

Corporate Social Responsibility

2012



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When JTI was founded in 1999, the Company gave itself the mission not only to be successful, but also to build reputational equity and credibility by operating with integrity. Initiatives throughout our business have sprung up out of a sense of 'doing the right thing', recognizing the specific attributes of the manufacturing and agricultural environments we work in and the rights of the people we partner with. Over the past decade, Corporate Social Responsibility has evolved, and we are pleased to be part of a movement that promotes shared values across commercial entities, markets and regions. Striving to be the best in all that we do gives back to the societies in which we operate. It also makes good commercial sense. I believe our record speaks for itself, and in going forward, CSR will become a strategic pillar of our continued growth and success. As this report shows, by demonstrating a clear commitment to CSR we can help to change the way the world does business.



A handwritten signature in black ink, reading "P. de Labouchere". The signature is fluid and cursive, with a long horizontal stroke at the end.

Pierre de Labouchere
President and CEO



Corporate Social Responsibility has come of age. For years, the practice of CSR lacked definition, if not purpose, but with the publication of the ISO 26000 guidelines in 2010, there now exists an undisputable reference for companies to benchmark their CSR activities. Over the past decade we have operated ethically as a global organization, compelled by our own understanding of what it means to act for the betterment of business, people and the environment. ISO 26000 shows that we've got a lot of things right, yet need to do more in certain areas. This report brings together a selection of the many initiatives across our business that align with ISO 26000. We do not claim to be perfect, but we can, and should, be proud of what we have achieved.

In 2013 we will work together with our parent company to align all our CSR activities under the umbrella of the JT Group. This will deliver a unified approach to Corporate Social Responsibility, enabling greater efficacy and better results across the group.

A handwritten signature in black ink, appearing to read 'Paul Bourassa'.

Paul Bourassa
Senior Vice President,
Legal, Regulatory Affairs and Compliance

Governing with prudence

JTI has in place a wide-ranging set of measures that ensure the Company's compliance with legal and regulatory standards wherever we do business. The conduct of our employees is at the heart of what makes us an exceptional business, above and beyond recognized corporate norms.

ISO 26000: ORGANIZATIONAL GOVERNANCE

ISO 26000 stresses that in order for an organization to act in a socially responsible and sustainable manner, it is crucial that its decision-making capabilities, whether formal or informal, are based on processes, systems, and infrastructures that deliver good governance and accountability.

Source: © International Standard ISO 26000 First Edition 2010-11-01.

Defining standards and ethical behaviors

JTI's Code of Conduct

The Code of Conduct (CoC) is a set of ethical standards which JTI expects all of its employees to abide by, regardless of their role or responsibilities. It defines and encourages corporate and individual behaviors that are above reproach – both internally and through our external endeavors and dealings. The Code of Conduct explicitly describes the practices and procedures to be adhered to in relation to colleagues, suppliers, customers and society at large.

The Reporting Concerns Mechanism protects employees' confidentiality

The Reporting Concerns Mechanism (RCM) offers a means of reporting activities that an individual suspects may be in breach of the law, or contravene JTI's Code of Conduct or Policies & Procedures. The RCM allows an employee to raise an issue via an online form or directly to a "Contact Person" based in his or her operation. There are 200 Contact Persons worldwide, trained to listen to and report allegations. Those cases are then reported to Corporate Compliance in Geneva, which analyzes and, if appropriate,

recommends an investigation into the allegation by the Global Investigation Team. At all times the reporting employee's identity is kept confidential, unless it is required to be revealed according to local legislation (for example, in criminal cases or incidences of sexual harassment).

Operating Guidelines and Policies & Procedures facilitate and govern the strategic decision making process within JTI

JTI's Operating Guidelines and Policies & Procedures are key elements of the Company's Corporate Governance framework. Applicable to all operations and employees worldwide, the Operating Guidelines drive JTI's strategic decision-making process, outlining the delegation of authority and the requirements for seeking approval of key business decisions by the JTI and JT Executive Committees.

JTI's Policies & Procedures define the Company's processes, operating practices and responsibilities, and establish a framework for internal controls.

JSOX focuses on Internal Controls over Financial Reporting across the organization

As a company publicly listed on the Tokyo Stock Exchange, JT and its subsidiaries, including JTI, are obliged to comply with JSOX; a Japanese law which requires management to evaluate the effectiveness of internal controls over financial reporting. External auditors are required to audit the internal controls evaluation by management, and significant control weaknesses must be disclosed in public filings.

Product Stewardship

JTI's Product Stewardship program ensures that ingredients used in the manufacture of its products do not increase the inherent health risks associated with tobacco use. The program is based on the practices of regulatory bodies and professional organizations specialized in risk assessment. JTI also adheres to tobacco product ingredients regulation in the markets in which we operate.



Upholding human rights

JTI's goal is to ensure that human rights are respected in all areas of its business and across all of its different working environments. We strive to ensure that no employee is subject to discrimination or exploitation, and to ensure that all employees are treated fairly. JTI expects and encourages its business partners everywhere to adopt this same goal.

ISO 26000: HUMAN RIGHTS

ISO 26000 promotes the idea that organizations should actively support and respect Human Rights as recognized standards, regarding the sanctity of life, as well as political, social and economic rights.

Source: © International Standard ISO 26000 First Edition 2010-11-01.

Eliminating child labor in the tobacco industry

Tackling the causes and effects: eliminating child labor

JTI takes the issue of child labor very seriously, and contributes to eradicating child labor in tobacco farming both through its own initiatives and in collaboration with other organizations.

We work to improve the livelihoods of farmers and communities where children have historically worked alongside adults by raising awareness of the detrimental effects of child labor. JTI also encourages and supports the creation of educational opportunities for children, and supports Governments, Non-Governmental Organizations (NGOs) and International Organizations (IOs) to help improve national legal and regulatory frameworks to effectively address child labor.

JTI is a member of the 'Eliminating Child Labor in Tobacco Foundation' (ECLT), a multi-stakeholder partnership of trade unions, growers and companies with the International Labor Organization (ILO) as its advisor. The ECLT's aim is to eliminate the use of child labor in the tobacco industry.

Specific Code of Conduct guidelines on child labor

JTI recognizes that certain types of work performed in tobacco growing, harvesting, processing and manufacturing, and the circumstances in which such work is carried out, may harm a child's safety,

health or moral rights, and must not be performed by children under the age of 18 years.

Children between the ages of 16 and 18 may engage in such work if permitted by local law, if their health, safety and morals are fully protected, and if they have received adequate specific training to perform these tasks. JTI's child labor policy has used as reference the ILO Convention No.138 (Minimum Age Convention 1973) and Convention No.182 (Worst Forms of Child Labor Convention 1999).

Our efforts to eradicate child labor in tobacco farming focus on the implementation of specifically targeted programs and projects in those areas where JTI does business and has influence, in collaboration with Governments, IOs, NGOs, employers' and workers' organizations, the private sector and local communities.



ARISE (Achieving Reduction of Child Labor in Support of Education)

JTI's flagship program aimed at eliminating child labor in tobacco farming is ARISE, which was developed in 2011 and launched in early 2012.

JTI's ARISE program supports tobacco growing communities, notably in Brazil and Malawi. The goals of this program are to remove children from child labor, promote access to quality education for these children and, importantly, to create sustainable alternatives for farmers so that they no longer need to employ children.

ARISE provides educational materials and after-school tutoring that serve as enhancements to formal schooling. It offers mentoring and access to technical and vocational training for older children via Model Farm Schools and professional skills courses. Family Support Scholarships also provide entrepreneurship training and conditional

capital investments for parents or guardians to help remove their children from child labor and to ensure that they stay in school.

ARISE contributes to broader child labor elimination schemes that are run on a national level in education, social protection, and rural development. By linking ARISE with national stakeholders, JTI's program helps to create change at the community level which can be sustained over the long-term.

ARISE was developed together with Winrock International and the ILO. In addition to actively participating in the design and execution of the program, ARISE is also wholly funded by JTI. This is the first time the ILO has partnered with a tobacco manufacturer in an effort to eliminate child labor in tobacco farming.

International Labor Organization Agreement



“The strategic partnership between JTI, Winrock and the ILO perfectly demonstrates how the close cooperation of government, the private sector, labor organizations and the international community can contribute to the prevention and elimination of child labor through the development of education opportunities.”

RENATO MENDES

NATIONAL COORDINATOR – ILO –
INTERNATIONAL PROGRAMME ON THE ELIMINATION OF CHILD LABOUR

The ILO recognizes that the private sector can drive major innovations in the world of work, and actively seeks partners in private enterprise in order to exchange experience and promote decent work throughout the business world.

The ILO works with individual companies and foundations to tackle important global labor market issues and support sustainable enterprises and entrepreneurs.

The ILO and company partnerships can take many forms and bring numerous advantages that help benefit this shared cause. The ILO/JTI partnership to help eliminate child labor in

tobacco farming includes the exchange of knowledge and expertise, advocacy and awareness-raising campaigns, organization of meetings and events and collaborative research projects.

The ILO brings its deep knowledge of child labor regulations and challenges to this important issue.

For more information, please visit www.ilo.org.



Winrock International

an expert partner on the ground

Winrock International is a non-profit organization that works with people around the world to empower the disadvantaged, increase economic opportunity, and sustain natural resources. JTI chose Winrock International to help implement the ARISE program on the ground because of their extensive experience in tackling child labor in the agriculture sector.

Winrock understands the challenging socio-economic factors influencing child labor incidence, particularly in rural areas, where a high rate of child labor is an indicator of weak economic systems and is linked to low levels of rural development. JTI shares Winrock's belief that 'child labor is problematic because it perpetuates an unskilled labor force; children grow up untrained and uneducated, thus continuing a vicious cycle of poverty'.

The Winrock partnership is an integral part of the ARISE initiative. By leveraging Winrock's extensive expertise, JTI can help create alternative approaches to aid the elimination of child labor, increase educational opportunities for children and raise awareness in communities.

“The partnership among JTI, ILO – IPEC and Winrock offers an effective tri – sector approach to eliminating child labor. We believe that through this integrated program, which includes improving education and livelihoods, the gains made will be sustained and JTI can lay the groundwork for child labor free zones. While we are in the early stages of implementation, we are optimistic about the potential of this partnership.”

CAROL MICHAELS O'LAUGHLIN
GROUP VICE PRESIDENT, EMPOWERMENT & CIVIC ENGAGEMENT
AT WINROCK INTERNATIONAL

Working as one

It is JTI's duty to provide optimal working conditions that meet stringent environment, health and safety (EHS) standards. We exceed the minimum national EHS requirements in the countries in which we operate, helping employees to not only work efficiently and productively, but to thrive.

ISO 26000: LABOR PRACTICES

Labor practices of an organization encompass all policies and practices relating to work performed within or on behalf of an organization. These include socially responsible policies, decent conditions of work and provisions for health and safety at workplaces that the organization owns or directly controls.

Source: © International Standard ISO 26000 First Edition 2010-11-01.

Environment, Health and Safety (EHS) at work



DAVID DOOLEY, VICE PRESIDENT, EHS

“Since the EHS Excellence Awards were launched in 2005, the number of projects submitted has grown steadily, rising from 39 in its inauguration year to 154 in 2012. This represents the expanding scope and importance of the company’s EHS initiatives.”



EHS and Risk Assessment Training for manufacturing newcomers

The ‘Basics of EHS and Risk Assessment’ is a five-day program for all those entering into the field of EHS, as well as any employee who needs to increase EHS knowledge and/or enhance risk assessment skills.

During the course, participants learn about EHS principles, policies and standards and are taught the full range of EHS risks inherent to JTI’s operations. Equipped with this knowledge, staff can go on to deliver effective risk assessment – a first step to reducing and controlling EHS risk. Currently the course

is available for staff at JTI factories, Global Supply Chain and Global Leaf operations; the Company is set to roll out the program to encompass markets from 2013 onwards.

A user-friendly EHS self-assessment tool

With JTI’s simple EHS assessment tool, factory managers can evaluate the full range of EHS activities on their site, rating their EHS performance from 1-to-5. All the leading EHS indicators are mapped across the four key areas of EHS: Environment, Occupational Health, Safety and Management Systems. As data is not shared across plants, managers concentrate on their performance

and are asked to consider the specificities of their own site. This empowers them to act on any weaknesses and make remedial plans. The tool supports continuous improvement in EHS standards, promotes increased knowledge and understanding of EHS topics and generates a transparent and accurate picture of EHS performance and efficiency.

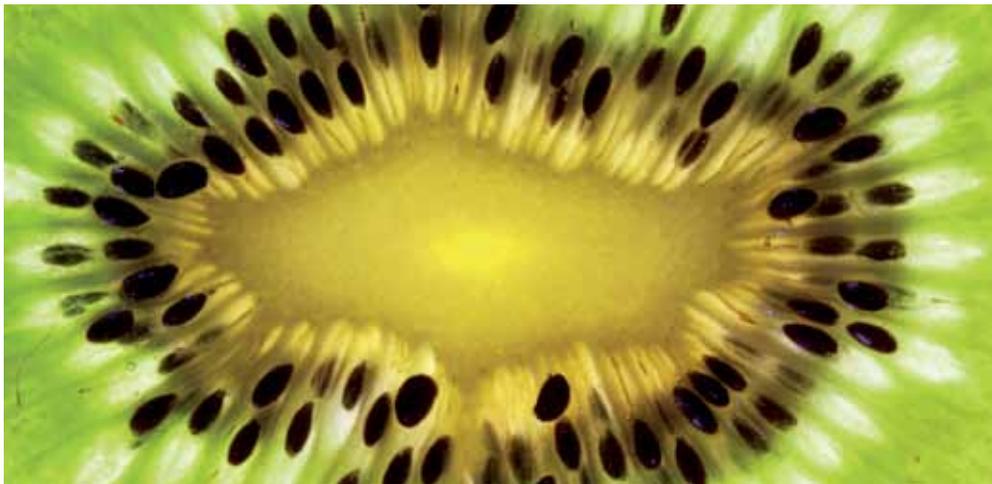
For more information on our Environment, Health & Safety performance and programs, please see JTI’s EHS Annual Report on www.jti.com.

EHS Excellence Awards

JTI’s annual EHS Excellence Awards are open to all company employees. The Awards aim to promote excellence in any area of JTI activity that may touch upon Environment, Occupational Health, Occupational Safety or Teamwork, and provide employees with a framework in which to generate change and improvements in the way they work. They have helped to generate a diverse range of novel tools and processes that are then shared within the Company.

Looking after each other

In addition to ensuring safe places of work and abiding by stringent occupational health and safety standards, JTI seeks to ensure that employees' general wellbeing is addressed.



Wellness in the workplace

JTI operates a range of workplace wellness programs, at sites ranging from offices to processing plants. In Canada, a 'Lunch and Learn' initiative covers health-related topics such as office ergonomics, and employees can receive health services such as check-ups and massages. Results help to prevent

absence, improve health and even detect disease. At a JTI leaf-processing factory in Brazil, 'Labor Gymnastics' helps prevent risks from repetitive tasks. Results have greatly reduced referrals to the company doctor.

Creating safety leadership at JTI

EHS at JTI is about promoting behavioral change and embedding a culture of safety. JTI's Safety Change Program focuses heavily on behavior and aims to turn managers and supervisors into safety leaders through a 'Safety Leadership Course.' This is tailored to suit employees' working environments, picking up tried-and-tested principles from JTI's broader safety programs and complementing existing EHS standards and principles in these workplaces. After a two-day session, managers implement a three-step, on-going safety program. This includes positive reinforcement through 'Safety Dialogues', employee-driven 'AECT' (Actions Employees Can Take), and establishing 'Task Teams' to design and implement safety programs.

JTI's Alert Driving program

Every day, 8,000 JTI employees drive a car for company business, so it is essential for the Company to continuously provide safety guidance. The 'Alert Driving' program is a web-based, localized driver training tool, which began roll-out in 2011. The interactive program consists of 12 modules, including speeding, distractions, parking and maneuvers, what to do at junctions and how best to avoid collisions. Employees in all divisions, whether they drive as part of their work or not, are invited to participate. During the next three years, all employees across the world will be able to join the program and invite a family member to participate.

Radiation monitoring

a rapid response to disaster



As the international arm of Japan Tobacco Inc., the entire Company was concerned when Japan was struck by a devastating earthquake and the ensuing nuclear disaster on 11 March 2011. The damaged Fukushima nuclear reactor on Japan's east coast was not close to any of JT's operating plants. However, both JT and JTI wanted to act out of an abundance of caution to ensure that any materials shipments from Japan – which JTI frequently receives – were not contaminated by radioactivity.

JTI rigorously analyzed potential levels of radiation to help reassure customers and employees that imports carried no risk. A testing protocol was developed with support from radiation experts at Environmental Resources Management (ERM), the world's largest environmental consulting company. The protocol was applied across the company and highly sophisticated radiation contamination monitors were purchased and distributed to all factories around the world.

The equipment enabled all raw materials entering factories from Japan to be checked; materials and finished goods were also monitored before leaving Japan. During a six-month period following the disaster, over 7,000 individual tests were performed, with no evidence of contamination.



After collecting JTI's radiation data, ERM subjected this information to various statistical analyses developed by the US Environmental Protection Agency. The results showed no evidence of contamination resulting from the events at Fukushima. Based on this assessment, in September 2011, testing of raw materials at JTI factories was suspended.

In December 2011, upon the advice of ERM, radiation-monitoring operations in Japan were stopped. JTI will continue to monitor the situation in Japan, and has retained ERM to undertake this effort.

Respecting the environment

Protecting the environment is one of society's pressing concerns, and as an agro-manufacturer, we are keen to apply good environmental practices. JTI's goal is to both minimize its impact on the communities where the Company operates, and to optimize efficiency to ensure that we operate in a sustainable and efficient manner over the long-term.

ISO 26000: ENVIRONMENT

In order to improve environmental performance, ISO 26000 recommends that organizations review their environmental impacts on a global scale. This can be achieved by adopting sustainable procurement and environmental risk management strategies, and through implementing clean technologies and ecologically efficient initiatives.

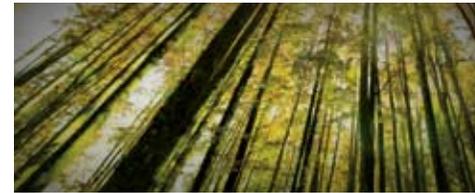
Source: © International Standard ISO 26000 First Edition 2010-11-01.

Sustainable Agriculture at the heart of Global Leaf strategy

In 2010, JTI began the process of enhancing its strategy for Sustainable Agriculture. The move was deemed essential to secure a long-term supply of tobacco by working to raise farmer incomes, reducing environmental impacts and improving the social well-being of the farming communities where the Company is present. In simple terms, by helping to create a better future for tobacco farmers, we will also ensure the continued

supply of high quality products to our customers. The newly enhanced framework for achieving JTI's vision of a sustainable leaf supply chain was completed in 2011, with several key initiatives already in place today.

These include initiatives to assist in the eradication of Child Labor, programs to promote responsible forestry management and the deployment of Good Agricultural



Practices (GAP) to improve farmer profitability and to promote safe working conditions for farm laborers. GAP promotes good agronomic standards with three key objectives: productivity, usability (quality) and integrity.

However, the attainment of the aforementioned vision is also dependent on the development of several other key initiatives that will be implemented and reported in the medium-term.

Ensuring the sustainable use of resources

Forestation and reforestation maintain wood reserves

Tobacco production often requires wood as a fuel source for curing tobacco leaf. JTI is keen to minimize the environmental impact of its tobacco-related activity, which is why as part of its Good Agricultural Practices (GAP), the Company engages in forestry activities, planting trees as a crop (Forestation) and replenishing previously depleted forest reserves (Reforestation).



Forestation aims to ensure that JTI's contracted tobacco growers have access to a reliable and sustainable supply of wood fuel. JTI currently develops and manages forestation programs in tobacco-producing areas in Brazil, Zimbabwe, Malawi, Tanzania, and Zambia. Tree seedlings are planted in line with planned future leaf production and curing requirements. Forestation management guarantees the supply of sustainable wood fuel sources and ensures compliance with local requirements related to the exploitation and supply of firewood from forestry resources. This includes providing technical training for local farmers as well as increasing awareness of the principles of sustainable agriculture.

Reforestation is a systematic program of re-planting trees in an area where the forestry reserves have been depleted. JTI, in collaboration with specialized institutions such as Washington State University and their locally appointed NGOs in the Philippines, Malawi, Tanzania and Zambia, has a range of projects that seek to remedy this issue. JTI and JT began funding reforestation programs in these areas in 1996, and continue to do so today. To date, JTI-funded reforestation programs have replanted approximately 20 million trees.

Doing our part

Group Certification EHS

All JTI manufacturing operations are assessed and certified to a strict set of internationally recognized standards. These include ISO certification for JTI's environmental management and OHSAS (Occupational Health and Safety Advisory Services) certification for JTI's management of occupational health and safety issues.

To ensure consistency of standards company-wide, JTI works with ERM CVS, an external auditor that ensures a consistent

assessment approach encompassing top-level issues such as performance results and processes as well as more detailed items that include documentation and data inputs.

JTI undergoes an annual EHS assessment and an external audit. Following a successful assessment, the Company is awarded EHS certification, which lasts three years, yet which can be revoked at any time.

Greenhouse Gas Management

JTI actively strives to reduce and track direct carbon emissions, commonly known as 'greenhouse gases' from all of its business areas, including manufacturing, emissions generated from offices (such as electricity, heat and light), and fuel from its fleet and business travel. We then aggregate this energy consumption into a carbon emissions equivalent; the Company can act upon this information and make targeted changes, which may include reducing energy

consumption, fuel switching or changing to 'green' energy supplies.

JTI's focus for 2012 expands on these initiatives to assess the Company's indirect carbon emissions, namely those created within our broader supply chain. During the year, JTI conducts analysis, identifying areas of opportunity, and developing mid- and long-term targets before implementing programs to achieve these goals.



“The aim of Group Certification is a safer environment with minimized EHS risk. Our yearly assessment supports our objective of continuous improvement across the board.”

JIM HOWARD, ENVIRONMENT DIRECTOR, EHS



“EHS doesn't belong to EHS specialists, it belongs to everyone. Our job is to try and help everyone achieve the best they can. We provide the tools, we coach, advise, support, encourage and motivate, but real change comes from our people.”

DAVID DOOLEY, VICE PRESIDENT, EHS

Environmental programs promote cleaner societies



JTI's Clean Beaches campaigns in Greece and Cyprus

JTI's Clean Beaches campaigns help to protect marine environments from cigarette waste by encouraging adult smokers towards responsible cigarette disposal on beaches. JTI's campaigns in Greece and Cyprus are implemented in cooperation with two NGO partners: HELMEPA (Hellenic Marine Environment Protection Association) and CYMEPA (Cyprus Environment Protection Association). The programs communicate with adult consumers at the countries' two largest and most popular beaches. Leaflets and portable beach ashtrays are given to

adult smokers, advising them to use these, rather than stubbing out cigarettes in the sand. JTI employees and key business partners have also taken part in annual voluntary beach 'clean-ups'.

Empowering consumers in Italy with over three million ashtrays

In Milan, in 2007 and 2008, JTI collaborated with the Milanese waste collection company AMSA, helping to distribute 70,000 portable ashtrays and to produce 5,000 outdoor ashtrays, strategically placed outside bars and tobacconists. Other similar collaborations have taken place since then, including partnerships with Sciare, Panorama and

Sette magazines, as well as with Marevivo, a marine protection association. By the end of 2011, through these and other initiatives, JTI had distributed over three million portable ashtrays throughout Italy.

Keeping Sweden Tidy: two initiatives to keep cities clear of cigarette butts

In 2010, Stockholm was elected European Environmental Capital. At the same time, several studies showed that the main source of litter in the city was cigarette butts. JTI supported the 'Keep Sweden Tidy' campaign by jointly donating a cigarette vacuum

cleaner to the city of Stockholm, together with British American Tobacco (BAT) and Philip Morris International (PMI). JTI also funded an advertising campaign for the Swedish Association of Local Authorities and Regions, under the theme: 'Feel Like [you are] at Home'. Advertisements illustrated cigarette butts on a living room floor, with the caption: "The city is an extension of your living room. Please use an ashtray when you are out. It makes things a little nicer, just like at home".



Reducing water consumption in Montreal, Canada

In Montreal, JTI has a production plant of approximately 58,000m², which in 2004 consumed 202,400m³ of water. As one of its main EHS projects for 2005, the Company set itself the challenge of reducing this by 25% with an additional reduction of 10% in 2006. The air conditioning (A/C) units and the vacuum pumps were identified as the equipment that consumed the most water.

The first area of attention were the water-cooled A/C units. The plant has 19 units and only one needs to run around the clock. To control these more efficiently, timers were installed to reduce running time from 8760 hours per year to an average of 2000 hours. The second project focused on reducing water consumption for the vacuum pumps used in cigarette manufacturing. The solution was to introduce a 'closed loop' system instead of releasing water into the drains.

With these two major initiatives, and additional projects, JTI reduced water usage by 34% in 2005 alone. Further reductions were made in 2006, as per the original challenge.



Boxing clever: re-using waste cardboard containers in Serbia

At JTI's Senta Factory in Serbia, tobacco was previously packed, transported and stored in hessian cloths tied with string, which often led to the loss of tobacco leaf, and the risk of contamination. To eliminate these problems it was decided to change the way tobacco was packed, opting to re-use large cardboard containers, known as C48s, which were

usually thrown out as waste after single use. Other than the financial savings that have been identified, benefits also include better quality tobacco, the elimination of spillage across the entire handling cycle, improved cleanliness at the processing lines and an increase in receiving capacity. Furthermore, the boxes can be reused several times over.



Acting fairly and ethically

Responsible business practice is a core JTI priority. We act to ensure that our business is conducted in a fair and ethical manner everywhere by requiring all employees to adhere to the JTI Code of Conduct at all times. We apply this approach across our entire supply chain, acting fairly and ethically with our partners, suppliers and customers.

ISO 26000: FAIR OPERATING PRACTICES

ISO 26000 guidelines for Fair Operating Practices outlines an ethical approach that an organization should adopt in relation to other entities, such as legislative authorities, suppliers and competitors and also in regard to issues including fair competition and anti-corruption.

Source: © International Standard ISO 26000 First Edition 2010-11-01.

JTI's zero tolerance approach to illicit trade

Illicit Trade is a major concern for JTI and society as a whole. There are essentially three forms of illicit tobacco products:

- Contraband is defined as genuinely manufactured product, which is diverted from the legitimate supply chain and sold in a country different to its intended market of sale;
- Counterfeit products are fake versions of brands protected by intellectual property rights, which are manufactured without authorization with the intention of deceiving consumers into believing that the products are genuine; and
- Illicit Whites are brands manufactured legitimately in one country, but smuggled into another market with the sole intention of providing consumers with cheap brand alternatives.

For all three categories, excise duties are unpaid, often helping to fuel criminal operations and negatively impacting the revenues of JTI and governments.

JTI takes a zero tolerance approach to such illegal activities, and has rigorous Anti-Illicit Trade (AIT) compliance programs in place to prevent illicit activities within operations such

as sales and distribution, the supply of goods and services, financial transactions, and manufacturing. JTI's priority is to prevent the contraband trade of its products. To this end, key programs such as Know-Your-Supplier and Know-Your-Customer ensure that JTI only buys from, and sells to, reputable business partners.

In addition, JTI monitors legitimate demand in markets, implements preventive anti-money laundering processes and state-of-the-art tracking and tracing technologies, and undertakes seizure inspection and intelligence sharing about presumed cases of illicit trading. These programs aim to ensure that JTI's products reach consumers only through legal retail channels in their intended markets.

Governments and law enforcement agencies are JTI's primary partners in the Company's efforts to combat illicit trade. We have various agreements in place with national authorities, and partner with local customs authorities to provide intelligence and offer support, such as counterfeit recognition training for customs officers.

JTI believes that no single solution can eradicate this growing problem.

No government, regulatory body, law enforcement agency, or manufacturer - acting alone - can hope to eliminate the illicit trade in tobacco products, which is why partnerships to combat these illicit activities are at the heart of our strategic approach to tackle this global problem.

Cooperation agreements provide a framework to combat illicit trade internationally

JTI has signed two agreements to help counter illicit activity internationally. JTI, the European Union (EU) and its member states signed the 'EU Cooperation Agreement'; a 15-year commitment forming the basis for all parties to work together to combat illicit trade. The Company has also signed a similar agreement with the Government and Provinces of Canada.

"The fight against smuggling and counterfeiting of our products is an important business priority for JTI. Combining the resources and coordinating the efforts of both government and business is the only solution."

PIERRE DE LABOUCHERE, PRESIDENT AND CEO



Memoranda of Understanding: curbing illicit trade at an operational level

A Memorandum of Understanding (MOU) is an agreement between JTI and a local country authority stating their mutual operational cooperation to help curb illicit trade. JTI has MOU agreements in place with more than 30 countries around the world.

Security programs: protecting our people and safeguarding our products

JTI's security remit is extremely broad, focusing on the protection of our assets, in particular employees whose safety is always put first. In distributing its products, JTI ensures the security of over 100,000 international truck shipments every year, employing the very latest surveillance and anti-theft technologies.

Raising awareness of illicit trade

Consumers

JTI's AIT consumer awareness campaigns inform smokers about the negative consequences of purchasing contraband or counterfeit cigarettes.

Purchasing illicit cigarettes supports organized crime, whilst counterfeit products and illicit whites may carry greater health hazards due to their poor manufacturing standards. Buying illicit products also harms broader society as it deprives governments of vital sources of income.

JTI endeavors to raise awareness of these serious problems across the globe.

“We’re trying to raise awareness amongst consumers, so that whenever they’re tempted to buy something from an irregular channel, they think about the consequences, and stop.”

BRUNO DUGUAY
CHIEF COMPLIANCE OFFICER & ANTI-ILLICIT
TRADE VICE PRESIDENT

Multi-audience effort in Ireland

Ireland is affected by high rates of illicit trade. JTI seeks to combat this criminal activity by raising awareness amongst stakeholders, including consumers, retailers and the authorities, and by working closely with law enforcement agencies.

A joint effort between JTI in the United Kingdom and Ireland resulted in the development of the All Ireland Illicit Trade Bulletin, a detailed 12-page booklet distributed to law enforcement agencies and retailers, outlining the problem of illicit trade and how JTI can help.

The Company also set up a telephone hotline in Ireland for retailers and law enforcement agents to report information. Retailers were provided with key rings and cards, which displayed the hotline number.

In addition, law enforcement bodies, Members of Parliament, EU regulators and the media in Ireland received the Illicit Trade Review, a comprehensive report of Ireland's illicit trade problem prepared by JTI.

How empty cigarette packs tell a story about illicit trade

An Empty Pack Survey (EPS) consists of collecting and analyzing discarded cigarette packs to create a snapshot of a country's illicit trade exposure. JTI and governments can then estimate the incidence of non-domestic duty paid cigarettes in that country, and use this input to develop effective anti-illicit trade strategies. EPS provides an important means of assessing illegal activity, which is often hard to monitor. In 2011, JTI conducted EPS surveys in over 30 countries.

Outlining our responsibilities

As a large multinational company it is essential that JTI follows high standards of ethical conduct. Such standards reflect JTI's corporate values, ensuring that we comply with our business and legal obligations, and help create a workplace where employees can thrive.

Code of Conduct

JTI has clear standards of business ethics, behaviors and practices which are contained in the Company's Code of Conduct. This is an integral part of JTI's identity.

All employees and business partners are expected to meet these standards at all times. Reporting mechanisms are in place allowing anyone to raise concerns if they believe that JTI's Code of Conduct is being breached.

Knowledge is power: Know-Your-Customer and Know-Your-Supplier

JTI's Know-Your-Customer and Know-Your-Supplier programs form an important part

of the Company's Corporate Compliance responsibilities.

Know-Your-Supplier verifies that all of JTI's global and local contractors for the supply, transport or manufacture of tobacco products adhere to JTI-standard business practices.

Know-Your-Customer verifies that JTI's distributors are registered, with the necessary permits and licenses to sell JTI tobacco products.

Good Agricultural Practices (GAP) enhance sustainability

As well as working with tobacco dealers, JTI has close relationships with tobacco-growing communities. This gives JTI detailed



knowledge of the tobacco available and the challenges faced by farmers, which in turn allows us to play a more direct role in helping farmers find appropriate solutions to the specific challenges they face.

To ensure consistent global operating standards and a sustainable and secure supply of leaf tobacco, JTI implemented a GAP program in 2010 for JTI tobacco-growing farmers.

JTI provides growers with the right tools to efficiently produce an optimal yield crop of the required quality, which in turn allows them to consistently achieve profitability and thus remain competitive.

GAP principles can be adapted to address the requirements of each tobacco-producing country, and have been applied across all of JTI's leaf-growing operations.

GAP helps mitigate risk and ensures that JTI has a more predictable and sustainable supply of leaf tobacco.

Informing our consumers

JTI recognizes the risks of smoking. We do not encourage people to smoke, but support the freedom of choice for adult smokers to purchase our brands as legal and strictly regulated products. JTI believes in transparency and informing consumers about its products.

ISO 26000: CONSUMER ISSUES

ISO 26000 deems that organizations should inform consumers on activities that help improve the understanding of their products and services, that communicate and reduce risk and that allow knowledgeable purchasing and responsible consumption.

Source: © International Standard ISO 26000 First Edition 2010-11-01.



Promoting transparency with the Consumer Information Initiative

Launched in 2005, JTI's Consumer Information Initiative (CII) campaign illustrates the Company's commitment to openness and transparency about its products. CII provides consumers with information about the role of packaging elements such as the name, use of colors or descriptions. The Initiative was updated in 2010, with the creation of a website – "www.nosafecigarette.com" – which advises that consumers should not choose a particular type, flavor, or strength of cigarette because they believe it to be less hazardous than any other. Austria was the first country to introduce the URL on packs in September 2011 and other markets, where permitted, will follow.

Online Voluntary Ingredient Disclosure

Ingredient Disclosure provides consumers with information about product ingredients, so they know what is added to the products they smoke. JTI's Voluntary Ingredient Disclosure on jti.com contains a comprehensive list of all ingredients, listed by tobacco product type, brand and geography. The website includes information on cigarettes, cigarette papers, filtration materials, adhesives, inks and flavorings and on Roll-Your-Own (RYO) and Make-Your-Own (MYO) products.



Why minors need Retail Access Prevention

Youth smoking continues to be a key concern and preventing it is a policy objective of many governments. JTI believes that minors should not smoke, or be able to buy tobacco products. Underage smoking is best addressed via a multi-stakeholder approach involving governments, public organizations, retailers and the tobacco sector. JTI participates in a number of Retail Access Prevention programs that seek to prevent the sale or accessibility of tobacco products to minors. These include implementing solutions that prevent minors accessing cigarettes via vending machines and engaging with retailers to prevent sales to minors.



Quality Information Management Systems

Between 2003 and 2010, all JTI manufacturing facilities were equipped with a Quality Information Management System (QIMS). QIMS collates quality-related data online directly from the shop floor to ensure that production is in line with Global Product Specifications. The system covers every production machine and workstation within a factory, and operators are trained to use and interpret the system as part of quality control activity. Product samples are frequently visually checked and sent to a measurement station, to monitor various aspects of the product. Parameters include the weight and circumference of the cigarette. This provides real-time quality assurance data to help ensure the quality of JTI products, in line with consumer expectations.



Giving back to society

JTI believes it is important to contribute to the societies in which it operates, in a considered and voluntary manner. This ranges across economic, social and artistic endeavors, at both local and global levels. Within this approach, our global Corporate Philanthropy program has its own unique aims, focusing on People and the Arts.

ISO 26000: COMMUNITY INVOLVEMENT AND DEVELOPMENT

The ISO 26000 standard identifies an organization's involvement within the communities in which it operates as a means to both strengthening civic society and creating bonds between a company's internal stakeholders, such as owners, shareholders and employees and external stakeholders, namely the people living in local environments and broader society.

Source: © International Standard ISO 26000 First Edition 2010-11-01.

Building businesses in South Africa's poorest communities

In South Africa, JTI's 'Kasi Phezulu' project aids local businesses in struggling communities and townships to become 'community hubs', helping to empower local people. The initiative works by running a number of educational sessions, giving individuals the knowledge and tools to go back to their townships and make a difference. Kasi Phezulu, which means 'township upliftment', has worked with over 5,000 business owners.

Three different sessions of enlightenment

'Building Partnerships Together' is the first of these educational sessions, and utilizes the construction of wooden houses to demonstrate how working together can create something – in this case, a small 'Wendy house'. This dynamic exercise allows teams of retail outlet owners to work together to achieve a common goal and make a meaningful contribution to their businesses. The end result is a completed product based on the values of community, togetherness and delivery. Not only does the session address the outlet owners'

expressed need for additional secure space, but it also further cements their relationships with JTI.

The second session, 'Back to School', is held in a training workshop. These practical lessons provide insight for business owners into entrepreneurship, financial management and the marketing of a business. As well as learning invaluable business skills, retail outlet owners have the opportunity to interact with one another about the challenges that affect their livelihoods, businesses and communities, and the achievements that they have made in difficult circumstances.

The third set of sessions are dedicated to HIV and AIDS training and provide the business owners with an opportunity to engage with a leading HIV physician and specialist. In their own language, he describes the three V's of HIV: a Victim, a Vector or a Victor – and encourages each outlet owner to take ownership of their V and to urge their patrons to do the same.

Sustainability for the long-term

Elaine McKay is JTI South Africa's Corporate Affairs & Communications Manager. She says of Kasi Phezulu:



"Our approach here is one of sustainability, empowering small businesses within communities to act for themselves and to have an ongoing effect in bettering the lives of their customers. As a recognized Partner of Choice by both commercial and community members, we're proud to make a real difference."

A meaningful Corporate Philanthropy policy

JTI's Corporate Philanthropy policy aims to help people, through working alongside charitable organizations, assisting with social projects, and promoting the arts – which JTI considers a vehicle for thought and expression that challenges people to consider alternative viewpoints. Our Corporate Philanthropy efforts reflect both the Company's values and its international presence.

The guiding principle for JTI's Corporate Philanthropy is that all initiatives must be carefully considered and well-planned, and must benefit their target audiences in a meaningful and measurable way.

JTI aims to do much more than just 'give'. JTI endeavors to bring about change by engaging in projects that make a difference to the societies in which we operate.



THE RIJKMUSEUM, NETHERLANDS

The JTI Foundation

The JTI Foundation (www.jtifoundation.org), is an independent charitable organization, financially endowed by JTI and registered under Swiss law. It has dual objectives of aiding disaster relief and reducing the risk of disaster. JTI also provides critical human resources and program development support to the JTI Foundation.

Some examples of JTI's Corporate Philanthropy activities:

People

Realizing the dreams and ambitions of the elderly in Taiwan

Elderly people account for 10% of the population in Taiwan, and JTI Taiwan is committed to providing the aged with practical assistance and care by helping them to interact more closely within their local communities. In partnership with the long-

established Hondao Senior Citizens Welfare Foundation, two programs, 'Move to Music' and 'Dreams Never Get Old', aim to fulfill both the physical and psychological needs of the elderly. The former enables senior citizens to learn and play musical instruments, while the latter makes the elderly's long-held ambitions come true, realizing their wishes through arranging specific events and activities.

Helping homeless people improve their skills & qualifications in the UK

'Crisis' is the UK's national charity for single homeless people and is dedicated to ending homelessness through delivering life-changing services. This includes education and self-development programs in 'The Learning Zone', where JTI's funding supports over 2,000 classes each year together with additional evening and weekend sessions. In 2011, JTI's support reached nearly 2,000 learners, and helped over 200 individuals into jobs & volunteer positions and 350 people to gain accredited qualifications.

Fighting for the right to knowledge with Emmaüs

JTI is committed to promoting adult literacy. In France, JTI supports Association Emmaüs, which works with and for the poor to fight against the causes of exclusion. Since 2004, JTI France has helped Emmaüs' Literacy Centers to develop new programs for illiterate adults, allowing them to become autonomous citizens through classes and artistic & cultural workshops.

The Arts

Promoting culture and art at the Rijksmuseum

JTI Netherlands lends financial support to the Rijksmuseum, supporting an annual 'special' exhibition during the summer and helping to restore a 16th century silver table ornament from the artist Jamnitzer. In 2011, the museum collaborated with the globally renowned artist Ed Kiefer in an experimental event inspired by Rembrandt's famous 'Night Watch' painting.

Partnering with the Busan International Film Festival

In 2011, JTI partnered with the Busan International Film Festival (BIFF) in Korea. One of the most significant film festivals in Asia, BIFF focuses on showcasing new films and first-time directors, with over 300 films from more than 70 countries. During the nine days of festivities, over 190,000 people visited the event.

Partnering with Italy's Teatro alla Scala Museum

Italy's most famous opera theatre is the Teatro alla Scala in Milan. In 1913, a museum was opened as part of La Scala, showcasing a large collection of costumes, set displays and board games from the original theatre foyer. Today, JTI is the only institutional partner of the museum and supports the Opera House itself, including supporting special concerts, events and the opening night of the opera season.

Entering into Partnerships with Major Arts Institutions in Geneva

JTI has been the Partner of the Grand Théâtre de Genève's ballet company since 2010 and supports a minimum of two new productions a year. From 2012, our partnership will enable a significant number of disenfranchised elderly people to attend the ballet at the city's prestigious Grand Théâtre. In addition, JTI has been one of the two main partners of the MAMCO, Geneva's Museum of Modern and Contemporary Art, since 2001.

Japanese Culture

Promoting Japanese musical genius inside and outside Switzerland

Seiji Ozawa International Academy Switzerland is dedicated to educating talented young soloists from around the world, providing them with the opportunity to work in quartets and quintets for two weeks under the guidance of Maestro Ozawa

and other well-known professors. JTI has supported the Academy since 2008, helping the institution to expand its activities outside of Switzerland. For example, JTI France was a main supporter of a concert in Paris in 2009 at the Théâtre des Champs Elysées. Throughout 2010 and 2011, JTI was also involved with other concerts in Geneva and Paris.

Engaging with Japanese art and technology in Poland

Bringing Japanese culture to the world is a central tenet of our Corporate Philanthropy policy. In Poland, JTI has partnered with the Museum of Japanese Art and Technology Manggha since 2009. JTI supports and helps organize events including The Open Academy of Japanese Cinema and the Butoh Dance and Performance Art Festival, which are visited by more than 100,000 guests annually.

JT Corporate Social Responsibility programs



Today's globalized business environment is placing increasing demands and expectations on companies to play their part in helping to resolve some of the world's social challenges, where they fall within their sphere of influence.

JT BUILDING, TOKYO

The JT Group is no different. In addition to meeting our legal obligations, we focus our attention on meeting societal expectations. In order to meet them adequately, two-way communication with stakeholders is one of the JT Group's highest priorities. To this end, we conscientiously listen to the voices of our consumers and other stakeholders, including shareholders, employees and society. The results of these discussions and suggestions are then reflected throughout the Group's CSR programs and initiatives such as "ARISE", a program that aims to eliminate child labor in tobacco leaf producing communities.

In recent years in particular, we have focused on improving our environmental credentials through activities such as reducing carbon emissions and managing forestation and reforestation programs, as well as responding to public concerns about human rights and poverty by implementing local, community-based programs. We will continue to address these and future challenges across our operations and throughout the whole supply chain, through initiatives such as the JT Group Responsible Procurement Policy and Principles of Conduct.

These activities are based on the 4S Model (with the 'S' standing for 'satisfaction') which forms the foundation of the JT Group's management principles.

Over the coming years, the JT Group will continue its commitment to behaving in a socially responsible manner, whilst striving for the highest standards across the business and fulfilling the expectations of our customers. We will advance our CSR programs in alignment with ISO 26000 Guidance on Social Responsibility, further strengthening the company's CSR activities moving forwards.



Hideki Miyazaki
Executive Deputy President,
CSR, Finance and Communications



4S (Satisfaction) MODEL

Ensure that in all our activities, we satisfy and fulfill our responsibilities toward consumers, shareholders, employees and wider society, while balancing the interests of these key stakeholder groups.

About ISO 26000

Published in November 2010, ISO 26000 provides guidance on the principles of social responsibility. It sets out a comprehensive set of guidelines to help organizations evaluate how ethically and transparently they behave.

The ISO 26000 guidelines assist organizations in contributing to sustainable development by encouraging them to go beyond their legal compliance commitments, which are a fundamental duty of every business and an essential part of their social responsibility. They also promote common understanding in the field of social responsibility.

There are seven key areas of CSR activity outlined in ISO 26000. These are: Organizational governance; Human rights; Labor practices; Environment; Fair operating practices; Consumer issues; Community involvement and development.

About JTI

JTI is a member of the Japan Tobacco Group of Companies, a leading international tobacco product manufacturer. It markets world-renowned brands such as Winston, Mild Seven and Camel. Other global brands include Benson & Hedges, Silk Cut, Sobranie, Glamour and LD.

With its headquarters in Geneva, Switzerland, and net sales of USD 11.2 billion in the fiscal year ended 31 December 2011, JTI has operations in more than 120 countries and about 25,000 employees. For more information about our programs, please visit www.jti.com.

Enterprising | Open | Challenging

jti.com