants and other natural raw materials, such as leaf tobacco, vegetables, wheat, fruit, coffee beans and tea leaves. JT business, for that matter, depends primarily on agricultural products, and by extension, on nature. It is thus imperative that we contribute to environmental conservation so that we can continue our business and fulfill our social responsibility. The following is an overview of the environmental programs underway at Sunburg, a JT Group frozen processed food manufacturer.**

**Contributing to Society with Safety and Environmental Conservation in Mind**



Hiromitsu Nabeta  
 President and CEO

Sunburg as a JT Group company, is engaged in the development and manufacturing of frozen processed foods, such as hamburger steaks and meatballs. Our philosophy has always been to ensure safety from the day of establishment in 1972. In our situation, safety refers to the safety of employees, products and the local community in which we operate.

Our commitment to contributing to the local community, with its safety and regional environment in mind, is reflected in our environmental policy, which emphasizes its location: Sashima-gun (Ibaraki Prefecture), a region with beautiful nature and flourishing agriculture. In addition to reducing waste, improving the recycling rate and saving electricity and heavy oil, we began to work on reducing the environmental impact of our products in FY2005, which is producing results.

Our day-to-day business activities translate into manufacturing quality products efficiently with a minimum input of energy and resources, minimizing customer complaints and reducing useless waste as much as possible – each of which is a challenging task.

**Address:** 1436-1 Nishiizumida, Sakaimachi, Sashima-gun, Ibaraki  
**Capital:** 100 million yen  
 Number of employees: 150 (as of March 31, 2007)  
**Major products:** Frozen processed foods (hamburger steaks, spring rolls, meatballs and bakery goods)

**Making Steady Headway toward Great Achievements**



Keiji Kasatani  
 Director and General Manager

With emphasis on compliance with laws and regulations and prevention of environmental pollution, we are striving to save resources and energy, reduce the environmental impact of our products, minimize waste and promote recycling, while gearing up to achieve zero emissions in FY2007.

We are also working on designs that reduce the environmental impact of products. Among others, our products using paper trays and cups have played a major role in reducing the environmental impact of the JT Group.

**Energy-saving Programs Producing Big Results**



Hiroshi Kuranishi  
 Section Chief, Maintenance and Service Environment Management Division

We carried out programs to save electricity, some of which include optimization of lighting and air conditioning systems, and adoption of low-voltage capacitors. We also pushed ahead with a preventive maintenance program in accordance with a maintenance calendar to increase the capacity utilization – a means to reduce power consumption.

**Offering Environmental Education The ECO Test Playing a Part in Promoting Environmental Education**



Minoru Fukushima  
 Deputy Chief, General Affairs Division, General Affairs Department

All employees are expected to have a good understanding of environmental issues and to think and act on their own, which is the reason why we encouraged them to take the first Certification Test for Environmental Specialists (ECO Test), sponsored by the Tokyo Chamber of Commerce and Industry. With a wide range of knowledge on the environment, they will be able to take the lead in addressing environmental issues. We developed learning materials on our own and held a series of lectures prior to the examination. As a result, 11 employees passed the examination.

**Attempting and Passing the ECO Test Changes My Awareness of Environmental Issues**



Noriko Gokadani  
 General Affairs Division, General Affairs Department

Preparing for the test helped me learn about environmental issues. I thought the knowledge was also useful for internal environmental audits, which is why I decided to take the test. Now that I passed the test, my colleagues, who studied with me, and I agree on at least one thing: Studying by itself has improved our awareness of environmental issues.

## JT Group Environment Charter

### Basic Principle

We at JT believe that corporate social responsibility represents to provide "Irreplaceable Delight" to the customers, shareholders, employees and society through our operations, and serve as a good corporate citizen acclaimed by society on a continual basis. And also, we recognize that active involvement in environmental issues being primal theme in terms of corporate social responsibility. Based on the basic policy, we continue to act as a good neighbor with local communities in all countries and regions where we operate, and try to bring about harmony between our corporate activities and the environment, with hoping to leave the healthy and productive environment to future generations.

### JT Group Environmental Policy

#### 1. Management System

We will continually improve our environmental management system to enhance our environmental performance.

#### 2. Compliance

We will comply with every environmental laws in all countries and regions where we operate.

#### 3. Products and Services

We will continually strive to reduce environmental impact in the process of product development and services.

#### 4. Process and Supply chain

We will reduce the environmental impact and optimize the use of natural resources at all stages of our activities, from procurement of raw materials and manufacturing, through to sales and distribution.

#### 5. Environmental Education

We will develop a culture of environmental awareness through education and training; encouraging employees to take personal responsibility for their actions for creating a better environment, and suppliers to understand our Charter.

#### 6. Environmental Communication

We will make an appropriate of our environmental performance and keep good relationships with our stakeholders through active communication.

## Towards being a "Good Corporate Citizen" in Communities

# Chapter 4

## Social Contribution Activities of the JT Group

### JT Group's Social Contribution Policy

In order to further promote its activities, the JT Group developed the "JT Group's Social Contribution Policy" by focusing on "Social Welfare," "Culture and Arts," "Environmental Activities" and "Aid for disaster-stricken areas" as the four top priorities.



### JT Group's Social Contribution Policy

As a good corporate citizen and a member of society, the JT Group will carry out its corporate social responsibility by contributing to the local communities it serves in a sustainable manner.

The JT Group will select from these four areas those programs which best address the challenges of each local community, and in this way will contribute to the development of the communities we serve.

As a good neighbor, the JT Group will support the regeneration and revitalization of the local communities, focusing on:

Based on this policy, the JT Group implements a wide variety of social contribution activities in markets around the world. In doing so, the company actively encourages the participation of its employees, many of whom today volunteer their time and energy to this cause.

- "Social Welfare"
- "Culture and Arts"
- "Environmental Activities"
- "Aid for disaster-stricken areas"

### Towards being a "Good Corporate Citizen" in Communities



## Social Welfare

**As a good neighbor, JT is implementing various social welfare programs to contribute to regeneration and revitalization of the local community. The JT Group is also approaching community-based social contribution activities at each operation across the country.**

● **NPO Support Projects for Youth Development**  
Considering that the human resource development, especially "development of youth" responsible for the next generation, is essential in order to regenerate and revitalize the local communities and to build a better society, JT supports projects led by NPOs jointly with the community aiming at the sound growth of young people. The selection criteria are that the project is one that will lead to the youth development. In particular, JT encourages projects related to environmental beautification and environmental conservation.

We started this NPO support project in FY1999 with subsidies actually provided to 624 programs over past eight years until 2006 in the amount of 750 million yen in total.

For the projects in FY2006, we provided subsidies of 43,410,000 yen in total to 34 corporations in 22 prefectures selected out of 128 applicants after the deliberation by the "NPO Support Program Promotion Committee," which mainly consists of outside experts. [See the related article](#) → p69

### "Green and Life School" in Joetsu City, Niigata Prefecture

This is an NPO that conducts "Play in the Wildness Kids Club". JT supported the one-day program "Wanpaku (Wild) Day Camp" (7 times in total), overnight experiential activity program "Let's Live in the Wildness camp" (7 times in total) and the program to engage with snow, "Be Chummy with Snow camp" (4 times in total).

### Comments by the NPO representative

This helped us a lot as not many subsidies allow personnel expenses. Thanks to the support, we could help kids expand their activities with more detailed responses and instructions. Also, the financial support for the equipment and materials enabled us to conduct activities according to the children's stage of development and to respond to the children's challenging spirits. I hope JT will expand its support to more organizations in the future.



### "Sakou Club" in Izumisano City, Osaka Prefecture

The "Sakou Club" provides children with a place to spend time on holidays or to help children learn cooperation and consideration for others through practicing sports or handicraft, and through the interaction between children or with high school students who are there as assistant instructors. JT provided support to "Kids Sports Class" and "Handicraft Class."

### Comments from the NPO representative

JT's concept of supporting NPOs with focus on "Development of Youth" matched exactly the objectives of our activities. At the same time, the contents of the support were very attractive for an underresourced NPO such as us, as it covered even purchasing of goods. The support really helped us in supplying goods that had long been wanted. Also, it was nice to have JT people visit and see our activities and for us to see the JT empathy and understanding.



### "Sanps" in Ashiya City, Hyogo Prefecture

Using the Ashiya River that runs through the center of Ashiya City, Hyogo Prefecture, NPO Sanps conducts an environmental study for elementary school children. The aim is to enhance children's ability to learn on their own and communicate their ideas with others as well as to provide a chance for human interaction with wide range of adults in the region. JT provided support to "Ashiya River Expedition—Help Mokuzugani crab (Eriocheir japonica) Run the River," one of their activities of environmental study that started in 2005.

### Comments by the NPO representative

I felt that the JT's philosophy was very close to our slogan, "the basis of learning is playing!" and I thought JT would understand our activities. I thank JT for its support that made not only the number of participants increase but also upgraded our activities compared to last year. Further, I believe that our activities won many prizes because our activities were very much appreciated by many people, including JT.



● **Opening Company Facilities to the Local Community**

JT opens up its company facilities for the convenience of local people in the community where it serves, such as opening the ground for sports activities or providing suitable sites for festivals.



"Autumn Anticrime Festa" (sponsored by Oyodo Crime Prevention Association and Oyodo Building Security Association) was held in the parking lot at the JT Osaka Area Sales Headquarters.



Junior Softball Tournament was held at the JT Kyushu Factory grounds.



The JT Central Pharmaceutical Research Institute opened its grounds to provide the local community with access to a cherry-blossom viewing.

● **Volleyball Classes**

The "JT Thunders", the company's men's volleyball team, and the "JT Marvelous", the women's team, both of which play in the Premier League, the top category volleyball league in the country, teach volleyball to elementary and junior high school children, as well as to mothers' teams. These volleyball classes are held by the municipalities and take place mostly in Hiroshima, Hyogo and Osaka Prefectures, their home turf.

● **Community-based Jazz Event—"Jazz in Tokyo"**

"Jazz in Tokyo" is a jointly held event by JT and the people in the Toranomon and Shinbashi area of Minato-ku, Tokyo, where the JT headquarters is located. JT supports the event in cooperation with the neighborhood association and local residents, and participates in community festivals and events including the jazz concert "Live@Toranomon" in the JT Art Hall Affinis.

● **JT Asia Scholarship**

Since 1998, JT has provided scholarships for privately-financed overseas students from various countries in Asia, supporting their studies and research in Japan in order to contribute to promoting the international interactions and human resource development in Asian countries.



● **JT Honobono (Heartwarming) Concerts**

The concerts present children's songs and songs for use in school music classes arranged in contemporary style to make them familiar to children, which incorporates beautiful archetypal images of Japan. They sing accompanied by piano, occasionally with narrations amusing and easy for children, and sing together with the audience. This introduces the songs in a way easy to understand that these are handed down to future generations.

● **JT Shogi Japan Series Tournament for Kids**

We host the JT Shogi Japan Series Tournament for Kids held simultaneously with the professional Shogi official tournament, the JT Shogi Japan Series. Under the theme of fostering a heart through playing Shogi, the tournament is held across the country. Through Shogi, we hope to encourage children to grow up with good manners and consideration for others, while experiencing the joys and sorrows of playing the game of Shogi.



● **Aid for Improving Educational Opportunities in Developing Countries**

Against a backdrop of unrelieved poverty, many school-age children in developing countries are forced to join the workforce instead of receiving a decent education. JT participates in the ECLT Foundation<sup>(\*)</sup>, which is involved in fighting against child labor exploitation in collaboration with the International Labour Organization (ILO), and in providing support to improve educational opportunities for children in such countries.

<sup>\*</sup> Eliminating Child Labour in Tobacco-growing (ECLT) Foundation  
ECLT, which is comprised of the International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Association (IUF), the International Tobacco Growers' Association (ITGA), tobacco manufacturers and leaf tobacco suppliers, foundation is committed to working toward the elimination of child labour, with the International Labour Organization (ILO) acting as an advisor.

**Efforts by JT Group Companies**

● **Eco & Hello Campaign—Japan Beverage Inc.**

Japan Beverage rolls out the "Eco & Hello Campaign" mainly in elementary, junior high and high schools in the local community. Under this campaign, 140 bags of used aluminum cans (150 cans per bag) can be exchanged for a wheelchair to donate to welfare institutions.



● **"Green Fund" Campaign—Torii Pharmaceutical Co., Ltd.**

Torii Pharmaceutical participates in the "Green Fund" campaign being promoted by the National Land Afforestation Promotion Organization. "Green Fund" helps raise awareness for greenery issues while being used for forest conservation and regeneration as well as fostering forest volunteers at home and abroad to hand down rich green environment to the next generation. In addition to making donation as a company, we ask our employees for contributions twice a year in the spring and the autumn by placing a collection box at each operation.



● **Acceptance of Internship—Japan Filter Technology Co., Ltd.**

Tsubata Factory of Japan Filter Technology accepted an internship upon request of a technical college in the local community.

The duration for internship is three months from September through November 2006. Internship trainees were assigned to the worksite and experienced the daily check of equipment, supplementary work and preparation of documents, and other such tasks.

This was the first time for us to accept an internship to provide local technical college students with a chance to learn about the real world, which became a precious experience for us too.



Japan Filter Technology Co., Ltd.  
Satoru Yamazaki,  
Equipment Division  
Manager

I think it is very important that people know more about our business through such interaction in order to be accepted by society as a good corporate citizen. We were inspired, and the workplace was energized by working together with the college students.

**Aid for Disaster-stricken Areas**

The JT Group provides aid for victims in disaster-stricken areas in cooperation with its group companies when disasters occur in Japan and around the world.

Aid for disaster-stricken areas overseas are provided through JTI Foundation. See the related article → p65

● **Aid for Disaster-stricken Areas in the Noto Peninsula Earthquake**

JT provided relief supplies, such as drinking water, and financial aid for the victims of the Noto Peninsula Earthquake that occurred centering around Ishikawa Prefecture on March 25, 2007. Also, employees from the JT operations in the neighborhood participated in volunteer activities to support the disaster-stricken areas.



## Environmental Conservation

**JT is engaging in afforestation and forest conservation activities and cleanup activities from the standpoint of showing an appreciation for the natural world that supports JT business, and in consideration of the importance of the global environment.**

### Afforestation and Forest Conservation Projects

JT's tobacco business and foods business use raw materials of natural origin, such as leaf tobacco, vegetables and tea leaves. Therefore, we are engaged in afforestation and forest conservation activities in an effort to contribute to the preservation of the natural world that supports these businesses, and as a reflection of our corporate social responsibility at home and abroad.

#### ● The "JT Forest" Activities

Currently, JT is conducting "JT Forest" activities in three areas in Japan. The "JT Forest" is a project aiming at afforestation tailored to vegetation conditions and regeneration of sylvatic cycle. Also, a total of 1,100 JT group employees and their families have participated in tree-planting, weed trimming, or tree thinning activities since the project's initiation in 2005. The project became good opportunity for participants to reconsider the importance of conservation of natural environment. In 2008, we plan to increase the JT Forest to seven areas.



#### Characteristics of the "JT Forest" activities

- Broad range of activities
- Forest conservation activities include not only tree-planting but also tree-thinning and weed-trimming.
- Afforestation is conducted in a manner to match the vegetation conditions of the site.
- Have the participants understand the significance of the JT Forest activities through lectures and exchange of opinions, as well as real action.
- The project seeks meaningful activities for the community by asking local residents to participate.

### Outline of the Project

#### JT Forest Nakahechi

Location: Nakahechi Town, Tanabe City, Wakayama Prefecture  
 Area: Approximately 50 hectares  
 Activity: Tree-planting of approximately 180,000 trees  
 Period of Project: 10 years (from January 2005)

#### JT Forest Kosuge

Location: Kosuge Village, Kitatsuru District, Yamanashi Prefecture  
 Area: Approximately 13 hectares  
 Activity: Tree-planting of approximately 3,000 trees  
 Period of Project: 5 years (from March 2006)

#### JT Forest Nahari

Location: Nahari Town, Aki District, Kochi Prefecture  
 Area: Approximately 160 hectares  
 Activity: Tree-thinning  
 Period of Project: 5 years (from November 2006)

URL <http://www.jti.co.jp/JTI/environ/effort/syokurin/>

#### JT Forest Nahari – A Forest to Protect Coral



"JT Forest Nahari - A Forest to Protect Coral" is a project to manage woodland in an effort to maintain the local ecosystem and contribute to the continued existence of a type of coral that grows in the estuary of the Nahari River.

This activity is carrying out a forest regeneration activity, mainly thinning and planting broad-leaved trees in a forest of approximately 160 hectares. JT employees and their families experienced thinning with the cooperation of Kochi prefectural government, Nahari town office, Kochi Prefecture Aki Forestry Office, the Gobun forest owner's Productive cooperative, Kitagawa-mura Forest Cooperative and other local residents in November 2006 when the project started.



#### Comments by participants in "JT Forest Nahari"

There are not many chances to experience thinning even if you wanted to. This was a stimulating experience to me.

I learned how to use my muscles in sawing from the instructor and I had a good lesson. I will take the Ukeguchi with me as a souvenir.



JT Niihama Sales Office  
Mr. & Mrs. Katsuhisa and Mitsuyo Tamura

#### Comment from a local citizen

I was surprised that the "JT Forest Nahari" Project attracted the largest number of participants among other "The project for forests conservation in collaboration with environmentally friendly companies" promoted by Kochi prefectural government, and they were from all over Shikoku region. As it takes a long time for thinning to produce a tangible result, continuing is important. I would like everyone to come back to see the results, which should further encourage them.



Kochi Prefecture Recycling-based Society Promotion Division  
Mr. Akira Sugimoto

#### ● Reforestation and Forest Conservation Activities in Africa

The JT Group rolls out Reforestation and forest conservation activities in the United Republic of Tanzania and Republic of Malawi. During the four year period from January 2007 to 2010, the JT Group plans to plant 8,000,000 trees in 4,000 hectare area of each country, or 16,000,000 trees in 8,000 hectares of seven areas for the two countries combined. At the same time, the JT Group plans to provide treadle pumps for irrigation and improve wells for water.



Raising seedlings in Malawi

#### "Pick Up, and You Will Love Your City" Campaign

In April 2004, JT launched a citizen participation cleanup program in an effort to dissuade people from littering by offering firsthand experience with picking up litter. This "Pick Up, and You Will Love Your City" campaign has expanded in the last three years into a huge campaign attracting a total of 310,000 participants. In January 2006, the campaign was highly evaluated as "a new type of social contribution activities that raises sympathy." The campaign won the "2nd Japan Event Grand Prix (sponsored by the Japan Association for the Promotion of Creative Events)."

"Pick Up, and You Will Love Your City" campaign encourages citizens to participate in the cleanup projects in cooperation with the municipalities, schools, volunteers, event organizers and participating parties. In FY2006, a total of 170,994 people participated in 143 events. In the hope to have more people who "would not litter," we continue to work on the activities with more participants and cooperation. [See the related article](#) → p70

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



New employees of JT participating the campaign



Won the 2nd Japan Event Grand Prix



Mr. Ken Noguchi, alpinist, also participated in the "Sapporo Snow Festival"

### Cleanup Activities by the JT Group

The JT Group operations across the country actively participate in the street cleanup activities in an effort to become a "good corporate citizen."

To conduct cleanup activities, we cooperate with tobacco shops and the tobacco growers' associations. Also, we promote cleanup programs collaborating with volunteer groups in the neighborhood and the municipalities.

JT has initiated a campaign in 1974 to help people improve smoking manners through the cleanup activities, which are designed to discourage thoughtless discarding of cigarette butts and promote consideration for non-smokers. Over 30 years since then, the JT Group has been approaching the activities appealing "improve smoking manners."

#### Cleanup Activities by Fuji Flavor Co., Ltd.

We have implemented cleanup activities for two years following the "Smoking Etiquette Campaign." In this campaign, we encourage people to improve smoking manners by dividing participants into several groups, one for cleanup, another for distributing tissues or displaying banners and other such materials.

As one of the main cleanup activities, we are currently rolling out a campaign to help the community under the lead of the Smoking Etiquette Campaign Executive Committee on Shiyakusho-dori Street and other places in Hamura City in cooperation with the ISO14001-Certified Companies Forum in Hamura City and the tobacco sales association so that this activity delivers a pleasure to the local people. This is a community-based activity that gives us chances to meet with other company employees, which makes us feel that smoking manners are filtering into our lifestyles.



Nobuhisa Kanayama,  
Planning and Administrative Dept.  
Fuji Flavor Co., Ltd.

#### Cleanup Activities by JT Shibuya Building

The JT Shibuya Building has been conducting cleanup activities every month since December 2001 in order to prevent littering cigarette butts and make people aware of the importance of manners. Although we have only a limited time during lunch break, we have more than a dozen participants every time in our cleanup activities around the south exit of Shibuya Station.



#### Yoshikazu Otsuka

Operations Division, JT Tokyo Area Sales Headquarters

JT Shibuya Building has JT Group companies, such as JT Real Estate Co., Ltd., Japan Filter Technology, Co.,Ltd., JT Logistics Co., Ltd. and JT Creative Service Co., Ltd. as its tenants; therefore we are conducting cleanup activities with them. While some of the group companies and employees have changed, we have steadily continued our activities with several participants from each company, though small in scale. Thanks to their support, we have conducted activities 65 times as of April 2007 with 783 participants in total.



#### Yasuo Ohgawara

Building Management Dept., JT Real Estate Co.,Ltd.

We conduct our cleanup activities as a matter of course for JT Group employees. Such activities can be done by anybody at any time and anywhere. I hope our activity cleaning up the town where we work on our own initiative will raise awareness about keeping quite normal manners and grow recognition that we should cleanup our town together.



#### Fumio Tani

Administrative Dept., JT Logistics Co., Ltd.

Thankfully, I can see that not only our staff in the JT Shibuya Building but also staff from other companies have started cleanup activities now. Sometimes, we are hailed by passersby, saying "Thanks for your trouble" or "We should respect good manners, I guess." Such comments encourage us a lot.



#### Makoto Takii

General Administrative Team, Japan Filter Technology, Co.,Ltd.

Continuous activity is more significant for the manner-conscious mind to take root in society. Therefore, we will continue our cleanup activities through the concerted efforts of whole group.



## Culture and Arts

The JT Group is involved in activities that contribute to the development and improvement of musical performances as well as other forms of culture and arts.

### Support for Nurturing Musicians

JT is involved in fostering and supporting a wide range of classical musicians who lead the initiative in Japan, providing them with venues, mainly at JT Art Hall Affinis in the JT HQ building, where they can independently perform and introduce their music according to career.

JT provides venues for the "JT Art Hall Chamber Music Series" by leading Japanese musicians and the "Ensemble Series Sponsored by JT" by promising young musicians and college students of music, as well as for "Afternoon Concerts with Promising Music Majors" by music majors at music colleges to independently perform while providing opportunities for people who work in the vicinity of the JT Building to enjoy free performances during their lunch breaks.



JT Art Hall Affinis  
JT Bldg. 2F, 2-1, Toranomon 2-chome, Minato-ku, Tokyo  
URL <http://www.jti.co.jp/JTI/arthall/>

### The Affinis Arts Foundation

The Affinis Arts Foundation was founded in 1988 primarily for the purpose of supporting professional orchestras in Japan. It provides financial assistance or venues for orchestral performances and for members of professional orchestras to study abroad or perform classical music. It also holds music seminars, the "Affinis Summer Music Festival (in Iida City, Nagano Prefecture and one other place)," by the top level musicians in Japan and worldwide.



The Affinis Arts Foundation  
URL <http://www.jti.co.jp/Culture/Affinis/>

### Tobacco & Salt Museum

The Tobacco & Salt Museum opened in 1978 to collect materials and conduct studies and research about tobacco, an item of taste which has long been cherished by people, and salt, the food of life. Housing some 30,000 items, including smoking utensils and posters, the museum presents the history and culture of tobacco and salt through exhibits and other events about them.



Tobacco & Salt Museum, 1-16-8 Jinnan, Shibuya-ku, Tokyo  
URL <http://www.jti.co.jp/Culture/museum/>

### JT Biohistory Research Hall

The JT Biohistory Research Hall opened in Takatsuki City, Osaka Prefecture in 1993 for the purpose of conducting research on biohistory, which looks at life in terms of historical existence, and providing a place where the public can enjoy learning about biohistory in the same way as they might listen to music or appreciate art. The facility provides visitors with the opportunity and pleasure of thinking about the very important topics of life through laboratory tours, summer schools, various exhibits, and also through its quarterly journal Biohistory.



JT Biohistory Research Hall, 1-1 Murasaki-cho, Takatsuki City, Osaka Prefecture  
URL <http://www.brh.co.jp/>

### JT Delight Forum

A cultural event held under common desire to cultivate culture of good quality and contribute promoting local culture" shared by JT and a local newspaper company. The forum holds cultural lectures every year at each venue throughout Japan inviting well-known people active in the front lines in a broad range of fields.





## Social Contribution Activities Overseas

The International subsidiary of JT Group, JT International (JTI), plays a central role in the JT Group social contribution activities overseas.

### Social Contribution Activities by JT International (JTI)

For JTI, an international subsidiary of the JT Group, Corporate Philanthropy is an integral component of its commitment to the communities in which it operates.

JTI Corporate Philanthropy policy and guidelines are aligned with the JT Group Social Contribution policy, and have been shared with employees throughout the company. The policy provides the foundation through which JTI puts into practice its belief in "Being a Good Corporate Citizen."

JTI Corporate Philanthropy activities are supported, coordinated and monitored by a team of specialists at JTI's headquarters in Switzerland.

Corporate Philanthropy programs are underway in all markets where JTI currently operates, and include charitable donations, cultural and artistic sponsorships and disaster relief. In all, the total number of JTI Corporate Philanthropy projects runs to over 60 worldwide. JTI's market organizations have been honored with awards from local and international organizations for their commitment to the community.

Social contribution and cultural programs sponsored by JTI market organizations are generally organized and implemented in collaboration with qualified beneficiary organizations. In addition to local market initiatives, JTI has identified two global causes as priorities for the corporation, Care for the Elderly and Adult Literacy.

In addition to its extensive activities in the markets, JTI established the JTI Foundation in 2001 to provide support for the underprivileged, and to provide emergency relief in the event of major natural disasters. In 2006, the JTI Foundation provided relief following disasters in Serbia, Romania, and Indonesia.

#### Social Welfare Activities Senior City Center Project (Seoul, Korea)

The "Senior City Center" support program sponsored by JTI Korea in Seoul is a model of social welfare activity in the area of care for the elderly. More than 2,500 socially disadvantaged elderly in Seoul use this community center daily as a meeting place and as a resource for medical services, exercise, leisure

activities and social welfare. Each day, the "Senior City Center" offers free lunch to its visitors. JTI Korea and its employees also play a personal role in the Center's various programs each year.



#### Senior Project (Romania)

The JTI Seniors Program in Romania started in 1998, with the objective of providing support to 45 senior citizens, a community need which was identified by the Social Assistance Department of the City Hall of the 2nd District. The program provides daily meals for the elderly as well as special Easter and Christmas packages, and reflects JTI's objective of being a 'neighbor of choice'. JTI Romania has received awards every year from the City Hall and the Chamber of Commerce for this program.



#### Guardian Project (Milan, Italy)

In late 2006, JTI Italy began the 'Custode' (Guardian) Project, with the objective of improving the quality of life of elderly living in the poorer districts of Milan who have little access to aid and social welfare programs.

The Custode Project targets those people over 75 years of age with serious social difficulties, and provides assistance in the home, with shopping, in accessing social services and in



dealing with administrative paperwork. The program provides transportation to medical appointments and physiotherapy centers, and creates opportunities for interaction within their community. The main difficulties confronting the elderly spring from loneliness and loss of independence. Senior citizens with mobility problems are often confronted by difficult situations at home. The Custode Project has qualified operators permanently on-call who provide 'good neighbor' services for the elderly to their homes.

#### Old Five Old Foundation (Taichung, Lukang, Taiwan)

Taiwan's Old Five Old Foundation in Taichung and Lukang is a recognized Foundation registered with the Ministry of Interior. It provides support to those elderly who otherwise are not covered by the state support system. JTI funds a 'meals on wheels' service through which the Foundation's social workers and volunteers organize one hot meal a day for several hundred elderly. This assistance is critical to their survival since many have no resources and must live in 'loaned' accommodations. During their visits, the social workers take care of sanitation and provide comfort and company. The Foundation also offers day-care activities for elderly living alone or with disabilities.



#### Housing for Poor People in Vietnam

There is a severe shortage of housing across Vietnam, and large numbers of families are living in poor conditions. JTI funding helps provide housing for these families in an effort to help alleviate this situation.

#### Donation to the Regional Rehabilitation Center for Disabled Persons in Kazakhstan

In Kazakhstan, JTI has provided funding for the maintenance and repair of a rehabilitation center provided by the city of Shymkent for disabled persons.

#### Culture and Arts The New Concert Hall of Mariinsky Theater (Sankt-Peterburg, Russia)

JTI has contributed to the construction of the Mariinsky Theater's new concert hall in St. Petersburg, Russia. The unique new concert complex is a superb facility built to comply with the latest architectural and engineering standards, and is designed primarily for classical music concerts.

The concert hall seats 1100 and boasts state-of-the-art technology, including an acoustic surface in Canadian maple wood. The acoustics technology of the new hall, designed by Japanese expert Yasuhisa Toyota, can be favorably compared to the world's highest-quality venues, such as those in Lucerne, Sapporo, Birmingham, Berlin or Leipzig.



#### Japanese Tea room Project in Museum Rietberg (Zurich, Switzerland)

The Museum Rietberg in Zurich is one of the most important in Switzerland, and offers an extraordinarily rich collection of cultural treasures primarily from Asia, Africa and South America. During the renovation of the museum, JTI sponsored the construction of a traditional Japanese tea room. The tea room has since hosted authentic Japanese tea ceremonies, performed by a Japanese tea artist. This initiative has been enthusiastically received by the public.



#### Izmir International Jazz Festival (Izmir, Turkey)

JTI Turkey is an important contributor to cultural and artistic activity in the local community, and has been the main sponsor of the International Izmir Jazz Festival since 2002.



# Supplemental Materials

## Aid for Disaster-stricken Areas / JTI Foundation

In addition to social and cultural projects worldwide, JTI established the JTI Foundation in 2001 with the aim of helping underprivileged people throughout the world. In particular, the JTI Foundation supports victims of natural disasters such as earthquakes and floods. The JTI Foundation focuses on providing immediate assistance to victims of disasters, and collaborates with recognized major relief agencies (NGOs, Red Cross or government organizations) to achieve this goal.

### Flood Damage in Balkan States (Romania, Serbia / SPRING 2006)

Spring 2006, Balkans flooding: The JTI Foundation provided financial assistance to two local NGOs to support flood victims in Romania and Serbia. The Romanian programs allowed wells to be built in an area largely inhabited by retirees living in very poor conditions. The Serbian contribution enabled children from families forced from their homes to be welcomed in a facility run by a local NGO while their houses were repaired.

### YOGYAKARTA Earthquake in Indonesia (Early SUMMER 2006)

Early summer 2006, earthquake in Yogyakarta, Indonesia: The JTI Foundation funded a Malaysian medical rescue team providing emergency relief to the earthquake victims. A team of doctors with medical equipment and supplies remained for several weeks, offering expert aid to the victims.



## Environmental Management System Applicable to Companies Targeted for Environmental Management

As of June 2007

JT	ISO 14001 Certification		Environmental Management System complying with ISO 14001 Standards	Simple Environmental Management System
		Cigarette Factories, Okayama Printing Factory, Vending Machinery Division		Company Headquarters, all branches, all laboratories
Group Company	Tobacco Business	JT International Eastern Japan Plant Service Co., Ltd. Central Japan Plant Service Co., Ltd. Western Japan Plant Service Co., Ltd. Kyushu Plant Service Co., Ltd. JT Engineering Inc. Japan Filter Technology Co., Ltd. Fuji Flavor Co., Ltd. Japan Metallizing Co., Ltd.	JT Logistics Co., Ltd. (tentative) JTI offices	TS Network Co., Ltd.
		Pharmaceutical Business	Torii Pharmaceutical Co., Ltd., Sakura Plant	
	Foods Business	Nihon Shokuzai Kako Co., Ltd. Sunburg Co., Ltd. Iipingsyang Foods Corporation Japan Beverage Inc. Asahi Shokuzai Co., Ltd.	JT Foods Co., Ltd.	JT A-Star Co., Ltd.
		Real Estate Business	JT Real Estate Co., Ltd.	

Plant service companies have obtained certification, with the tobacco factories also obtaining certification in their respective regions (Eastern Japan, Central Japan, Western Japan and Kyushu).

## Environmental Auditing

### Auditees

JT audited the following business sites for environmental issues in FY2006.

Category	Business Site
Tobacco Business	Shikoku Area Sales Headquarters (P)
	Fukuoka Area Sales Headquarters (P)
	Kagoshima Area Sales Headquarters
	Tokyo Area Sales Headquarters
	Kyoto Area Sales Headquarters
	Manufacturing Technology Center (P.C)
Pharmaceutical Business	Pharmaceutical Frontier Research Laboratories (C)
Total	7 business sites

(P) Business sites audited for consolidated storage management of PCB  
(C) Business sites audited for chemical substance management

### Laws and Regulations Regarding Issues Covered by Environmental Auditing

Environmental auditing is designed to review site status in respect of compliance with 15 specific environmental laws and related ordinances.

Air Pollution Control Law	Water Pollution Control Law	Law for Combined Household Wastewater Treatment Facility
Sewerage Law	Noise Regulation Law	Vibration Regulation Law
Law Concerning Reporting, etc. of Release to the Environment of Specific Chemical Substances and Promotion Improvements in their Management		
Offensive Odor Control Law	Factory Location Act	Fire Defense Law
High Pressure Gas Safety Law		
Law Concerning Special Measures against Dioxin	Waste Management and Public Cleaning Law	
Law Concerning the Improvement of Pollution Prevention Systems in Specified Factories		
Law Concerning the Rational Use of Energy		

## Record of Training for Developing Environmental representatives in FY 2006

Name of training course	Target	Contents of training course	Number of trainees
Environmental Management System	Training for environmental managers	Newly-appointed environmental managers and staff	45
	Training for environmental auditors	Newly-appointed environmental auditors	28
	Training for environmental auditing through the intranet	Newly-appointed environmental auditing team leaders	16
	Training for environmental staff	Environmental staff	94

## Reducing Environmental Impact from Containers and Packaging

In March 2002, having formulated JT's Environmental Guidelines for Designing Packaging Materials that is environmentally compliant in order to reduce the environmental impact caused by containers and packaging, JT switched to environmentally friendly packaging forms and structures.

### JT's Environmental Guidelines for Designing Packaging Materials (Formulated on March 20, 2002)

- Do not affect adversely the human and the environment.
  - We shall discharge no substance which would be likely to have a bad influence on the human, the ecosystem and the natural environment, through the life cycles of the packaging.
  - The constituents of the package shall not contain the harmful chemical substance stipulated by the national laws and industry voluntary standards.
- Efficiently utilize energy and resource.
  - Energy saving  
We shall use materials which necessitate small amount of energy through their life cycles.
  - Resources saving: reduction  
While ensuring required strength and functions, we shall commit ourselves to simplify packaging and omit outside packaging, as well as to reduce the weights of the packaging as much as possible.
  - Resources saving: reuse  
We shall utilize the packaging for transports, the form and the structure of which could be reusable as much as possible.
  - Resources saving: use of the recycled materials.  
We shall consider safety, functionality and economical efficiency, and shall utilize recycled materials and those which highly contain recycled goods as much as possible.
- Ensure the recyclability after consumption.
  - Usage of the easily recyclable materials.  
We shall consider safety, functionality and economical efficiency, and shall utilize the easily recyclable materials, including auxiliary materials such as adhesives.
  - Designs enabling recycling easier  
We shall decrease the varieties of materials used, and when we would utilize more than two types, we shall adopt the forms and the structure that every material is easily separated, disassembled and separately disposed.
  - Provision of recycle-related information  
By indicating methods to separate, disassemble and separately dispose, and other information such as material names, we shall provide information to support consumers for recycling.
  - Ensure treatability and disposability when discarding.
    - Usage of materials being considered environmental impact when discarded  
We shall utilize materials being considered the degradability after discarded, and the environmental impact at incineration facilities and landfill sites.
    - Design being considered volume reduction  
We shall adopt the forms and the structures that the volume when discarded becomes as small as possible by folding or squashing.
- Implement environmental impact assessment.  
When using packaging with the new specifications, we shall establish evaluation items and standards which are concerned with its environment conformity and implement environmental impact assessment in advance.

## Changes in Environmental Impact Associated with Business Operations

### For JT

FY	1995	2000	2001	2002	2003	2004	2005	2006	Unit
Amount of energy used	7,280	7,167	7,156	7,050	6,408	6,248	5,367	5,114	TJ
Heavy oils, etc.	1,646	1,637	1,464	1,368	1,008	1,047	812	575	
Gas	524	719	877	921	969	1,048	1,010	1,055	
Purchased electricity	4,864	4,574	4,588	4,526	4,220	3,948	3,362	3,309	
Vehicle fuel	221	205	203	210	187	180	164	155	
Others (*1)	26	31	25	25	23	25	19	19	
Amount of CO <sub>2</sub> emitted	449	435	430	420	381	370	315	297	1,000 tons-CO <sub>2</sub>
Waste									
Amount of waste generated	28.6	34.2	35.2	33.9	31.3	35.2	31.1	28.1	1,000 tons
Recycling rate	33.7	56.8	63.7	79.3	83.5	89.5	95.0	97.6	%
Amount of water used (*2)	5,827	4,840	4,623	4,464	4,014	3,611	2,725	2,472	1,000 m <sup>3</sup>
Amount of copy and OA paper	618	554	555	465	451	407	309	295	t

### For Companies Under Environmental Management in Japan (\*3)

FY	2003	2004	2005	2006	Unit
Amount of energy used	8,539	8,357	7,133	6,735	TJ
Amount of CO <sub>2</sub> emitted	519	508	428	399	1,000 tons-CO <sub>2</sub>
Waste					
Amount of waste generated	41.0	45.5	39.8	36.3	1,000 tons
Recycling rate	84.3	89.5	94.8	97.6	%
Amount of water used(*2)	11,121	10,594	6,163	5,153	1,000 m <sup>3</sup>

(\*1) Figures indicate total heat supplied by thermal providers, use of solar heat and heat recovered from incinerators.

(\*2) The amount of water recycled through proper treatment is not included.

(\*3) Companies under domestic environmental management, including JT (20 companies)

### <<Calculation of Quantities>>

#### Energy

Individual categories are calculated in terms of crude oil and then converted to J. The coefficient for conversion to crude oil is based on the values in Appendix List No. 1 in the enforcement regulation for the Law Concerning Rationalization of Use of Energy (Energy Conservation Law). However, in respect of city gas, crude oil conversion coefficients are used according to the categories of gas. The figures for cold and hot water are based on the performance in the supply from the heat supply companies. In respect of conversion to TJ, the value (38.7MJ/L) in the "Comprehensive Statistics on Energy" (FY2000 edition) (Agency for Natural Resources and Energy) is adopted. 1TJ=1x10<sup>12</sup>J

#### Amount of water used

Tap water, well water, river water and industrial water are calculated. Water recycled in-house is not included.

#### Amount of CO<sub>2</sub> emitted

The amount is aggregated by category of energy used and in-house incinerators by using individual CO<sub>2</sub> emission coefficients. The CO<sub>2</sub> emission coefficients are adopted from the "Evaluation Program for Environmental Activities" (issued in September 1999 by the Environment Agency). However, in respect of purchased electricity, the CO<sub>2</sub> emission coefficient pertinent to thermal generation (0.55kg-CO<sub>2</sub>/kWh) is used.

As for city gas, the CO<sub>2</sub> emission coefficients are set in accordance with the categories of gas used, while cold water and hot water are based on the performance in supply by the heat supply companies.

### <<JT Group Definitions>>

#### Recycling

"Recycling" at the JT Group signifies "recyclable use" as stipulated in the Basic Law for Promoting a Recycling-oriented Society. "Recyclable use" means reuse, recycled use and heat recovery. "Reuse" means (1) use of recycled products as they are (including use after repair); and (2) all or part of the recycled resources used as parts or part of products. "Recycled use" means use of all or part of recycled resources as raw materials. "Heat recovery" signifies that all or part of recycled resources that can be burned are used for gaining heat. JT's understanding is that "thermal recycling" includes recovery of waste heat from incinerators, production of refuse-derived fuel, and recovery of gases through gasification melting furnaces.

#### Intermediate disposal

Intermediate disposal means incineration, crushing, compression, and/or neutralization to reduce the weight or volume of waste.

#### Zero Emissions

"Zero emissions" at the JT Group means a recycling rate of greater than 99.5%.

- Recycling rate =  $\frac{\text{internal and external recycled volume}}{\text{waste and other generation}} \times 100$
- Waste and other generation =  $\text{internal and external recycled volume} + \text{internal and external intermediate disposal volume} + \text{landfill disposal volume without intermediate disposal} + \text{unused material sold}$

However, in respect of sludge, the volume after dehydration processing is counted as generation volume in respect of in-house dehydration. As for recycling, all volume is considered recycled volume whether or not dehydration sludge remains.

## Environmental Accounting (Investment and Cost Effectiveness of Environmental Conservation Efforts)

Tabulation subjects: All JT business sites (factories, branches, local business sites, laboratories, etc.)

Period covered: FY2005 (April 1, 2005 – March 31, 2006), FY2006 (April 1, 2006 – March 31, 2007) Unit: 1 million yen

Environmental Preservation Costs *1					
Category	Main areas for FY2006	FY2005 Performance		FY2006 Performance	
		Amount of investment	Amount of expenditure	Amount of investment	Amount of expenditure
(1) Environmental preservation costs to reduce production/service-derived environmental impact in JT's business areas (business area cost)	—	932	1,552	650	1,503
Breakdown	① Pollution prevention costs	455	633	546	550
	② Global environmental preservation costs	378	181	85	107
	③ Resource circulation costs	99	738	19	846
(2) Costs of reducing production/service-derived impact upstream or downstream during resource circulation (upstream/downstream costs)	Recycling packaging materials	—	251	—	115
(3) Environmental preservation costs in management activities (management activity costs)	Organization of groups responsible for environmental auditing and measurement Monitoring and measurement of environmental impact Improvement of green space	—	251	—	541
(4) Environmental preservation costs involved in R&D (R&D costs)	Reducing the weight of containers	—	24	—	18
(5) Preservation costs involved in social activities (social activity costs)	JT Smoking Manners campaign Afforestation and forest conservation activities Donations to environmental conservation groups Development of the environmental report	—	4,780	—	4,116
(6) Costs of dealing with environmental damage	Pollution impact levies Costs for studying and treating ground pollution	—	364	—	764
(7) Other environmental costs	Asbestos measure	—	140	—	753
Total		932	7,362	650	7,810

Environmental Preservation Effect				
Contents of effect	Item	FY2006 performance (*1)		
		Materials increase/decrease effect	% increase/decrease	Economic effect
Effect on resources invested in business activities	Amount of purchased electricity	-52,637GJ	-1.6%	-71
	Amount of fuel used	-192,746GJ	-19.1%	-243
	Amount of fuel used for vehicles	-8,898GJ	-5.4%	-28
	Amount of water used	-253,528m <sup>3</sup>	-9.3%	-35
Effect on environmental impact and waste produced by business activities	Amount of CO <sub>2</sub> emitted	-17,930t-CO <sub>2</sub>	-5.7%	—
	Amount of wastewater *2	-228,219m <sup>3</sup>	-15.1%	—
	Amount of waste commissioned to other companies for recycling	-1,945t	-6.6%	-46
	Amount of waste commissioned to other companies for disposal	-770t	-53.0%	-18
Total		—	—	-441

\*1: Figures apply only to JT performance, and do not include JT Group companies. A minus value indicates effect of reduction.

\*2: Data regarding cigarette factories

### Guidelines for Environmental Accounting

- Amount of Expenditure and Investment
  - Only expenditures and investments that are entirely (100%) for the purpose of environmental preservation have been recorded. Note that equipment such as vibration prevention equipment installed within production machinery has not been recorded, even though it is equipment that reduces environmental impact.
  - For energy-saving and resource-saving work, the total amount, not the difference between such work and normal activities, has been recorded.
  - Expenditures for depreciation of facilities have been recorded under expenditure for the depreciation in the financial statement.
  - Utilities expenses related to the operation of environmental preservation equipment and R&D equipment have not been recorded.
- Environmental Preservation Effect
  - Differences arising as a result of comparison with the total amounts for the previous fiscal year in respect of the main areas of environmental impact

have been deemed to be environmental preservation effect.  
Materials increase/decrease effect = amount of environmental impact for FY2006 – amount of environmental impact for FY2005.

3. Economic Effect  
● The above-mentioned environmental effect, such as the amounts of purchased electricity, fuel and water used, as well as the commissioned amounts of waste to be disposed and recycled material, have been calculated as an economic effect by multiplying the previous financial year's unit prices by the differences in amounts compared to the previous year.  
Economic effect = (amount of environmental impact in FY2006 – amount of environmental impact in FY2005) x unit cost for FY2005.

● No economic effect based on hypothetical calculation, such as the effect of risk avoidance through implementation of various measures, have been recorded.

## Record of Youth Development-related Financial Aid to NPOs in FY2006

Prefecture	Recipient Organization	Name of Project
Hokkaido	Native Clark	Parents and Kids Sense of Wonder program
	Sapporo Free School "YU"	Kids' Ecological Action—Hitsuji (Sheep) Club--
	Higashi-Taisetsu Nature Guide Center	Taisetsuzan Mountain Play in Nature Kids Band
Iwate	Yahaba Yurikago	Seasonal Adventure Project
Ibaraki	Mito Kid's Theater	Experiential Activities Created through Mutual Exchange
Tochigi	Old Kumanoki Elementary School Management Association in Shioya-machi	Kumanoki Nature Club Activities 2006
	Child Line Tochigi	Helpline to listen to children and to protect children
Saitama	Saitama NPO Center	Help High School Students to Develop Life Design
Chiba	Shiroi Environmental School	Environment Education for Children/Turtle Rescue Operation
Tokyo	Japan Federation for the Blind and Deaf	Conversation with Helen Keller
	Chikyū (Planet Earth) Outdoor School	Parents and child - Let's take a look at food, the source of life! Experiences with Dietary Education
	Midori Environmental Network!	Let's Become a Child Doctor of Trees! Let's play with nature!
Yamanashi	Yamanashi Volunteers Association	Youth Volunteer Education Fureai (Exchange) Action Project
Kanagawa	Sagamigawa Club	Challenge Kids Club
Niigata	Green and Life School	Kids School for Playing in Nature
	Niigata High Information Society Life Support Center	Youth Work-Study Class in Community
Nagano	Shinshu Mirai Hiroba (Future Forum)	Youth Development Support Network Traditional Play
Shizuoka	Kokoro-no-Subako (Nest box of heart)	Catalogue of Adults in Town Editing Room
	Yume-Machi-Net (Dream-Town-Net)	Summer Vacation Gakincho (Kids) Club, Child and Parent Development Support Program
Gifu	Friends in the Metasequoia Forest	Youth Leader Development Program for the Recycling-oriented Society
Aichi	Fureai (Exchange) Salon Sun-Sun Garden	Children with Mild Developmental Disorder Support Program
	Aspe Elde Association	Volunteer School for High School Students to Support Children with Developmental Disorders
Toyama	Tonami Junior Chamber	Tonamino 100km Walking Tour
Osaka	Sakou Club	Kids Sports & Handicraft Class
	Toyonaka Citizens Environmental Conference AGENDA21	Agriculture-Dietary Education Workshop in Urban Area
Hyogo	Lollipop	Sound Youth Development through Exchanges between Different Generations and Experiences
	Sanps	Ashiya River Expedition—Help Mokuzugani crab (Eriocheir japonica) Run the River!
Tottori	Kurayoshi-city Kahoku-area Sports Club	Play Room for Kids and Older people
Hiroshima	Free School Glovee	Support Program for Youth to Develop the Fortitude to Live
Fukuoka	Social Support Counseling Room	Fureai (Exchange) Saloon Nadeshiko—Youth Development by Experiencing Volunteering
	Fukuma Tsuyazaki Kodomo Gekijo	Give children media literacy that will open up their future
Kagoshima	KKQ	Creation of Future by Youth Project
	JUNTOS	Wings of Youth—Umisachihiko and Yamasachihiko Exchange Project
Okinawa	Coupii Fashion Art Group	Hosting Coupii Art Experiential Class after school and promoting the volunteer experience

## Achievements of "Pick Up, and You Will Love Your City" Campaign in 2006

Prefecture	Title of Event	Number of Participants	Date of Event
Hokkaido/ Tohoku Area	40th Otaru Festival (Ushio Festival)	600	July 29 - 30
	58th Sapporo Snow Festival	4,090	February 5 - 12, 2007
	Aomori Nebuta Festival	949	August 5 - 6
	Morioka Sansa Dancing Pre-Event	172	July 29
	Kakunodate Sakura (Cherry Blossom) Festival	1,471	April 22
	Akita Eco & Recycling Festival	1,175	September 2 - 3
	44th Yamagata Hanagasa Festival	1,438	August 4 - 7
	Sagae Festival	452	September 15
	24th Shioyama Citizens' Festival	1,482	April 23
	World Professional Surfing Championship	162	October 5
	Koriyama Wakwak (Excitement) Festa	1,626	June 3 - 4
	Soma Norma-oi	975	July 24
	54th Aizu Festival	519	September 23
	Fukushima Airport 2006 Sky Day Festival	1,009	September 24
Kanto Area	Hitachi International Street Performance	924	May 13 - 14
	46th Mito Komon Festival	828	August 5 - 6
	31st Furusato Miyamatsun Festival	1,505	August 5 - 6
	Utsunomiya Eco Project	409	October 14
	Kanuma Butsuke Autumn Festival	2,406	October 14 - 15
	Ohdori Niigwai (Main Street excitement) Festival	1,105	November 4 - 5
	32nd Takasaki Festival	2,086	August 5 - 6
	Maebashi Festival	1,664	October 14 - 15
	Maebashi Hatsuichi Festival	654	January 9, 2007
	Kumagaya Uchiwa (paper fan) Festival	984	July 21 - 22
	Saikasai Festival (23rd Asaka Citizens' Festival)	1,129	August 5 - 6
	Saitama Citizens' Festival "Saitamatsuri Festival 2006"	1,248	October 8
	Kawagoe Festival	1,470	October 14 - 15
	Soka Citizens' Festival	2,380	October 21 - 22
Chubu Area	Honjo Festival	813	November 2 - 3
	Kitamoto White Illumination	240	December 10
	20th Tele-tama Parent-and-Child Fureai Marathon	560	March 4, 2007
	Urayasu City Environmental Fair	201	June 3
	Asian Marine Film Festival in Makuhari Countdown Announcement	1,838	July 22 and 29 and August 2, 12, 15, and 30
	29th Kashiwa Festival	1,812	July 29 - 30
	Matsudo Festival	1,488	October 7 - 8
	14th Chuo-ku Furusato Festival	738	October 15
	19th Teruhime Festival	1,040	April 23
	24th Hanamizuki Festival	491	April 29
	20th Kawanote Arakawa Festival	627	April 29
	29th Shikabone Kumin Festival	776	May 21
	Setagaya Environmental Net Festa	312	May 28
	34th Chofu City Environmental Fair	210	June 17
Hachioji Festival	2,073	August 4 - 6	
Kansai Area	Odaiba Adventure King (IN Tokyo Waterfront City)	831	August 6
	Higashi-Murayama Environmental Recycling Fair	254	September 10
	30th SUN Festival in Meguro	937	September 16
	4th Child-Raising and Education Fair	865	September 9
	Nakano Festival	1,652	October 7 - 8
	Minato Kumin Festival	1,784	October 7 - 8
	I love Yotsuya Festival	265	October 8
	29th Edogawa Kumin Festival	1,280	October 8
	24th Koto Kumin Festival	3,762	October 14 - 15
	31st Kodaira Citizens' Festival	312	October 15
	35th Itabashi Kumin Festival	2,356	October 21 - 22
	27th All Citizens' Festival (Higashi-Kurume)	558	November 11 - 12
	17th OTA Fureai Festa	1,430	November 12
	10th Jingu Gaien Ginkgo Festival	995	December 3
59th Hadano Tobacco Festival	3,532	September 23 - 24	
Koshu-etsu/ Hokuriku Area	81st Takada Castle Million Person Sakura Festival	1,222	April 15 - 16
	Nagaoka Festival	1,052	August 2 - 3
	Niigata Festival	654	August 7 - 9
	36th Nagano Binzuru	757	August 5
	3rd Cleanup Yamanashi	243	April 8
	36th Shingen Ko Festival	1,488	April 8 - 9
	72nd Kofu Ebisuko Festival	384	November 23
	46th Toyama Festival	715	August 6
	Owara Kaze no Bon Festival	747	September 1 - 2
	Seihakusai Festival	718	May 5
	55th Kanazawa Hyakumangoku Festival	2,068	June 10 - 11
	Mottainai Festa in Kanazawa 2006	421	October 8
	20th Penta WaiWai Summer Festival	1,957	August 5 - 6
	Tsuruga Festival	807	September 3

Prefecture	Title of Event	Number of Participants	Date of Event	
Tokai Area	50th Shizuoka Festival	2,289	April 1 - 2	
	Enshu Daimyo Gyoretsu (Feudal lord's procession)/Maiguruma	400	April 29	
	Hamamatsu Festival 2006	5,094	May 3 - 5	
	22nd Kajinsai Festival (34th Numazu Marine Festival)	1,624	May 21	
	101st Hamasho OB/OG Festival	219	June 17	
	Megaura YUing in 2006	83	July 29	
	60th Anjin Festival	332	August 9	
	Kosai Kaijo Firework Event	170	August 12	
	Kosai City Oden Festival	491	August 26	
	Big Shower (Shimoda Festival)	744	September 2 - 3	
	Doki! Doki! (Exciting) Land SBS in Street Performance	2,778	November 2 - 5	
	Love River Kanogawa 2006 Kanogawa Walk & Kanogawa Local Products Fair	544	November 18	
	Kinki Area	Mie Tsu Festival	1,965	October 7 - 8
		Aichi Earth Day Aichi 2006	1,196	April 22 - 23
Toyohashi Festival		1,918	October 21 - 22	
World Collaboration Festa 2006		1,331	October 28 - 29	
Shiga the 400th Anniversary of the Construction of Hikone Castle (National Treasure)		395	March 25, 2007	
Kyoto Sain Music Festival vol. 5		374	August 5 - 6	
Nagasaki-kyo Garasha Festival 2006		450	November 12	
Nara 2006-Basara Festival		284	August 27	
Osaka 33rd Sakai Festival		1,514	October 14 - 15	
8th Citizens' Festa Osaka		1,159	October 21 - 22	
Hyogo Toyo-oka Station Road New Arcade Completion Event		297	April 2	
36th Kobe Festival		532	May 13	
Kobe Love Port Minato Festival		509	July 16 - 17	
Himeji Castle Festival		590	August 5 - 6	
Wakayama 20th Benkei Festival	803	October 7		
Chugoku Area	Hiroshima 30th Hiroshima Flower Festival	6,006	May 3 - 5	
	Okayama Tamano Port Festival	1,487	May 20 - 21	
	6th Okayama Momotaro Festival	1,236	August 5 - 6	
	Izumo Kaido Tsuyama Joto Mukashi-machi	869	November 5	
	21st Kurashiki Music Festival	383	March 17, 2007	
	Tottori Tottori City Flower Festival	414	April 29	
	33rd Yonago Gaina Festival	556	July 30	
	Matsue Suigo Festival	1,259	August 5 - 6	
	Yamaguchi Hofu Festival	412	July 29	
	Ajo Hofu Flea Market	1,532	October 14	
	55th Ube Festival	900	November 5	
	Shikoku Area	Kagawa 56th JCI-ASPAC Takamatsu	1,864	May 26 - 28
		41st Sanuki Takamatsu Festival	540	August 12 - 14
		Sanuki Festa 2006	103	October 1
Cycle Town Kagawa Bicycle World Festa		1,809	October 7 - 9	
58th Kagawa University Festival		460	November 4 - 5	
20th Takamatsu Winter Festival		1,444	December 23 - 25	
Tokushima Awa Odori		6,335	August 12 - 15	
Ehime Everybody's Life Exhibits 2006		910	October 21 - 23	
Kochi 53rd Yosakoi Festival		2,773	August 9 - 12	
Kyushu/ Okinawa Area		Fukuoka 45th Hakata Dontaku Port Festival	4,030	May 3 - 4
		Chikuzen Genkai Sakana (Fish) Festival	946	June 3 - 4
		Ohmura Daijaya Festival	299	July 22
		Wasshoi Hyakuman Summer Festival	2,680	August 5 - 6
		Sunset Live 2006	200	September 1 - 3
	57th Ohkawa Mokko Festival	544	October 8	
	Eco-style Town	1,526	October 14 - 15	
	2nd Yanagawa Citizens' Festival	471	November 26	
	Kumamoto NHK Tsutsuji (Azalea) Fair	378	April 22 - 23	
	Castle Town Kumamoto	516	May 13	
	Let's Play in Town! Town Walk Rally	4,147	October 14 - 15	
	Kumamoto Castle Autumn Festival	4,147	October 14 - 15	
	Oita 40th Oita Industrial & Cultural Exhibition	3,120	October 7 - 8	
	Nagasaki Sasebo Seaside Festival	571	August 5 - 6	
Kagoshima Satsuma Kuroshio Kibankai	629	August 5 - 6		
55th Ohara Festival	1,218	November 3		
Okinawa 29th Urasoe Tedako Festival	1,402	July 22 - 23		
29th Ginowan Hagoromo Festival	1,530	August 12 - 13		
36th Naha Festival	3,855	October 7 - 9		
Okinawa Flowers and Food Festival	930	February 3 - 4, 2007		

## Independent Assurance Report

To: Mr. Hiroshi Kimura  
President and Chief Executive Officer  
Japan Tobacco Inc.

This is a translation of the independent assurance report of the Japanese version of Japan Tobacco's CSR Report 2007.

May 31, 2007

### 1. Objectives and Scope

We, MISUZU Sustainability Certification Co., Ltd., have been engaged by Japan Tobacco Inc. (hereafter "the Company") to provide assurance on the Company's "CSR Report 2007" (hereafter "the Report"). The scope of the review covers the domestic environmental information (GHG emissions and waste) included in the Report. The objective of the assurance engagement is to independently express our conclusion as to:

- Whether the domestic environmental information (GHG emissions and waste) included in the Report was collected and reported in accordance with the relevant standards prescribed by the Company.

The preparation of the Report is the responsibility of the Company. Our responsibility is limited to independently expressing a conclusion on the Report.

As fiscal year 2006 marks the first year of our assurance engagement, information on fiscal year 2005 or before is not subject to our assurance procedures.

### 2. Summary of Procedures Performed

We performed our assurance procedures in accordance with the Assurance Standards for Environmental Reporting (Draft), established in March 2004, by the Ministry of the Environment of Japan, and referred to the International Standard on Assurance Engagements 3000 – Assurance Engagements other than Audits or Reviews of Historical Information (ISAE 3000), revised in December 2003, by the International Federation of Accountants.

Key assurance procedures we performed included:

- Review of relevant documents with regard to the Company's overall status and environmental management, and inquiry thereof;
- Inquiry with regard to the compliance status of the relevant standards prescribed by the Company;
- Review of relevant documents with regard to the methodologies for measuring, compiling and reporting the information under our review, and inquiry thereof;
- Assessment of the consistency of supporting documents, and performance of analytical procedures, including the reconciliation of sampled data to supporting documents; and
- Site visit to the Kansai Factory.

The domestic environmental information (GHG emissions and waste) included in the scope of our procedures performed is indicated with our logo, shown on the right.



### 3. Our Conclusion

Based on our assurance work, we have reached the following conclusion:

- Nothing has come to our attention that causes us to believe that the domestic environmental information (GHG emissions and waste) included in the Report was not collected and reported in accordance with the relevant standards prescribed by the Company.

### 4. Independence

In accordance with the relevant laws and regulations, including the Certified Public Accountant Law of Japan, no reportable relationship exists between the Company and MISUZU Sustainability Certification Co., Ltd.

MISUZU Sustainability Certification Co., Ltd.



### Comments

The following are our third party comments on the CSR activities of Japan Tobacco Inc. ("JT"), based on our interview with Hiroshi Kimura, the President and Chief Executive Officer, and with other relevant personnel, as well as our examination of the final draft of JT's "CSR Report 2007" ("the Report"). Please note that these comments do not express any of our independent views and/or opinions on the effectiveness and/or reliability of the information gathering and reporting process used for the Report.

JT has enhanced its CSR activities through the establishment of the CSR Promotion Plan in February 2007. This Plan stipulates the policies and objectives of its CSR initiatives, covering three key areas – the business environment, the global environment and social contributions – in a well balanced manner. Specific approaches of this business environment include the enhancement of compliance and other business infrastructure, the creation of a harmonious relationship between smokers and non-smokers, the development of new pharmaceuticals, and the promotion of food safety. We commend such policies and objectives as a clear demonstration of JT's approach: Putting its "Brand-ing Declaration" into action constitutes the implementation of CSR.

In the medium term business plan, "JT 2008", the company is committed to improving "the efficiency and effectiveness of external communication" as a group-wide objective. While not listed as a key factor in the publicly announced CSR Promotion Plan, we noticed that in practice, communication is perceived as a key aspect of JT's CSR approach. Examples of such efforts include the enhancement of the company's website, active information release through the Japanese and international media, and organization of an employee workshop to discuss JT's "Social and Environmental Report 2006".

Going forward, we recommend that JT create a cycle of CSR actions, starting with active dialogues with various stakeholders, identifying CSR issues and challenges, setting up concrete quantitative targets to the greatest extent possible, reviewing performance, and disclosing the results of this review. Establishment of such cycle would help JT to further enhance the public's trust in it.

We also hope to see CSR activities further articulated as part of its core business. To this end, JT's CSR efforts should be more aligned with the objectives and policies in the "JT 2008", the current medium-term business plan, as well as those in any follow-on plans.

## Companies under the Environmental Management

Japan Tobacco Inc.	Kyushu Plant Service Co., Ltd.	JT Foods Co., Ltd.
TS Network Co., Ltd.	Eastern Japan Plant Service Co., Ltd.	Nihon Shokuzai Kako Co., Ltd.
JT Logistics Co., Ltd.	JT Engineering Inc.	Sunburg Co., Ltd.
Japan Filter Technology Co., Ltd.	Japan Metallizing Co., Ltd.	Ipingyang Foods Corporation
Fuji Flavor Co., Ltd.	Torii Pharmaceutical Co., Ltd.	Asahi Shokuzai Co., Ltd.
Central Japan Plant Service Co., Ltd.	Japan Beverage Inc.	JT Real Estate Co., Ltd.
Western Japan Plant Service Co., Ltd.	JT A-Star Co., Ltd.	JT International S.A.

### Editor's Note

We would like to ask what you think of the "CSR Report 2007."

We have edited this "CSR Report 2007" in accordance with the CSR Promotion Policy and Promotion Plan, which were developed by JT in FY2006. To introduce our CSR Promotion activities, we designed this report to communicate our feelings about our CSR activities through the articles, including the top interview with the president, the report on the Kansai Factory that had a third party conduct CSR assessment, and our front-line CSR activities. We hope that readers will deepen their understanding about our CSR activities by reading these reports and articles that introduce our various activities as well.

Based on the feedback from readers on the last year's report, we tried to make the "CSR Report 2007" easier to read by making it a point to limit the volume of information. We must appropriately select topics from a large amount of information and clearly and concisely communicate the contents. We hope we were able to fulfill readers' expectations in some way.

Your opinions and comments are welcome for our future guidance.