



The  
Delight  
Factory

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Delight

JT Social and Environmental Report 2006  
(Ending March 31, 2006)

JAPAN TOBACCO INC.

# c o n t e n t s

JT issued its first environmental report, "JT Environmental Report," back in FY1997. In FY2005, the document was upgraded and renamed "JT Social and Environmental Report" to acknowledge the decision to incorporate information on the company's social activities.

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### ● Company Profile

Company Name	JAPAN TOBACCO INC.
Headquarters	2-1, Toranomon 2-chome, Minato-ku, Tokyo 105-8422, Japn Tel: (81)3-3582-3111
President and CEO	Hiroshi Kimura
Established	April 1, 1985
Capital	100 billion yen
Consolidated Net Sales	4,637.6 billion yen (FY2005)
Number of Employees	Total (Consolidated): 31,476 (as of March 31, 2006) Non-consolidated: 8,855 (as of March 31, 2006)
Number of Consolidated Subsidiaries	157 (as of March 31, 2006)
URL	<a href="http://www.jti.co.jp/">http://www.jti.co.jp/</a>

### ● Period Covered (in this report)

FY2005 (April 1, 2005-March 31, 2006)  
Some JT policies, objectives and activities that will take effect after FY 2006 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 (FY2003), Environmental Accounting Guidelines (FY2002), and Guidelines for Corporate Environmental Performance Indexes (FY2002), all published by the Ministry of the Environment

### Chapter 3 Approaches to the Global Environment

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As a general rule in this report, “JT” indicates JAPAN TOBACCO INC., while “JT Group” indicates the entire group. For the sake of accuracy, the terms “JT,” “JT Group,” and “companies under JT’s environmental management” are used separately when discussing involvement in global environmental activities.

#### Terms and symbols used in this report

<b>See related article on Page 00</b>	Related Article: Indicates related pages.
<b>see Page 00</b>	Commentary: Indicates commentary pages.
<b>URL</b>	URL: Indicates related website

(\*) Contains explanations about terms indicated by an asterisk in the text.

Financial information is also available on our website.

**URL** <http://www.jti.co.jp/JTI/IR/Welcome.html>

#### ● Companies under the Environmental Management of the JT Group (20 companies in Japan, 1 company abroad)

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



# Overview of the JT Group's CSR Promotion Activities

See Page 11 for details

## "JT PLAN-V" and "JT 2008" – Our New Medium-term Business Plan



While the business environment has experienced some changes over the last couple of years – such as the increase in tobacco tax in 2003 and termination of the Marlboro licensing agreement

in 2005 – we succeeded in realizing the business objectives set in the medium-term business plan, "JT PLAN-V". We are now poised to grow further as a global company by pursuing the objectives set in our new medium-term business plan: "JT 2008."

See Page 12 for details

## Full-fledged System to Promote CSR Now Underway

Since establishing its CSR Division in July 2005, JT has been discussing ways and means of implementing and promoting CSR. The division was upgraded in July 2006 to enable it to manage global environmental conservation and social contribution activities – an effort to create a functional system that is more plausible to both internal and external stakeholders. In addition, a "CSR Committee," headed by Executive Deputy President and comprised of presidents of the three businesses and other staff members, will be organized in the fall of 2006 and tasked with considering JT's overall policy on CSR.



See Page 19,27,35,41 for details

## A Factory That Delivers "Delight" R&D and Production Expertise That Support JT's Technology

In its tobacco, pharmaceutical and food businesses, the JT Group continues to manufacture high value-added products that deliver "Delight" (pleasure that surpasses expectations) to customers.

JT's technology is the culmina-



tion of efforts being made by its six laboratories and factories around the world.



## Starting Point of a Value-creating Manufacturing Company Pursuing Safety, Security and Traceability

As a value-creating manufacturing company, we believe that one of the greatest values of JT's products lies in our pursuit of safety and quality. Our approaches to ensuring the safety and security of products include a traceability system and agrochemical residue analysis.





See Page 59 for details

### Afforestation and Forest Conservation Activities to Acknowledge our Debt to Nature, the Basis of JT's Business Activities

JT's tobacco business uses leaf tobacco and paper. Its food business relies on natural resources such as vegetables and tea leaves. Clearly, JT's business activities depend primarily on the blessings of nature. For this reason, we are actively engaged in afforestation and forest conservation activities in order to help conserve and improve the natural environment, which is the very basis of our business.



See Page 60 for details

### Cleanup Activities Involving Over 190,000 Citizens (as of the end of July 2006)



A nationwide clean-up activity dubbed the "Pick up, and you will love your city" campaign is currently underway. In addition, we began in this fiscal year to promote participation in "Team Minus 6%," in cooperation with the Ministry of the Environment. We continue to promote public awareness, encouraging citizens "not to throw away trash" and, ultimately, "not to create trash."



## Topics

### Report from Sites in which JT, a Value-creating Manufacturing Company, is Producing "Delight"



See Page 32 for details

JT's Kita-Kanto factory, which is the largest cigarette factory in Japan, aims to become the world's leading cigarette factory, while creating an environment in which each employee is encouraged to think and act autonomously.

The Sakura Plant operated by Torii Pharmaceutical, which is promoting environment-friendly activities, came up with a new slogan this year: "Quality is the life of a factory. Let's deliver our 'commitment to manufacturing' to patients."

See Page 38 for details



Each JT Group business domain reports on the technical, quality and environmental aspects of its manufacturing site. Tobacco - the JT Kita-Kanto factory, where the world's fastest tobacco manufacturing line is in operation. Pharmaceuticals - the Sakura Plant of Torii Pharmaceutical, which is JT's only pharmaceutical production base. Food - Ipingyang Foods Corporation, which develops and manufactures Chinese and other frozen foods.



See Page 45 for details

Ipingyang Foods Corporation is developing proprietary technology in order to offer a variety of unique products developed under the philosophy of "for the Dearly Beloved."



**Hiroshi Kimura,**  
President Chief Executive Officer, JT

木村 宏

We, at JT, are committed to our organization becoming a "global growth company that develops diversified, value-creating businesses." Specifically, we are extending our reach worldwide in an effort to enhance our corporate value, focusing on pharmaceuticals and foods in addition to tobacco products. With the increasing importance of sustainable management that strikes a balance between the economy, society and the natural environment, we take the view that Corporate Social Responsibility (CSR) translates into "sustainability," achievement of which we regard as the key responsibility of the management.

As far as JT is concerned, 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" (values unique to JT, such as pleasurable surprise, surpassing expectations, satisfaction for all of our stakeholders) in a well-balanced and highly integrated manner, thereby ensuring our continued existence as a company that is valued by society and fulfills its corporate social responsibilities.

Ever since its incorporation in 1985, JT has worked to fulfill its corporate social responsibilities through

a variety of operations, and we are committed to maintaining that commitment. At the same time, JT stands by long-established policies and practices that have enduring value while implementing the innovations that are needed to keep abreast of changing times. Ultimately, JT's mission can be defined as contributing to society and existing as a member of society.

In May 2006, we announced "JT 2008," a new medium-term business plan to take the place of "JT PLAN-V." The critical challenge is to capitalize on the achievements made over the past three years – including a solid business foundation established through "JT PLAN-V" – and thereby achieve sustainable growth.

The "JT Brand-ing Declaration" is couched in the present progressive tense because we regard brand value development as an ongoing work in progress. We are confident that incessant pursuit of this "Brand-ing" will result in the highly valuable management resources that are needed for sustainable growth.

"JT 2008" follows in the footsteps of "JT PLAN-V." Specifically, it aims to fulfill JT's responsibility in a

well balanced and highly integrated manner, taking into account JT's management vision, shareholders, customers and employees, as well as all stakeholders in society – which we believe is the key principle of management. We are committed to steadily following this path in order to deliver what is required of us.

Conserving the global environment and contributing to society continue to be priorities for JT. The JT Group is actively engaged in environmental conservation and community/international cooperation activities in an effort to achieve “harmony” between business activities and the environment, and to ensure “coexistence” with communities as a good neighbor. We also continue to support art/cultural activities in Japan and other parts of the world, while promoting afforestation and forest conservation projects.

The “JT Environmental Report,” which was first published in 1997, changed its title in 2005 to “JT Social and Environmental Report”, in order to embrace not only environmental but also social aspects of our CSR activities. It will continue to be improved and enhanced as a vital instrument of communication with stakeholders.

Meanwhile, in July 2005 we established the CSR Division and appointed Executive Deputy President as Chief CSR Officer. Both the division and Executive Deputy President are tasked with setting the direction in which we should be heading. In line with this, we launched a program in July 2006 to improve the existing CSR promotional system with the aim of developing and implementing more effective approaches.

We always welcome full and frank exchange of views about the JT Social and Environmental Report and our approaches to CSR. I look forward to your feedback.

## Involvement in Social and Environmental Issues

1985	JT established.
1988	Launched beverages business.
1993	Central Pharmaceutical Research Institute established.
1994	Corporate Culture Division*1 established.
1995	Environmental Management Division established. JT Global Environment Charter developed.
1996	4S Model formulated.
1998	Processed Food Products Division established. Acquired majority share in Unimat Corporation*2 Acquired majority share in Torii Pharmaceutical Co., Ltd. Began publishing the JT Environmental Report (JT Environmental Report 1997).
1999	Acquired all non-US tobacco business of RJR Nabisco Inc. Acquired food products business of Asahi Kasei Corporation.
2000	JT Compliance System started.
2002	JT Brand-ing Declaration announced.
2004	JT Group Environment Charter updated.
2005	Launched Afforestation and Forest Conservation Project in Wakayama Prefecture. CSR Division established. JT Social and Environmental Report 2005 published.
2006	Launched a Afforestation and forest conservation Project in Yamanashi Prefecture Reorganized the CSR Division (combining approaches to global environmental conservation and social contribution activities) Established the CSR Promotion Committee

\*1 Present Corporate Citizenship Department

\*2 Present Japan Beverage Inc.



## Round-table Discussion on the Social Responsibility of JT, a Value-creating Manufacturing Company, and the Prerequisites for Becoming an Indispensable Company

### Interviewees

Ichiro Kumakura (President, Tobacco Business), Noriaki Okubo (President, Pharmaceutical Business), Mutsuo Iwai (President, Food Business) and Chairperson, Masami Shinohara (Vice President, CSR Division)

### What is Required for JT to Continue to Exist as an Indispensable Company?

**Shinohara:** What do you see as imperatives in guaranteeing JT's sustainability as a company that is indispensable to today's society?

**Kumakura:** As far as the tobacco business is concerned, "co-existence with society" appears to be the most important factor. In other words, we should identify and implement what is needed for tobacco to continue to have a place in society. To this end, transparency of business activities should be further improved.



Ichiro Kumakura  
President,  
Tobacco Business

**Okubo:** "Indispensable," I think, translates into "irreplaceable." The mission of JT's pharmaceutical business is to develop original, world-class drugs. So, we want to develop drugs that would not exist were it not for JT's pharmaceutical business – and here, I believe, lies the major *raison d'être* of JT.

**Iwai:** JT's food business sticks to the philosophy of "for the Dearly Beloved," which involves rigorous quality control and down-to-earth environmental conservation activities. These are essential in establishing the "JT Brand," which promises and delivers reliable products to customers.

**Shinohara:** What you are saying, in effect, is that fulfilling social responsibility is as important as providing products to customers.

**Kumakura:** Exactly. Direct customers of the tobacco business are all smokers, but it is imperative that we meet the concerns of non-smokers, too. "D-spec" products ( [See related article on Page 27](#) ), or reduced-odor products, which JT developed as a world first, are an example of responding to such concerns. It is also part of our responsibility to encourage smokers to observe smoking etiquette and to demonstrate it through activities such as the "Pick up. and you



We continue to improve manufacturing techniques in order to address the concerns of non-smokers.

will love your city" campaign.

**Okubo:** We need to be constantly conscious of the need for a high sense of responsibility, ethics and mission because we are engaged in the pharmaceutical industry, which is directly linked to saving and preserving human life. On the other hand, 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, while the Operational Review and Business Assurance Division and the internal auditing team of the Pharmaceutical Division constitute a foolproof audit system. So, we have a system in place that is unique to the pharmaceutical business. 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.

**Iwai:** I fully agree on that point. As a company engaged in the food business, it is fundamental that we have a high sense of ethics in order to ensure the safety and security of our products. While complying with relevant laws and regulations, we should also frame in-house regulations and have a system in place to make sure that we comply with them, which we are doing. In particular, we need to address the "Positive List System" for agrochemical residues in food ( [See related article on Page 42](#) ) this year. In fact, we are maintaining close checks on frozen vegetables imported from China.



Mutsuo Iwai  
President,  
Food Business

**Shinohara:** Isn't the tobacco business facing the issues of youth smoking and the health and smoking?

**Kumakura:** Naturally, the law prohibits minors from smoking. Meanwhile, industry-wide efforts are underway to prevent minors from smoking ( [See related article on Page 25](#) ). We are now demonstrating cigarett vending machine with adult identification functions ( [See related article on Page 25](#) ), aiming for full-scale adoption by 2008, which will cost us a lot. However, it is a matter of corporate responsibility rather than of costs. As for the health and smoking, we uphold the policy of the administration, but we are poised to argue against anything that we view as "unjustified" on scientific grounds.

## The Concept of Quality and Technology That Supports JT, a Value-creating Manufacturing Company

**Shinohara:** Aren't manufacturing expertise and quality control techniques essential for JT, as a manufacturing company, to achieve sustainable growth?

**Kumakura:** A manufacturing company should develop high value-added, high-quality products; there is no question about that. The key question here, however, is what is meant by "value-added" and "quality." While the basics of these parameters lie in keeping track of the needs and wants of customers, the tobacco business also needs to listen and respond to the opinions of those sharing the social environment with its customers, that is, non-smokers, by improving manufacturing techniques.



We want to manufacture products that are trusted and chosen by customers.

**Iwai:** In addition to improving techniques and services, I think it's important to indicate for whom they are designed and intended. Take our frozen foods, for example; information about allergens is indicated on the backs of packs ( [See related article on Page 42](#) ) in an effort to ensure transparency of our products and services to customers. We should communicate

to customers honestly and plainly, and should improve our activities level, learning from a dialogue with them.

**Okubo:** The manufacturing mindset is as important as technology and transparency. Pharmaceuticals have a direct impact on the lives of patients, which in itself is a critical theme. Besides, there are patients who need to take prescription drugs every day. So, we should ensure constant availability of such drugs. Our laboratories keep abreast of the world's most advanced life sciences in order to work on research and development at the highest possible levels. That said, state-of-the-art science and computers alone do not lead to drug discovery. Human resources also play a vital role.



Noriaki Okubo  
President,  
Pharmaceutical  
Business

## JT's Superior DNA and Future

**Shinohara:** JT's three businesses – tobacco, pharmaceuticals and foods – have one thing in common: they are all engaged in manufacturing. What is the superior DNA that JT possesses as a manufacturing company?

**Kumakura:** JT is certainly a sincere company.

**Okubo:** You can say that again. It never lies. "Honesty" is one of the virtues of JT.

**Iwai:** Whenever serious problems arise, we immediately take appropriate measures, explaining the situations to customers and society. One example is the incident that took place in 1998, where "Momo No Tennensui" was contaminated with

foreign bodies. Naturally, we were reprimanded, but we took a serious approach to this problem.

**Kumakura:** We should be making efforts to communicate our "sincerity," which in turn will provide a sense of safety and security to customers and society.

**Iwai:** Above all, we need to be honest and to improve the transparency of our operations in keeping with our desire to be seen as a "delight factory." We also need to show customers and society what is meant by "honesty," that is, in what way we are honest.

**Shinohara:** I think this report, too, is a tool that communicates JT's philosophy to customers and society. It is vital that we maintain a dialogue with various stakeholders so that they can understand what JT is all about, even as we work to improve ourselves. So, before we conclude this interview session, could you please outline how you are going to promote your respective businesses.

**Kumakura:** To reiterate, we should take proactive measures to achieve coexistence between smokers and non-smokers. Meanwhile, it's been 70 to 80 years since cigarettes came into existence. So I think it's about time we saw some innovation. That's why we continue to improve our R&D and technological resources.

**Okubo:** The clinical development of drugs involves a number of time-consuming processes. Unfortunately, most of our drug candidates are still in the infancy stage. So, what we need to do is continue developing these candidates, shifting from Phase 1 to Phase 2 and beyond.

**Iwai:** The food business is "manufacturing foods for the Dearly Beloved," a principle that should be understood and shared by all parties concerned, including our factory workers and partners. So, we hold seminars for our factory workers and partners in order to communicate our ideas and requirements to them. It is also important that we value the opinions of customers and citizens received by the customer service center, and that we share what we've learned from mistakes so that we won't repeat the same mistakes.

**Shinohara:** Gentlemen, thank you very much for being here with me today.



Masami Shinohara,  
Vice president,  
CSR Division



As drugs are linked directly to human life, the manufacturing mindset is as important as technology and transparency.

# Offering "Delight" and Creating Pleasure in Daily Life

"The Delight Factory" – JT's new slogan.

In a changing society associated with diversified lifestyles, JT is poised to upgrade the "Delight" it has been offering – which translates into delivering the present "Delight" to as many customers as possible.





こちら デライトファクトリー

JTがつくるもの、それは決して、大きなものではありません。たばこ、飲料、食品、医薬……。多くの分野で、たくさんの製品をつくっているけれど、それはとんだ、手のひらに乗るものばかりです。でも、だからこそ、人々に寄り添うことができる。生活の隅々まで、デライトという喜びを、届けることのできる。そう、思うのです。暮らしや社会を順応に究め、その変化のむとつむとつに、これからも決々と応えること。「The Delight Factory」という新しいスローガンは、そのための決意に他なりません。いまあるデライトも、次のデライトへ、さらさらなデライトも、もっとさらさらなデライトへ、ココロをフルに展開させ、日々の身近な喜びも、ふやしてゆきたい私たちが。

デライトという喜び、  
それをゴコゴコ生み出したいから、  
ファクトリーなんです。

 The Delight Factory

www.jti.co.jp

(as of the end of July 2006)



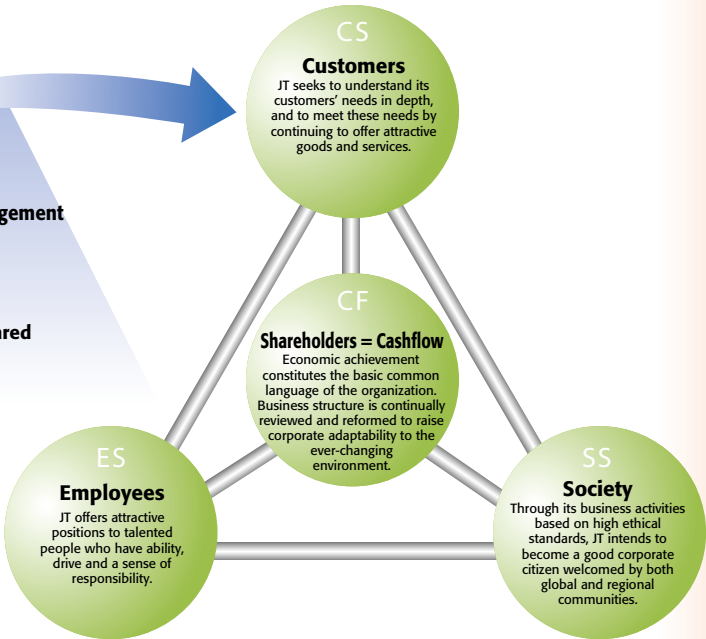
# JT Group Management

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.

### JT Brand-ing Declaration (Established in 2002)

*Clarifying the fact that we promise and realize "irreplaceable delight" for all our stakeholders*

- 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.



### 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.

# Becoming a Company that Embodies JT's Objectives

Every three years, JT formulates a new medium-term business plan to advance its progress toward becoming a "global growth company that develops diversified, value-creating businesses"

## "JT 2008": Corporate Management Objectives

"JT PLAN-V," the previous medium-term business plan, was designed to create a corporate structure and culture that would enable continued growth in a changing business environment. Having achieved this objective by addressing company-wide and individual challenges, we now have a platform for future growth.

On the strength of this achievement, we are stepping up efforts to become a "global growth company that develops diversified, value-creating businesses" through "JT 2008," the new medium-term business plan. It is imperative that we continue to grow in a sustainable way, based on the business foundation established through "JT PLAN-V" over the past three years.

To achieve sustainable growth, "JT 2008" positions the next three years as the "period for upfront investment in the improvement and strengthening of corporate resources, human resources and business foundation." Specifically, challenges are identified for each stakeholder from the viewpoint of well-balanced "4D" (Delight), each of which will be addressed and dealt with in order to "establish a solid foundation for sustainable growth."

**URL** <http://www.jti.co.jp/JTI/IR/Welcme.html>

### Customers – Offering "Delight" to Customers

- Promoting communication with customers
- Improving brand value
- Continuous and aggressive investment
- Investing in R&D programs
- Development of high value-added products
- Development of products that meet future needs
- Pursuing quality assurance

### Society – Improving the Social Standing of the JT Group

- Optimizing external communication
- Achieving coexistence with society
- Strengthening of relationships with local communities
- Efforts to achieve coexistence between smokers and non-smokers
- Achievement of the JT Group Environmental Action Plans
- Shifting to governance designed for enhanced transparency and accountability

### Employees – Creating an Ideal Corporate Culture (Strengthening Organization Power)

- Enhancing competitiveness through individual employee development
- Creating a solid business management system
- Promoting internal communication in order to share a common sense of value within the JT Group

### Shareholders – Enhancing Corporate Value

- Strengthening competitiveness in the capital markets
- Building confidence in management

## Challenges for Individual Businesses Over the Next Three Years

### Tobacco Business

- Improve brand portfolios and capability to communicate with customers, thereby enhancing customer loyalty
- Improve brand value-added by promoting technological development (including elemental technologies)
- Strengthen cooperation within the JT Group, thereby increasing sales and reducing costs

Achieve profit levels comparable to those of the second largest tobacco company in the world, with emphasis placed on the objectives mentioned above.

### Domestic Tobacco Business

The core source of profits

### International Tobacco Business

The driving force of profit growth

### Pharmaceutical Business

Advance drug candidates from Phase 1 to Phase 2 and beyond, and improve the R&D pipeline to create a solid business foundation, thereby increasing the value of the business as early as possible and develop it into a core business in due course

### Food Business

Contribute to enhancing JT's corporate value as a core business within the JT Group and establish the foundation to realize greater synergies among each segment while strengthening its competitive advantages.

## Inspecting JT Brand Value

### CB Valuator and JT Brand-ing Valuator

In order to clarify how JT corporate brand value has changed through the corporate activities conducted by JT for the purpose of realizing the JT Brand-ing Declaration, which is the mission of the JT Group, we periodically and quantitatively value our corporate brand based on the "CB (Corporate Brand) Valuator" and the "JT Brand-ing Valuator," (See Page 71) which are the two valuating models for our shareholders, customers, employees and society, from the viewpoint of the 4S Model.

# Stakeholder-driven Management

## Communication with Each Stakeholder

The JT Group communicates with various stakeholders through a range of programs and media.

### Shareholders (CF)

Information is disclosed in a timely manner through briefings to investors and quarterly performance reports.



### Customers (CS)

Valued opinions and comments from customers are taken into account in order to improve products and services.



### Employees (ES)

Media such as "President's Communication" (which conveys top management's views directly to employees via the intranet), "Yours" (a company magazine) and "JT Scrum" (issued for JT Group companies' employees) are used to communicate with employees.



### Society (SS)

The "JT Social and Environmental Report" and the "Eco Report" play central roles in communicating JT's philosophy and activities to society at large.



In FY2005, the final year of "JT PLAN-V," the top management and the staff members concerned visited almost all main business sites to explain and discuss up-to-date themes such as across-the-board approaches to the introduction of a new personnel system.

With "JT 2008" in place and Hiroshi Kimura appointed president in FY2006, efforts are underway to promote communication between top management and employees.

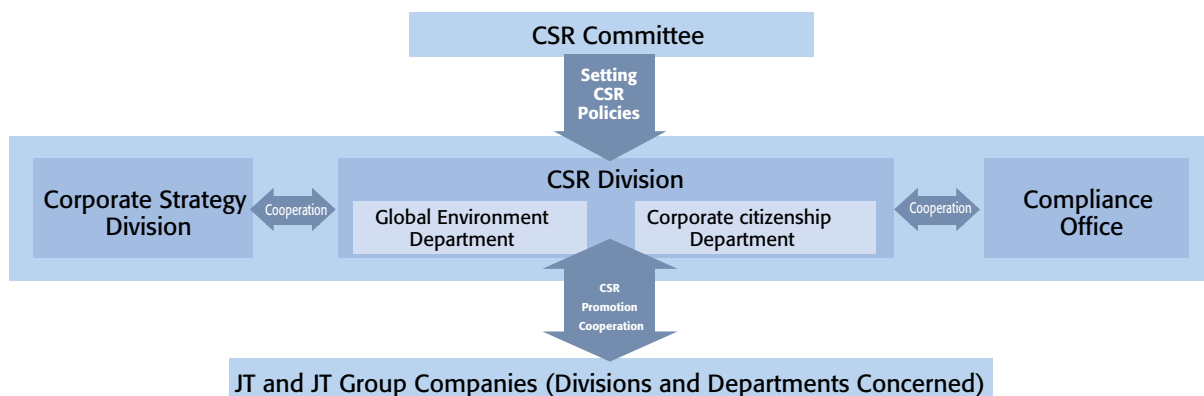
## Stakeholder-driven Business Activities – Approaches to Promote CSR

### ● JT's CSR Translates into "Achievement of 4D" Creating a Framework for Company-wide Promotion of CSR

"4S/4D Model" is a principle in corporate management whereby funds generated by high-quality business activities are circulated and increased, thereby fulfilling responsibilities to shareholders, customers, employees and society in a balanced and integrated manner, and eventually increasing their satisfaction. We all share and are committed to implementing the philosophy of this model, adding to it the value that is unique to JT (pleasurable surprise that surpasses expectations) in order to upgrade 4S (Satisfaction) to 4D (Delight) – which in itself is the JT Group mission (JT Brand-ing Declaration). We recognize that accomplishing this mis-

sion will lead to fulfillment of JT's corporate social responsibility. While each department concerned had already been working on providing stakeholders with "Delight," we set up the CSR Division in July 2005 with the aims of improving existing approaches and promoting CSR on a company-wide basis. The division was upgraded in July 2006 to manage global environmental conservation and social contribution activities – an effort to create a functional system that is more plausible to both internal and external stakeholders.

In addition, a "CSR Committee," headed by Executive Deputy President and comprised of presidents of the three businesses and other staff members, will be organized in September 2006 and tasked with considering JT's overall policy on CSR.



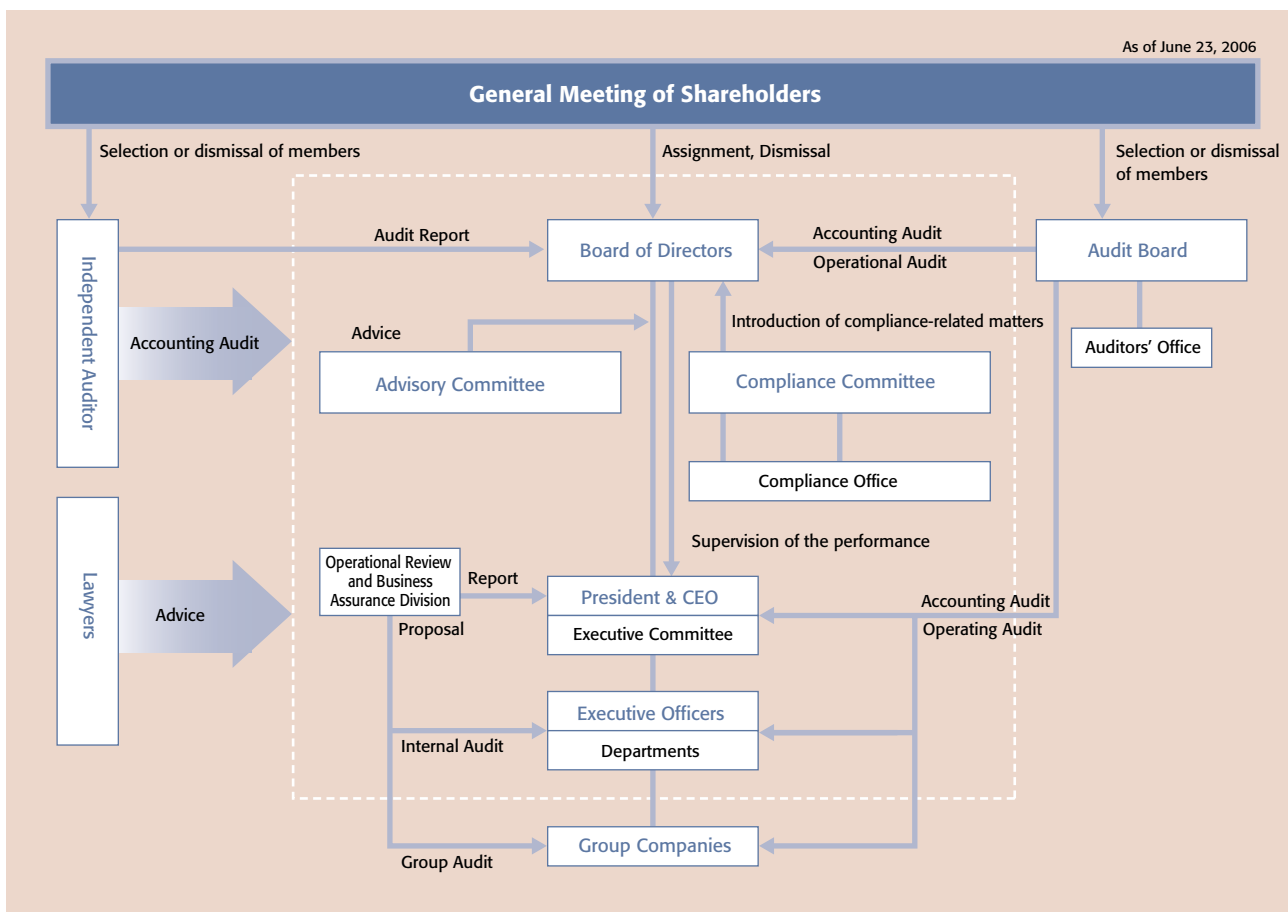


# Corporate Governance

## 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.

## Corporate Governance System



## Advisory Committee

The Advisory Committee that includes five outside experts is in place to solicit a wide range of views on medium- to long-term management objectives, etc.

The Advisory Committee, which was organized in 2001, holds meetings about four times a year. In 2005, for example, the committee members got together in May, November and December

and came up with recommendations for the objectives of "JT 2008" and management challenges in the pharmaceutical and food businesses.

### Outside Experts on the Advisory Committee (alphabetical order, with titles as of April 2006)

**Mr. Kazuo Inamori** (Chairman Emeritus, Kyocera Corporation)

**Ms. Yoko Ohara** (President, Institute for the Fashion Industries' IFI Business School)

**Mr. Takamitsu Sawa** (Professor at the Graduate School of Policy Science, Ritsumeikan University)

**Mr. Sakutarō Tanino** (Member of the Board, Toshiba Corporation)

**Mr. Tomijiro Morita** (Chairman of the Board, Dai-ichi Mutual Life Insurance Company)

## JT Group Compliance

"Compliance" as used in general means not to behave in a way that disturbs the public order or get a thumbs down from the general public. We at JT Group, however, define "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."

JT Group Compliance has the "Code of Conduct" as its basic policy, which comprises 15 "Principles of Conduct" to be followed by each employee and 30 "Codes of Conduct" for behaviors that are either required or prohibited

URL <http://www.jti.co.jp/JTI/compliance/index.html>

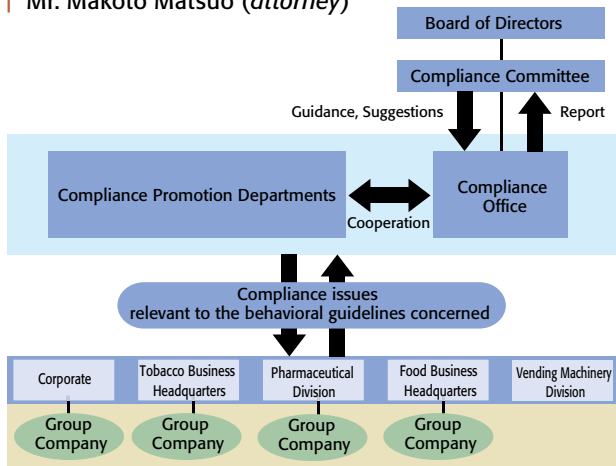
## Compliance Promotion System

The Compliance Committee, which reports directly to the Board of Directors, comprises the seven members (including two outside members listed below). It is tasked with reviewing and approving the "Compliance Implementation Plan," a company-wide plan for the promotion of compliance, while addressing key compliance issues.

### Outside Members

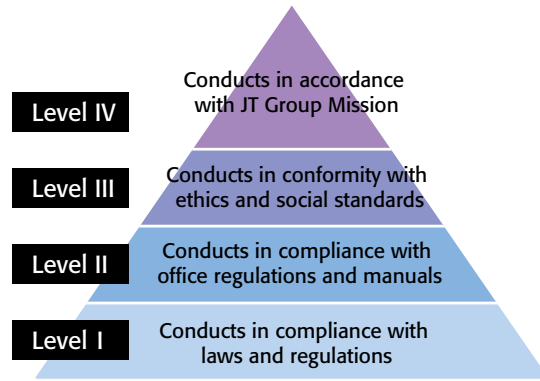
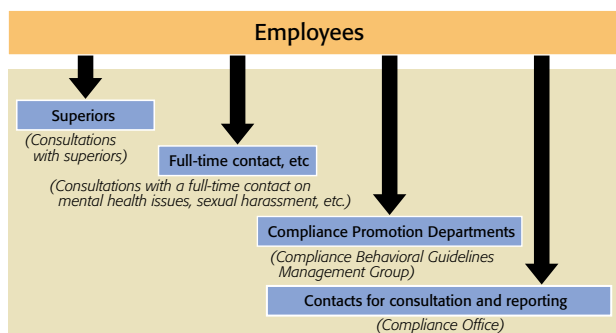
Mr. Shinichiro Tojo (attorney)

Mr. Makoto Matsuo (attorney)



## Improving the Consultation and Reporting System

The consultation and reporting system was upgraded in FY2005 to comply with the Whistle-blower Protection Act, which took effect in FY2006, and employees were again notified of the internal contacts for reporting



## Popularizing JT Group Compliance

### ● JT Group Compliance Manual

The JT Group Compliance "Principle of Conduct" and "Code of Conduct" are outlined in a manual, which is distributed to employees as an indispensable tool for their day-to-day operations.



Compliance Manual

### ● Compliance Activities

In order to behave in accordance with the "Principle of Conduct" and the "Code of Conduct" employees are encouraged to: always raise awareness of what they are doing; identify problems and challenges in their workplaces; continue making improvements to raise the quality of their operations.

### ● Compliance Training

Regular training is held to raise the awareness of compliance and ethics among employees of JT and JT Group companies. Example: In FY2005, as the Law Concerning the Protection of Personal Information took effect, a variety of training, including some for all employees, were conducted through e-learning, etc.

See related article on Page 71

### ● 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. Specifically, compliance meetings are held in each workplace and questionnaires are distributed to survey the current status of compliance.

### ● Carrying of Compliance Card

The JT Group employees are encouraged to carry with them the compliance card, which stipulates "law observance," "fairness," "transparency" and "integrity," equipping each employee to take appropriate action when he/she wavers in his/her decision.



Compliance Card

# Human Resources Management

No company can survive without changing to adapt to the prevailing social environment and enhancing corporate value. Accordingly, JT is working on a variety of human resource development programs aimed at achieving the "sustainable growth" envisioned in "JT 2008."

## Introducing New Human Resources Management Systems

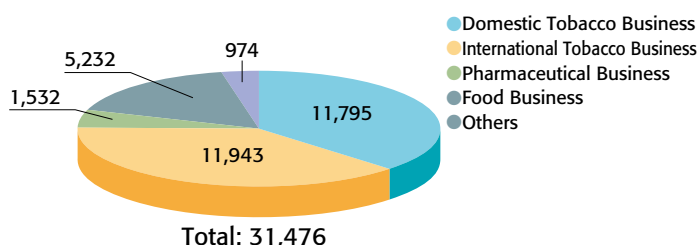
JT launched new Human Resources Management systems in April 2006, after reviewing the existing systems from scratch based on the concept that "employees contribute to the company through

their work and the company treats them fairly, thereby growing together." Based on the recognition that "human resources" are the largest corporate asset, the new systems are designed to enhance JT's organizational power by encouraging employees to make the most of their abilities and achieve self-sustained growth. We are well positioned to better manage and further improve these systems so as to foster the personal growth and development of each employee.

### Seven Personnel Qualities Required by JT



Number of JT Group Employees (as of March 31, 2006)



### Overview of the New Human Resources Management Systems

#### 1. Job Grading and Compensation System

- Clarifying differences in the significance of each job
- Emphasizing skill and specialty
- Establishing a compensation system according to role and responsibility

#### 2. Performance Appraisal System

- Establishing criteria for appraisal according to job responsibilities
- Promoting fair treatment of employees based on their performance

#### 3. Human Resources Development – Support for Self-sustained Growth on the Job

- Improving training programs
- Offering career-planning programs
- Improving career consultations
- Supporting growth through OJT and feedback on evaluation results

#### 4. Others

- Shifting emphasis from a retirement lump sum grant to a corporate pension
- Abolishing a company housing system and stepping up a housing subsidy program

## Creating a Rewarding Workplace

### ● Supporting 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

Child-care leave  
Exemption of overtime work  
Exemption of midnight shifts  
Short-time work  
Absence due to nursing care  
etc

#### Care Assistance System

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

As part of the approaches set out in the "General Business Owner Action Plan" of the Law for Measures to Support Development of the Next Generation, the following measures are being implemented:

- 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.
- Both male and female employees are entitled to take child-care leave.
- Those on child-care leave are treated fairly and their return to work is encouraged.
- Male employees are granted maternity leave (period extended from two days to five days).



Guide book to Reconciliation of Work and Private Life



### ● 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.

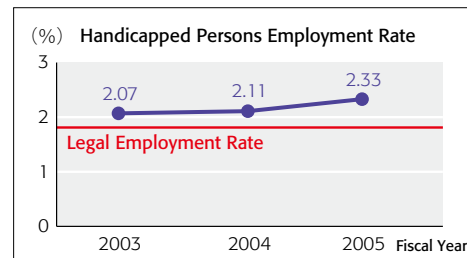
### ● Employees' Social Participation

JT encourages employees to participate in social contribution activities. Specifically, each employee is entitled to take a maximum of five days of "volunteer leave," or a maximum of two years' leave to serve as a member of Japan Overseas Cooperation Volunteers (JOCV). For example, an employee with a nursing qualification joined JOCV and was sent to China to engage in international cooperation activities.

See related article on Page 67

### ● Employment of Handicapped Persons

Efforts are underway to create better workplaces for handicapped employees. 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 handicapped persons employment rate stood at 2.33% as of the end of FY2005, well above the legal employment rate of 1.8%.



## Creating Workplaces Where Employees are Gratified 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 in their workplaces. Recognizing this responsibility, JT formulated its unique "Industrial Accident Prevention Five-year Plan," and is now working on "reducing the number of industrial accident casualties by more than 20% from that reported in the previous plan" and "preventing on-the-job traffic accidents and commuting accidents."

### ● 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.

#### Promotion of Occupational Safety and Health Management

Kansai factory of JT has obtained globally accepted OHSAS 18001 certification (See Page 71), which can be attributed to JT's occupational safety and health management. Other factories are gearing up to obtain certification by the end of FY2006.

#### Human Rights Education

JT developed the "Guidelines 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 Dowa (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 to implement proposed measures, we have introduced a system of 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. Recently, reviews have been completed on new Human Resources Management systems, development of the next generation, and the re-employment system.

# Toward a Factory Producing Continuous “Delight” The Delight Factory

“The Delight Factory,” JT’s new corporate slogan, represents JT’s new determination: We aim to make everyday life and society more ‘comfortable’ and ‘affluent,’ while delivering the “Delight” that can only be produced by JT. The following are TV commercials for JT’s tobacco, pharmaceutical and food businesses, and their social contribution activities (as of the end of July 2006).

## Plus the Taste of Home Cooking



We are producing a variety of “Delight” along with new “Delight.” Take Frozen Foods, for example – Chinese and Western menus abound, while Japanese menus are relatively limited, which is why we introduced the “Imadoki Wazen” series (well prepared Japanese frozen foods with the taste of home cooking). New “Delight” is born with “Delight” plus something extra. JT, The Delight Factory

## Plus a Wide-mouth Bottle



We are producing a variety of “Delight” along with new “Delight.” Take canned coffee drinks with rich aromas, for example – a coffee drink that comes in a wide-mouth bottle (Roots Aroma Black) offers a richer aroma. New “Delight” is born with “Delight” plus something extra. JT, The Delight Factory

## Plus the Internet



We are producing a variety of “Delight” along with new “Delight.” Take mineral water, for example – online ordering and delivery services eliminate the need to carry home heavy bottles of water; a click of the mouse brings you home-delivered tasty mineral water from Iceland. New “Delight” is born with “Delight” plus something extra. JT, The Delight Factory

## Plus Events



We are producing a variety of “Delight” along with new “Delight.” Take street clean-ups, for example – group activities are much more fun than doing it by yourself. So, we’ve launched the “Pick Up, and You will Love Your City” campaign, a collaborative program of clean-ups and events. New “Delight” is born with “Delight” plus something extra, JT, The Delight Factory

## Business Activities that Deliver “Delight” to Stakeholders

The JT group is committed to providing customers with “Irreplaceable Delight” [ the surprise and delight beyond expectation that only JT can offer through the creation of added value ] by offering high quality products through its three core businesses: tobacco , pharmaceuticals and food.

**Tobacco** is an item of taste around which various cultures have developed in the course of the product’s long history and it has been enjoyed by huge numbers of people around the world. We believe that, with the support of all those who are involved in the tobacco industry, our brands can deliver pleasure to many people – which translates into “Delight” for stakeholders.

With respect to our **pharmaceutical business**, “Delight” for stakeholders simply means providing efficacious healthcare solutions to as many patients as possible through our proprietary drugs. To this end, the Pharmaceutical Division takes advantage of its excellent R&D resources in developing “world-class, innovative drugs” and realizing “what can only be achieved by JT.”

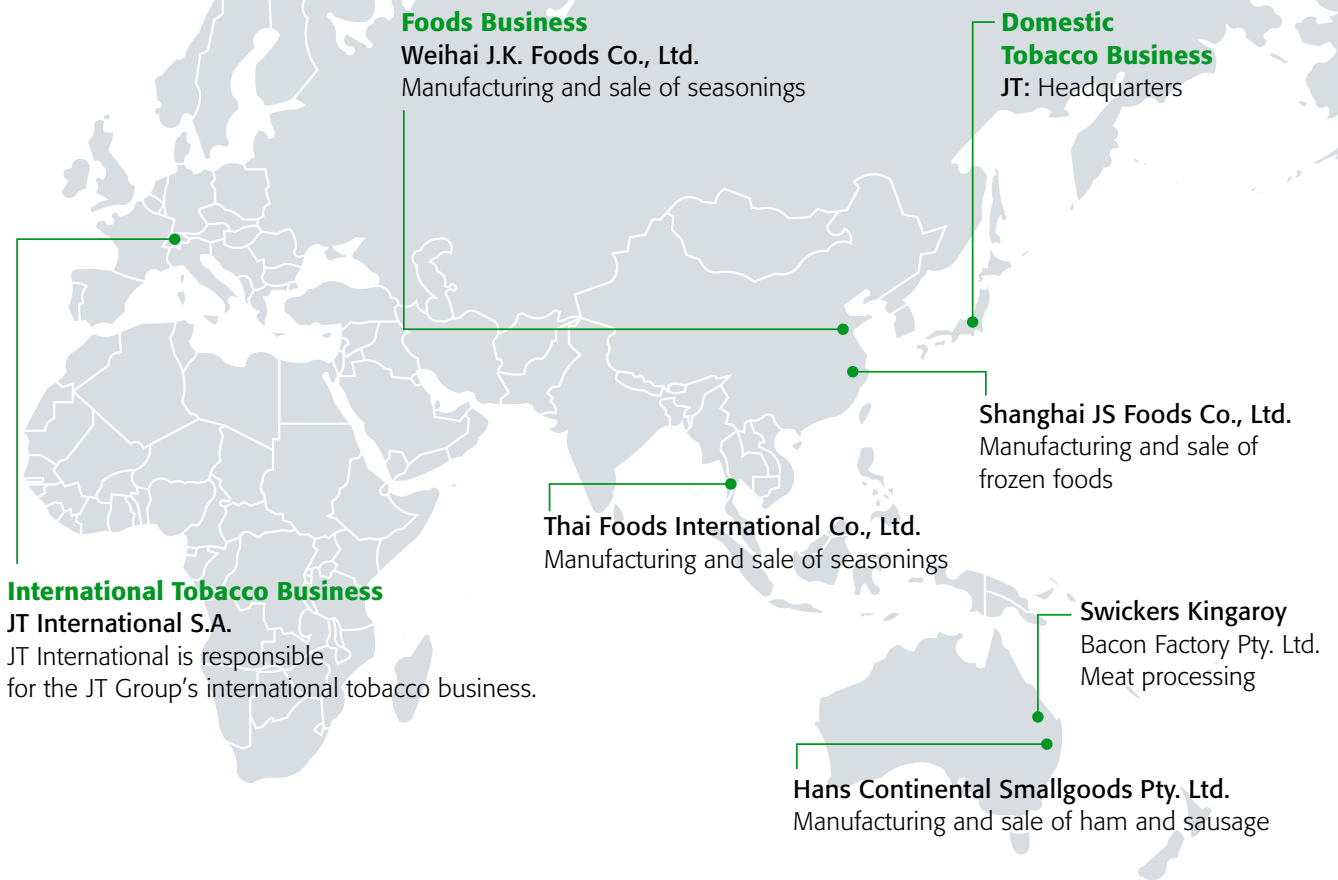
Meanwhile, in the **food business**, particular emphasis is placed on providing each individual consumer with safe and secure food that tastes like hearty home-cooked meals – in which we believe “Delight” for stakeholders lies.



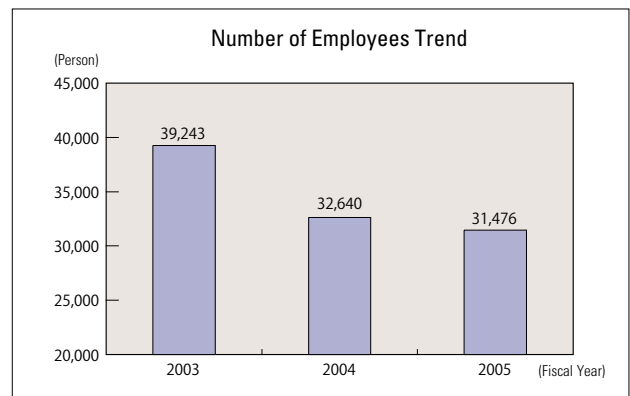
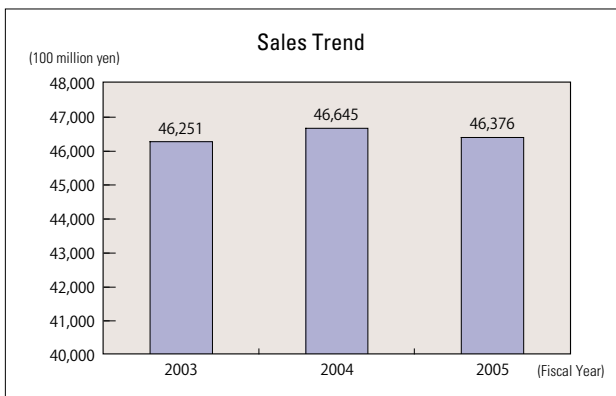


# Overview of the JT Group Business

JT and its 31,500 employees are striving to become a "global growth company that develops diversified, value-creating businesses." JT is the world's third-largest tobacco company. Our domestic tobacco business continues to maintain a significant competitive position in the Japanese market, and the international tobacco business is delivering remarkable performance as the driver of profit growth for the JT Group. As future pillar businesses, the pharmaceutical business pursued strategic licensing to world-leading pharmaceutical companies, and the foods business continued to expand profit levels steadily.



## Sales and Number of Employees



Consolidated basis  
Financial Condition (JT Annual Report)

URL: <http://www.jti.co.jp/JTI/IR/annualreport.html>

\*As of the end of each fiscal year

## Direction of Each Business Set Out in "JT2008"

### ● Direction of the Domestic Tobacco Business

The domestic tobacco business will aim to maintain the EBITDA level achieved during "JT PLAN-V" by mitigating the effect of declining consumption, and thus continuing its role as the core source of profits for the JT Group.

We will be relentless in our efforts to steadily promote product, distribution and marketing strategies, as well as improve productivity.

We will also pursue an environment in which smokers and non-smokers harmoniously coexist, and will fulfill our responsibilities as the leading company in the domestic market.

### ● Direction of the International Tobacco Business

The international tobacco business will aim to achieve further earnings growth as the driving force for profit growth for the JT Group.

### ● Direction of the Pharmaceutical Business

The pharmaceutical business will build upon the strategies of "JT PLAN-V." We will strive to further enhance our R&D pipelines by promoting drug discovery, while advancing our clinical compounds to higher phases of clinical study.

### ● Direction of the Food Business

The foods business will aim to establish its foundations as a general foods manufacturer. Specifically, our target as a pillar business is to achieve a consolidated operating margin of 3.5% or higher for the fiscal year ending March 2009.

## Major Subsidiaries and Affiliates

### ● Domestic Tobacco Business

TS Network Co., Ltd., JT Logistics Co., Ltd., Japan Filter Technology, Ltd., Fuji Flavor Co., Ltd., JT Engineering Inc., Central Japan Plant Service Co., Ltd., Western Japan Plant Services 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, OOO Petro, JT International Germany GmbH, JTI Tütün Urunleri Sanayi A.S.

### ● Pharmaceutical Business

Torii Pharmaceutical Co., Ltd., JT Pharma Alliance Co., Ltd., Akros Pharma Inc.

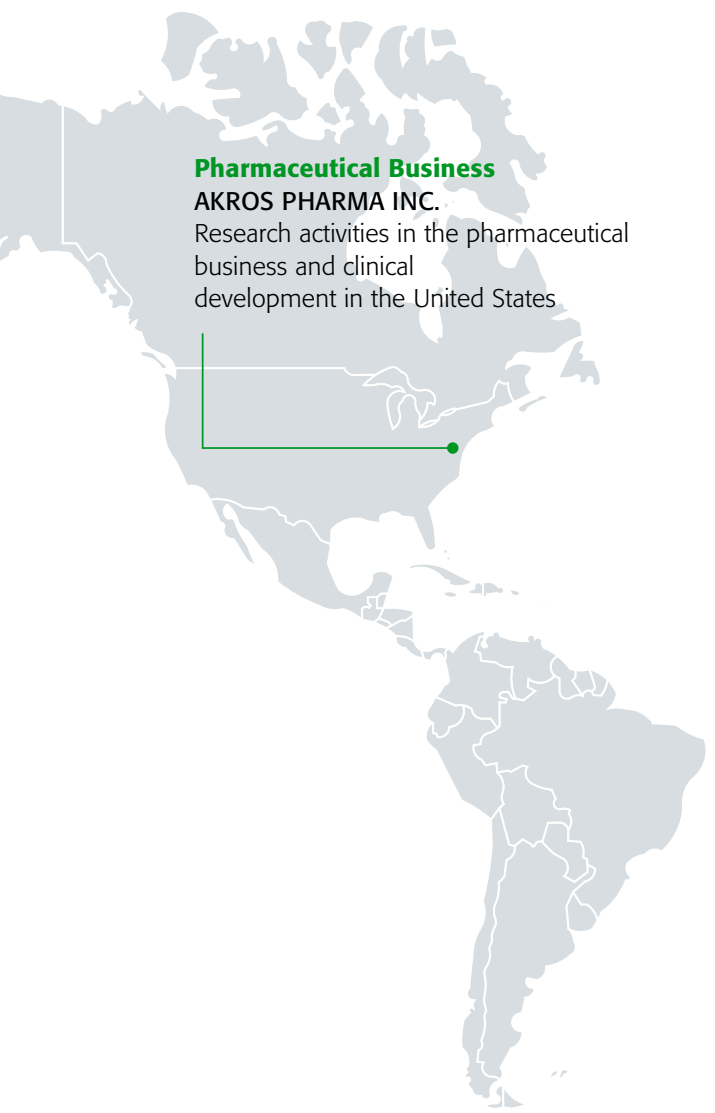
### ● Food Business

Japan Beverage Inc., JT A Star Co., Ltd., JT Foods Co., Ltd., Nihon Shokuzai Kako Co., Ltd., Sunburg Co., Ltd., Ipinhsyang Foods Corporation, Asahi Shokuzai Co., Ltd., JT Dining Service Inc., 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.

### Pharmaceutical Business

#### AKROS PHARMA INC.

Research activities in the pharmaceutical business and clinical development in the United States



JTI-Petro (Russia)



Sales promotion at an overseas outlet

# Overview of JT Group Businesses: Tobacco Business

The Pleasure of Meeting and Surpassing Customers' Expectations Through JT Brands

Tobacco is an item of taste that has long been enjoyed by many people around the world. JT is delivering its brands to customers with the support of all those who are involved in the tobacco industry, from tobacco growers to retailers. JT continues to meet customers' expectations by producing and supplying brands that provide them with the pleasure they seek.



## Raw Materials Procurement



Tobacco Growers



Domestic Raw Materials Department



JTI Raw Materials Department



Materials Department



Materials Suppliers

## Raw Materials Procurement: Supporting the Manufacture of Better Products in Cooperation with Tobacco Plantations



Tobacco Plantation

Tobacco plants are grown in 40 prefectures across the country, from Aomori to Okinawa, with about 14,500 growers cultivating a total of 18,600 ha.

JT's domestic raw materials department purchases leaf tobacco from growers based on purchasing contracts organized through six regional leaf tobacco headquarters located across the country. Leaf tobacco is then processed and delivered to tobacco factories. In cooperation with growers' associations (representing tobacco growers), various programs are underway to improve the quality and ensure the reliability of leaf tobacco while helping to conserve the natural environment.

[See related article on Page 29](#)



Purchasing of Leaf Tobacco

With respect to overseas raw materials, JT and JTI cooperate in purchasing raw materials from suppliers in the U.S., Turkey, Greece and other parts of the world.

## Pursuing Quality, Function and Smoking Taste in Cooperation with Materials Manufacturers

JT is working closely with materials manufacturers to improve the quality of tobacco materials (cigarette papers, filters, flavors, etc.) and smoking taste. In addition, established standards for the green procurement standards of materials are being observed by both JT and its suppliers.

[See related article on Page 29](#)



Green procurement Standards

## Manufacturing



Cigarette Manufacturing Factories



Research and Development Department  
Product Development Department

JT Group Companies

## Tobacco Manufacturing: The Quest for Tasty Tobacco



Tobacco Factory

JT's 10 tobacco factories located across the country manufacture some 200 billion cigarettes a year. The manufacturing process involves: receipt and inspection of leaf tobacco; brand-specific blending of leaf tobacco; raw material processing including heating, mixing and drying; manufacture of cigarettes with paper and filters; packaging (in hard or soft packs); intermediate packaging and packing in cases.

All our factories are ISO9001 accredited, and efforts are underway to maintain and improve their quality control systems. Detailed quality standards are also in place for film packaging, in addition to visual inspections at each stage of manufacture, offline instrumental inspections and online inspections using sensors and high-speed monitoring cameras. Stable operation of the process, together with consistency of the flavor and smoking taste of cigarettes, is monitored by expert staff members (blenders). On the environmental front, each tobacco factory is working to reduce waste and improve energy efficiency.

[See related article on Page 29](#)



Making and Packaging Machine



**Distribution**



Distribution Department



JT Group Companies

## Tobacco Distribution and Delivery: Delivering Products from Factories to Retail Outlets



Sorting at a Distribution Center

Two group companies are engaged in JT's tobacco distribution activities: JT Logistics Co., Ltd., which delivers leaf tobacco and materials to factories, and tobacco products from factories to distribution centers; and TS Network Co., Ltd., which delivers tobacco products from distribution centers to retail outlets (about 300,000 deliveries a day).



Tobacco Delivery Truck

JT and relevant group companies are working together to reduce the environmental impact of distribution – e.g., promotion of a modal shift and introduction of low-emission vehicles. [See related article on Page 30](#)

**Sales**



Branch Offices and Sales Offices

## Tobacco Sales: Delivering Products to Consumers



Sales Activities at a Retail Outlet

JT's sales representatives market tobacco products to about 300,000 retail outlets located across the country. They, along with part-time employees, also take part in miscellaneous services, including cleaning vending machines and putting up storefront posters.

These sales representatives maintain close contact with retailers whose intimate understanding of consumers' preferences helps our sales team to keep abreast of market trends. At the same time, good examples of suggestions and support for retailers are shared among them in order to improve their services.

Feedback from retailers is fed into the databases of both individual sales representatives and relevant departments.

On the environmental front, some sales vehicles are being replaced with low-emission models. [See related article on Page 30](#)

**Communication with Customers**



Customer Service Center



Social Environment Creation Division

## Communication with Customers: Manufacturing Competitive



Communicating with Customers at the Customer Service Center

Valuable feedback from customers is fed into the customer service center database for sharing among all departments, which utilize this information in the development of measures to improve quality and develop new products. For example, brand managers, who are engaged in new product development, refer to customers' feedback on their respective brands in order to improve quality. And, to communicate with adult smokers, JT has come up with a "one-to-one" communication tool and system, which represents a commitment to listening to the opinions of smokers.

With regard to privacy protection, a company-wide program is in place to protect customers' personal information. JT strictly abides by the Law Protecting Personal Information, with each section staffed with a full-time manager and representative, and employees attending seminars on privacy protection.

Meanwhile, various programs are underway to help create a social environment in which smokers and non-smokers can coexist harmoniously and to promote educational activities, including cleanup of communities and improvement of smoking manners. Specific measures include: a citizen participation program dubbed the "Pick Up, and you will love your city" campaign; provision of smoking areas, collection of cigarette butts from ashtrays in cooperation with local municipalities nationwide.

[See related article on Page 60](#)

**Product Development**



Product Development Department

## Product Development: Shaping the Future of Tobacco through New Values (from Tobacco Cultivation to Tobacco Products)



The Tobacco Science Research Center – JT's tobacco research and development laboratory located in Yokohama City, Kanagawa – is working on a variety of research programs in such areas as cost reduction (while maintaining the quality of products) and requirements for future tobacco products. "D-spec" products (reduced-odor tobacco products) were developed at this laboratory. "Potentially reduced risk tobacco products" are also being developed. Meanwhile, at the Leaf Tobacco Research Center located in Oyama City, Tochigi, another research program is underway to develop advanced techniques for cultivating and growing tobacco plants, as part of the quest for quality improvement.

The marketing department gathers information through the customer service center and sales representatives, and conducts customer surveys, while brand managers obtain first-



Tobacco Science Research Center



Leaf Tobacco Research Center

hand information from customers. These activities jointly contribute to the development of products that meet the needs of customers.

# 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



Tobacco Brand-ing Declaration

URL <http://www.jti.co.jp/sstyle/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 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

#### 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.

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 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 'irreplaceable company' by keeping our commitment to "Tobacco Brand-ing Declaration"."

**● 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 expecta-

tions of society, we have discussed various problems relating smoking and health, the results of which discussions are posted on our website.



For details, please refer to: SMOKER'S STYLE Website  
 URL <http://www.jti.co.jp/sstyle/>

**Voluntary Standards for Advertising and Sales Promotion**

Advertising and sales promotion of tobacco products are directed exclusively at adults, and we comply with the domestic voluntary standards set by the Tobacco Institute of Japan (TIOJ). These voluntary standards for advertising and sales promotion have been in place since the days of the Japan Tobacco & Salt Public Cor-

poration: advertising through TV, radio, newspapers and magazines was first regulated in 1969; 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: Tobacco Institute of Japan Website  
 URL <http://www.tioj.or.jp/>

**Overview of TIOJ Voluntary Standards**

**1.Product advertising through the media listed below is prohibited:**

- Television, radio, cinema, TV screen and Internet website (excluding those cases where advertising directed exclusively at adults is technically possible)
- Outdoor billboards (discontinued by March 2005, or by September 2005 in the case of long-term lease contracts that could not readily cancelled)
- Advertising media in highly public places such as public transport (discontinued by October 2004) (excluding tobacco outlets and smoking areas)

**2.Product advertising through printed publications such as newspapers, magazines, etc. is regulated:**

- Printed publications aimed at minors should be excluded
- Pages and spaces on which advertising may be placed and the frequency of advertising through daily newspapers are both regulated (from October 2004)

**3.Product advertising and sales promotion activities targeting or appealing to minors are prohibited:**

- Personalities, models and characters that are primarily popular among minors should not be used in advertising
- Sales promotion items should be items mainly for adults
- Sample products should not be distributed to minors and non-smoker or in

highly public places

**4.The following should be legibly and clearly displayed in product advertisements (from October 2004):**

- Warning about smoking and health (occupying a space equivalent to 15% of the advertising area)
- The levels of tar and nicotine contained in tobacco smoke
- Statement required to avoid misunderstanding by consumers

**5.The following should be clearly displayed on the packaging:**

- Warning about smoking and health
- The levels of tar and nicotine contained tobacco smoke
- Statement required to avoid misunderstanding by consumers
- Marks or other information to promote recycling by enabling consumers to distinguish packaging materials

On the international front, JT and foreign tobacco companies, including PM and BAT, agreed on the "International Tobacco Products Marketing Standards" in September 2001. In accordance with these standards, JT will terminate its Formula 1 sponsorship at the end of the 2006 season.



# Our Philosophy as a Tobacco Manufacturer

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, of which JT is a member) in retail outlets, while promoting the "I Care About You" campaign.

In addition, the Tobacco Institute of Japan conducts additional youth smoking prevention campaigns twice a year during promotional months.

Youth smoking prevention poster distributed to junior high schools and high schools across the country



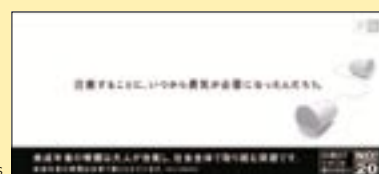
### Voluntary Restrictions on Late-night Sales through Outdoor Vending Machines

In April 1996, the Japan Tobacconist Federation introduced voluntary restrictions on late-night sales through outdoor 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.



Newspaper Ads

## Cigarette vending machine with adult identification functions

The Tobacco Institute of Japan, 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. For example, efforts are underway to develop cigarette vending machine with adult identification functions, with nationwide service scheduled for 2008; the detailed schedule was announced on March 30, 2006 – pilot machines will be put into service in March 2008 in Kagoshima and Miyazaki Prefectures, to be followed by 3 other areas.



Cigarette vending machine with adult identification functions

#### Specifications:

- (1) Tobacco products can only be purchased after the customer holds up a contact-free card embedded with an IC chip to the reading device; the cards are issued exclusively to adults.
- (2) Machines are also equipped with an e-money system designed for prepaid cards.

For details about cigarette vending machine with adult identification functions, please refer to (TIOJ website) :  
**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 provide 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 Ebistu Station (Shibuya Ward, Tokyo)

### Smoke Separation in Public Places



Smoking Lounge at Narita International Airport

JT, municipalities and facility administrators are jointly setting up smoking areas in public places, while offering smoke separation consulting services. Leading-edge technology is the key to smoke separation in smoking areas provided in stations and airports crowded with commuters, passengers, tourists, etc.

### SmōCar

"SmōCar" is a smoking-permitted vehicle used for events and designed to help improve smoking manners and implement smoke separation in public places; it is equipped with air-conditioning and ventilation systems. "SmōCar" is sent out to take part in events across the country, providing smokers with a space where they can relax and enjoy smoking.

SmōCar 2



### ● 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.



TV Commercial: Report on "Manners Can Change"

#### "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.



The "Pick up, and you will love your city" campaign motivates people "not to litter the streets" by having them pick up trash.

See related article on Page 60

#### Promotion of Portable Ashtrays

JT aims to have more than 50% of smokers carry portable ashtrays with them. To this end, the Mobile Ashtray Museum (MAM) made a successful debut in April 2006



Mobile Ashtray Museum  
 JT Building 1F, 2-2-1 Toranomon, Minato-ku, Tokyo  
 Tel.: 03-5572-4950

# JT's Endeavors as a Value-creating Manufacturing Company



How "D-spec" Products Made Their Debut; The Challenge of Developing the World's First Technology to Reduce Offensive Tobacco Odor

JT believes it is necessary to identify "what it is about tobacco products that annoys not only smokers but also non-smokers." This led to the initiation of research into reduced-odor tobacco, the first of its kind in the world, which culminated in the "D-spec" (reduced-odor) product launched in February 2003: "Lucia."

## Shedding Light on Offensive Tobacco Odor

### ● March 1996

The first stage in "reducing offensive tobacco odor," an unprecedented theme in itself, was to determine the research direction. Specifically, ad hoc measures such as "covering up tobacco odor with flavor" gave way to fundamental solutions: identifying what tobacco odor is and what element or combination of elements in tobacco causes it to emit an offensive odor.



Smelling the Components of Tobacco Smoke



Tobacco smoke has been said to be "too complex to analyze" because it contains thousands of components. However, JT ventured to identify the components that emit an offensive odor and to develop technology that could effectively mask their odor emissions.

The specific procedures involved separation of the components of tobacco smoke using gas chromatography\*. Researchers continued to smell each individual component over an 18-month period until they were finally able to identify the components that emit a "strong odor."

### **Nobukazu Higashi**

*Senior Manager, Tobacco Science Research Center*

\* gas chromatography

Gas chromatography is a method for separating a number of substances in a mixture using a gas chromatograph. It is used primarily for analyzing gases.

## Masking "Offensive Odors" Only - Using a Small Amount of Flavor

### ● Fall 1998

The second stage was to develop a technique for reducing the "strong odor." The researchers concluded that "offensive tobacco odor" can be reduced and the natural taste and flavor of tobacco can be maintained by selectively masking the "strong odor." About a year later, at the end of 1999, they came up with "citrus flavor," an innovative masking flavor.



A number of meetings were held to come up with a masking flavor



The challenge was to develop a flavor that masks the strong odor components in tobacco smoke. After long and arduous efforts, we discovered that the extract of a certain citrus fruit has a strong masking effect. However, sample cigarettes flavored with that extract tasted awful because the dose was too high. To solve this problem, we began working on the flavor components of citrus fruits, using a process of elimination to identify active components that have strong masking effects at low dose levels with minimum effects on the natural taste and flavor of tobacco. The flavor components were analyzed in the same manner as used for the analysis of tobacco smoke components, which resulted in the identification of several active components. Those who smoked sample cigarettes flavored with these active components tasted a hint of citrus flavor, with the natural taste and flavor of tobacco remaining relatively intact. Thus, we came up with a masking flavor and termed it "citrus flavor."

### **Fumihiro Omori**

*Researcher, Tobacco Science Research Center*

## Major "D-spec" Products



### Encapsulating an Elusive Flavor

#### ● March 2000

The next challenge was to add "citrus flavor" to actual products. Specifically, the key was to strike a balance between the minimum dose that produces masking effects and the maximum dose that does not spoil the natural taste and flavor of tobacco. Quite a few staff members took up this challenge. "Lucia" was adopted as the brand name for the cigarette in November 2000, which was scheduled for release in February 2003 – a decision made in FY2002. However, there was another challenge: development of a new inspection method to ensure consistent production of these unprecedented products. On the other hand, "double cigarette paper" was adopted to seal in the flavor. The process of trial and error at factories continued until just before the beginning of the first test run in November 2002.



Final Inspection in the Flavoring Process  
 Trial and error continued until just before the beginning of the first test run  
 Hiromi Tabuchi, Senior Researcher, Research Engineering Division (Left)



We were engaged in technology development with commercialization in mind. Citrus flavor is oily and volatilizes easily when added to tobacco. After much trial and error, we managed to come up with a method - using microcapsules - that prevents the flavor from volatilizing. With this technique, masking effects can be readily obtained with a minimum dose of flavor. This unprecedented technique, meanwhile, involved innovations in production processes – manufacturing machines are equipped with nozzles designed to add flavor to products, each of which is fine-tuned to consistently add encapsulated flavor to the center of the cigarette paper. At the same time, an innovative inspection system was developed to process images captured by a camera. Each cigarette is inspected for quality (i.e., uniform application of the correct amount of flavor to the designated area) without bringing high-speed manufacturing machines to a halt. It was the first trial of its kind in equipping a cigarette making machine with a camera.

**Hiromi Tabuchi**  
 Senior Researcher, Research Engineering Division



### Completion of D-spec Products and Their Prospects for Growth

#### ● February 2003

"Lucia", the culmination of JT's strenuous efforts, finally made its debut. This product is the fruit of the knowledge and efforts of all employees. Meanwhile, D-spec products continue to evolve.



First D-spec Product: Lucia 5mg (at left)



We overcame a number of technical challenges before making test cigarettes. The results of research into the market were surprising: about 70% of the subjects said they "liked" the cigarettes. Thus, "Lucia", the world's first reduced-odor tobacco product, made their debut in February 2003. "Lucia" was later classified into a new category and termed "D-spec," a name chosen from numerous suggestions from customers. Fruity flavor and vanilla flavor have joined the lineup of D-spec masking flavors, which are used for a variety of brands such as Mild Seven, Seven Stars and Pianissimo. Many customers have praised our reduced-odor tobacco products. To meet the needs of our valued customers, we continue to develop new products, creating new value through technology.

**Takashi Ishizawa**  
 Brand Manager, Marketing General Division



# Environmental Approaches of JT's Tobacco Business



JT's tobacco business gives due consideration to the environment in every phase of its operation, from raw materials procurement through manufacture, distribution and product development to sales.

## Environmental Conservation Measures in Raw Materials Procurement

The basic approaches to environmental conservation are to use materials and agrochemicals efficiently, while minimizing, recycling and properly disposing of waste. JT is working enthusiastically on environmental conservation in cooperation with tobacco growers.

### ● Promotion of Organic Fertilizers

Application of organic fertilizers is the key to soil preparation, the very basis of agriculture. JT



Application of compost

encourages tobacco growers to use high-quality compost and organic compound fertilizers – a means of cultivating tobacco that is relatively resistant to bad weather, disease and pests, and of avoiding over-dependence on chemical fertilizers and agrochemicals.

### ● Proper Handling and Application of Agrochemicals

In applying agrochemicals, special consideration should be given to producing reliable leaf tobacco (a raw material for products delivered to customers), ensuring the health and safety of growers who handle agrochemicals, and conserving the environment surrounding tobacco plantations. JT works with tobacco growers to ensure proper handling and application of agrochemicals, including minimal application and proper disposal of used containers.



Tobacco plantation and blossoms

### ● Proper Disposal of Agricultural Materials

The disposal of used plastic mulch film, which is used to keep the soil of tobacco plantations warm and moist, poses an environmental problem.



Removal of used mulch films

Therefore, JT ensures that used film is disposed of properly, outsourcing the entire process to private contractors who recycle waste materials within the communities in which they operate. In addition, various measures are underway, in cooperation with tobacco growers, to use other agricultural materials responsibly.

## Green Procurement of Materials

In an effort to establish a foundation for green procurement, JT in FY 2005 held a series of briefings to provide suppliers with information on the green procurement standards for tobacco materials, which were established in FY2004.

In addition to quality, cost and supply capacity, environmental aspects are evaluated in selecting suppliers; priority is given to those who are actively engaged in environmental conservation.



Green procurement standards

## Environmental Conservation Measures in Manufacture

JT's tobacco factories, which are ISO14001 accredited, are striving to reduce CO<sub>2</sub> emissions and waste while promoting recycling of waste and materials.

### ● Reducing Waste

Efforts are underway to reduce and recycle waste from manufacturing processes. The average recycling rate of the tobacco factories increased from 65% in FY2000 to 99.9% in FY 2005. They aim to achieve zero emissions by FY2007. (See related article on Page 69)

### ● Substituting 20% of Daytime Power Consumption through Introduction of NAS Battery System

JT introduced the "NAS Battery Power Storage System" to make use of night power, which is less dependent on fossil fuels. Specifically, the electricity stored in the NAS battery (which has excellent charge/discharge efficiency) during the nighttime is discharged to supply electricity during daytime peak hours. The system operating at the Kita-Kanto factory is capable of storing 24,000 kWh of electricity at one time, which is equivalent to the power consumed by 2,400 households each day. With this system in place, night power now accounts for about 20% of the power consumed by the factory during the daytime.



NAS battery power storage system



## Reducing Carbon Dioxide Emissions Associated with Distribution and Sales Activities

JT is working on reducing the environmental impacts of distribution – chief among them are CO<sub>2</sub> emissions from sales vehicles and trucks hauling raw materials and finished products.

Railroad transportation is playing a central role in hauling JT's products and their raw materials (the modal shift\* standing at 54% in FY2005), while a program has been underway to increase the loading rate of trucks, which stands at 99.6% (on a pallet basis) for 10-ton trucks hauling finished products from factories to distribution centers. Meanwhile, low-emission vehicles are being selected to progressively update the company's fleet of sales vehicles. Low-emission models accounted for about 45% of the total fleet as of the end of March 2006 (1,370 out of 3,042 units are low-emission vehicles, of which 236 units are natural gas vehicles emitting less carbon monoxide, nitrogen oxides and carbon dioxide than gasoline-powered vehicles). At TS Network Co., Ltd., a total of 27 natural gas-powered trucks are in service to distribute JT's tobacco products.



10-ton truck (product distribution)



Railroad transportation (raw materials and finished products)



Tobacco delivery truck (product distribution)

## Improving Products and Sales Promotion Tools

### ● Reducing Weight and Simplifying Cigarette Packaging

The amount of paper used in cigarette packaging paper has been reduced without any adverse effect on quality. Specifically, the design of box-type cigarette packs was reviewed and changed in FY2005 to reduce the weight by shortening the folded portion of the lid.

A packaging simplification program started in November 2000, aimed at switching from carton packaging (10 packs per carton wrapped in film) to parcel packaging (packaging paper only). This program is scheduled for completion in the domestic market in FY2006, except for a few brands that are being test-marketed.

JT ensures that all of its products, which will be handled by customers, are environment-conscious.

As far as cigarette packaging is concerned, eco-product standards are in place to reduce resource consumption.



Switch from carton packaging to parcel packaging  
 Reduction in the amount of cigarette packaging paper  
 Shortening of the folded part of the lid of box-type cigarette packs



Reduction in the amount of packaging materials per carton (10 packs) of Lucia

Paper	22.6 g → 8.2 g
Plastic film	2.0 g → 0 g

### ● Promoting Environment-conscious Sales Promotion Tools (Use of Non-PVC Materials and Recycled Paper)

A program has been underway since FY1995 to adopt environment-conscious sales promotion tools such as posters and stickers. For example, sales promotion tools made of PVC had given way to those made of non-PVC materials by FY2000, while most paper-made tools are now made of materials containing 40-60% recycled paper.

Environment-conscious sales promotion tools



\* 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.

# International Tobacco Business Approaches to Environmental Management and Occupational Safety and Health



JT International S.A. (JTI), which controls the International tobacco business of the JT group, has employees of about 12,000 engaged in distributing tobacco products in more than 120 countries and operating 17 factories in 15 countries. It is involved in a variety of programs that give due consideration to the environment and occupational safety and health, some of which are published in the EHS (Environment, Health and Safety) Report.

## Approaches to Environmental Management and Occupational Safety and Health

JTI is establishing an EHS management system, placing high priority on the environment and the occupational safety and health of its employees, and complying with the JT Group Environmental Charter and the JT Occupational Health and Safety Guidelines. Most of its factories are accredited to international environmental and occupational health and safety standards.

JTI EHS Report

URL: [http://www.jti.com/english/corp\\_responsibility/ehs\\_report\\_2005.pdf](http://www.jti.com/english/corp_responsibility/ehs_report_2005.pdf)

### Approaches to Environmental Management at Cigarette Manufacturing Factories

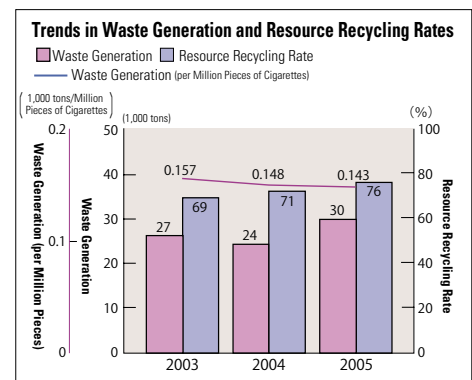
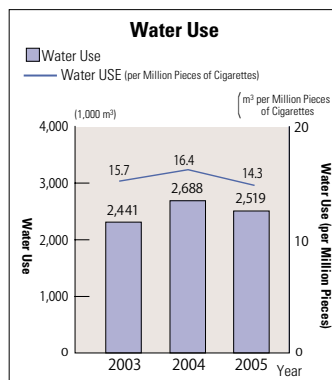
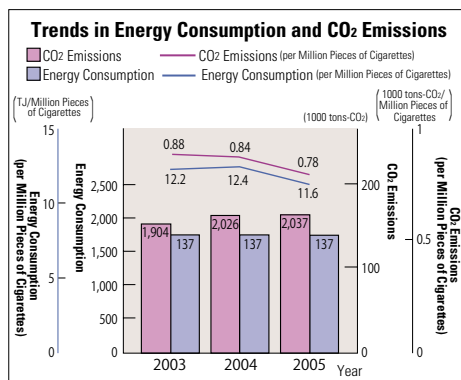
JTI's tobacco factories keep track of their energy consumption, CO<sub>2</sub> emissions, water use, waste generation, resource recycling rates, etc.

JTI's environmental impact is increasing in absolute terms as

Accreditation to international environmental and occupational health and safety standards (as of the end of 2005)

Environmental standards: 15 factories ISO14001 accredited  
Occupational health and safety standards: 14 factories OH-SAS18001 accredited

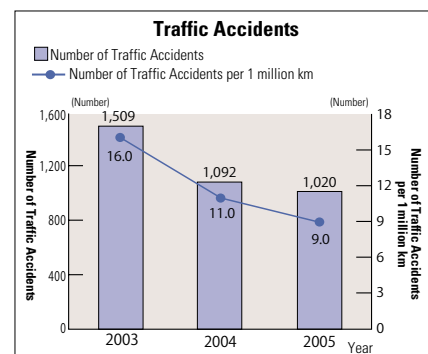
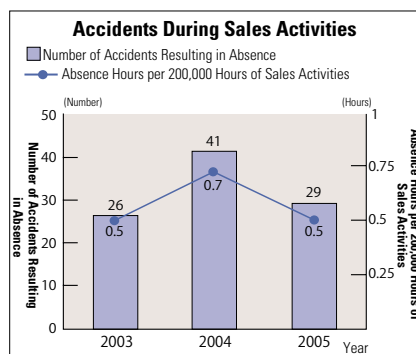
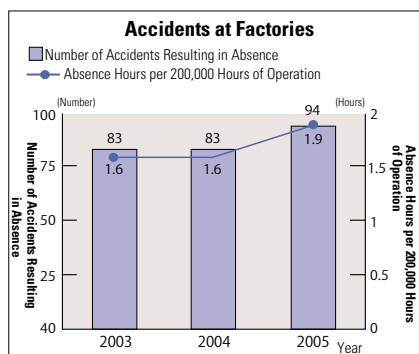
its production expands, whereas the impact per unit of production (one million pieces of cigarettes) is decreasing. For example, energy-saving measures and a shift to natural gas resulted in less CO<sub>2</sub> emissions per unit of production in 2005, down 11.6% from the 2003 level.



### Approaches to Occupational Health and Safety

JTI sets annual targets for the safety activities at its plants and sales offices. Although the factories failed to achieve the targets set for 2005, those for 2006 are imposed across the board

based on the success of pilot programs that are underway to make improvements. Meanwhile, the number of traffic accidents during sales activities decreased by 17% from the 2004 level – an achievement attributed to driver education programs.



### EHS Excellence Awards

The "EHS Excellence Award" (sponsored by Pierre de Labouhere, president of JTI) was instituted with the aim of improving JTI's EHS activities.

Area of Activity	Awardee	Awarded Activity
Environmental initiative	Greece sales office	Reductions in fuel consumption and CO <sub>2</sub> emissions through the introduction of hybrid vehicles
Occupational health and safety initiative	St. Petersburg plant (Russia)	Prevention of accidents in roller conveyor work
EHS teamwork	Kazakhstan plant	Improvement in waste recycling rates

# JT's Kita-Kanto Factory: Site Report



**Location:** Kiyohara Industrial Park 10, Utsunomiya City, Tochigi  
**Number of Employees:** 338 (as of March 31, 2006)  
**Major Products:** Cigarettes (Mild Seven, Pianissimo, Seven Stars)

JT's Kita-Kanto Factory, the largest tobacco factory in Japan, is gearing up to become the world's leading tobacco factory with the introduction of state-of-the-art manufacturing machinery to further improve productivity. To this end, we are creating an environment in which each member of the organization is empowered to think and develop in his or her own right, and all employees share a common appreciation of the right way to do things. Other initiatives are also underway to improve product quality and develop proprietary technologies. At the same time, we are stepping up efforts to maintain occupational health and safety at a high level and conserve the environment.



**Tatsuo Uchiumi**, General Manager, Kita-Kanto

## Role of flavor and taste inspector in Delivering "The Familiar Taste"

Tobacco factories are responsible for the quality of finished products as well as the taste and flavor of tobacco, both of which play vital roles in determining the product's value. And, we believe that we, as a flavor and taste inspector, are responsible for delivering "the familiar taste" to customers, no matter where the cigarettes they smoke are made. The shredding, blending, flavoring and processing of tobacco leaves are critical in determining the taste of tobacco. We are tasked with controlling these processes, ensuring stable operation and supporting the maintenance of sensors and other devices. It is also important to control quality from a broad perspective because not only raw material but also other materials determine the flavor and taste of tobacco products. As each production process in the latest system is data-controlled, we need to have a broad range of skills, some of which include detection and correction of abnormalities at the earliest possible stage. Naturally, sensory tests remain central to assuring the quality of finished products. However, we are also working on more objective and customer-oriented inspection procedures, so that we can confidently and responsibly deliver "the familiar taste" to customers.



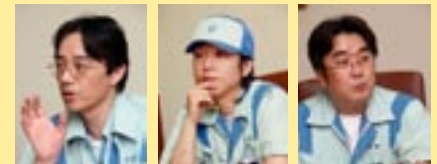
**Kazuo Ishii**  
 Flavor and taste inspector  
 Quality Management Division

## Improving Skills of Line Workers in Operating High-speed Production Lines

Two high-speed cigarette packaging machines equipped with paper feeding units – the first of their kind in Japan and the fastest in the world – are in operation in our factory, with each machine able to package 800 packs of cigarettes per minute. Combined with a cigarette making machine that can manufacture 16,000 pieces of cigarettes per minute, they constitute one of the world's fastest production lines. While process control through an original monitoring system is improving, the skills of line workers in operating high-speed manufacturing lines also need to be improved. Before we introduced the packaging machines, our supervisory personnel traveled overseas to receive training from the manufacturer. They also learned design techniques and participated in discussions with engineers. Even though process control by means of sensors and monitoring cameras is advancing, human visual monitoring is becoming more important, given that any malfunction in manufacturing machines can cause a significant loss. In every respect, we are continuing to improve our skills unconstrained by conventional thinking.



High-speed cigarette making machine (H1000)



**Kiyoomi Chiba Hiroshi Suzuki Masaru Nakano**  
 Manufacturing Division

## Factory-wide Efforts to Improve Quality

Quality improvement translates into greater customer satisfaction. For this reason, we give the highest priority to addressing product complaints, specifically through "shipment assurance," a system aimed at ensuring that products conform to the standards by following prescribed procedures, and "improvement activities," which are designed to improve efficiency and accuracy of the system. Each staff member is encouraged to come up with 30 suggestions for improvement within this fiscal year; those that prove to be effective will be put into practice and publicized to all employees. In addition, different improvement themes are set every month so that suggestions can be provided from various perspectives.



Information-sharing at a factory

It is imperative for us to raise awareness of quality issues, as clues for improvement can be found all around us.



**Mitsuru Inoue Shinya Yokoyama**  
 Quality Management Division

## Raising Awareness of the Environment and Eliminating On-the-job Accidents

The Occupational Health and Safety Committee, organized by management and labor, holds regular monthly meetings with its subcommittees, which have been set up in each section. Members of these subcommittees are tasked with regularly making the rounds of factories and implementing occupational health and safety programs determined and agreed upon by management and labor. The Kita-Kanto factory – along with the Koriyama, Morioka and Tomobe factories – is scheduled to receive OHSAS 18001 multi-site certification at the end of this fiscal year, while everything related to occupational health and safety will be systematized. The certification, however, is just one of many measures we are implementing. We continue to work at eliminating on-the-job accidents and maintaining the health of employees.



Signboards raising awareness of occupational health and safety

On the environmental front, we have switched our boiler fuel from heavy oil to town gas, which produces less CO<sub>2</sub> emissions. At the same time, a variety of environmental conservation programs are underway, including introduction of the NAS Battery System, maintenance of ISO 14001 registration, and improvement of employees' awareness of environmental issues.



**Tatsuya Otake Norio Suzuki**  
 Administrative Service Division



# Overview of JT Group Businesses: Pharmaceutical Business

Making Concerted Efforts to Develop Innovative Drugs for the Benefit of Patients

We have an optimized system in place to pursue synergies in the JT group; JT is responsible for research and development programs, and Torii Pharmaceutical Co., Ltd., for production and sales activities.

We are committed to developing world-class, innovative drugs that are highly valued by both patients and medical experts. "We could not have done without JT's drug." These are the words we expect to hear from them.



Research and Development  
(Drug Discovery to Preclinical Studies)



The Central  
Pharmaceutical  
Research Institute

Areas to which GLP-related laws and regulations apply  
(GLP: Good Laboratory Practice)

## The Central Pharmaceutical Research Institute, the Core of JT's R&D Efforts



Central Pharmaceutical Research Institute  
(Takatsuki City, Osaka)

Ever since its establishment in 1993, the Central Pharmaceutical Research Institute (Takatsuki City, Osaka) has been striving to improve and strengthen its R&D resources. Based on the expertise it has accumulated, the institute is focusing on the studies of glucose/lipid metabolism, immunity, inflammation, viruses and bones. The Central Pharmaceutical Research Institute comprises six laboratories: the Pharmaceutical Frontier Research Laboratories (Yokohama City, Kanagawa), the Chemical Research Laboratories (Takatsuki City), the Biological/Pharmacological Research Laboratories (Takatsuki City), the Product Development Laboratories (Takatsuki City), Drug Metabolism & Pharmacokinetics Laboratories (Takatsuki City) and Toxicology Research Laboratories (Hadano City, Kanagawa).

## Safety Control

The Central Pharmaceutical Research Institute has rigorous systems in place to control the safety of drugs it handles and ensure the compliance with the PRTR Law ([see Page 72](#)), the Fire Defense Law and regulations for radioisotopes and genetic modification. In addition, educational programs are held periodically to raise the awareness of employees, managers and toxic/deleterious substance supervisors about safety issues. [See related article on Page 35](#)

## Verifying the Safety of "Drug Candidate Compounds" at the Preclinical Stage



The Toxicology Research Laboratories verify the safety of all "drug candidate compounds" that are scheduled for clinical trials. The Pharmaceuticals and Medical Devices Agency (PMDA) reviewed the laboratories' GLP compliance in 1997, 2000, 2003 and 2005; the results were all "A," meaning that they are in full compliance with the GLP regulations.

Areas to which GCP-related laws and regulations apply  
(GCP: Good Clinical Practice)

## Clinical Development

A series of clinical trials are conducted at the clinical development stage to verify the efficacy and safety of drug candidates. Specifically, healthy volunteers are used to test the safety of drug candidates, which are then administered to patients who have given informed consent for efficacy and safety assessment purposes. Data on drug candidates that prove to be clinically effective and safe are then analyzed before filing applications with the Ministry of Health, Labour and Welfare. Meanwhile, JT and its U.S. subsidiary, Akros Pharma Inc., are working together on overseas clinical development.

## Abiding by the Revised Pharmaceutical Affairs Law and Ensuring the Safety of Drugs at the Clinical Development Stage

Clinical trials are conducted with the cooperation of subjects (healthy adult volunteers and patients). The Helsinki Declaration ([see Page 72](#)), the Pharmaceutical Affairs Law and its related ministerial ordinances (GCP) stipulate that the rights (human rights) and safety of subjects should be guaranteed to the greatest extent possible in conducting clinical trials. Thus, an independent committee comprised of outside physicians and experts is in place to examine whether: the clinical trials are ethically and scientifically reasonable; the subjects have been explained in detail about the trials and have given informed consent; the privacy of the subjects is protected. In addition, a section that is not engaged in services related to clinical trials conducts internal GCP auditing to verify that these operational procedures are followed – i.e., compliance with the GCP regulations.

Clinical  
development



Clinical Research  
Department

Akros Pharma Inc.



**Production**



Torii Pharmaceutical Co., Ltd.

**Areas to which GMP-related laws and regulations apply (GMP: Good Manufacturing Practice)**

**Consolidating the Pharmaceutical Production Facilities of JT and Torii Pharmaceutical**



Sakura plant of Torii Pharmaceutical (Sakura City, Chiba)

With the revised Pharmaceutical Affairs Law taking effect in April 2005, JT's Hofu Pharmaceutical Plant was closed down in March 2006 in order to concentrate production in the Sakura plant of Torii Pharmaceutical. The objective of this consolidation was to improve the efficiency of the JT Group's pharmaceutical production. The Sakura plant produces more than 180 items, taking advantage of its cutting-edge production techniques/facilities and advanced quality control system.

**Ensuring the Safety of Production Processes**



Inspections are performed to ensure safety

The Sakura plant, which conforms to GMP standards, produces a variety of pharmaceuticals and has a rigorous quality control system in place to keep track of raw materials reception, production processes, semi-finished products, packaging and shipment.

Being engaged in the production of drugs carries an obligation to ensure that every product complies with the safety and quality specifications prescribed by the authorities. JT has systems and facilities in place to monitor every stage of drug production, from raw materials reception to shipment – which conforms to GMP regulations set by the Ministry of Health, Labour and Welfare to eliminate human errors.

**Areas to which GPSP-related laws and regulations and GVP-related laws and regulations apply (GPSP: Good Post-Marketing Study Practice, GVP: Good Vigilance Practice)**

**Medical Representatives Playing a Part in Medical Services Through Dissemination of Drug Information**

Medical representatives provide medical experts (doctors, pharmacists, etc.) with information on the quality, efficacy and safety of drugs in order to ensure that they are administered and dispensed properly, while gathering first-hand information from medical institutions and pharmacies.

See related article on Page 35

**Verifying the Post-Marketing Safety of Drugs**

Given that, post-marketing, drugs are administered and dispensed to many patients, two standards (GPSP and GVP) are in place to mandate the collection of data on the side effects and efficacy of drugs, some of which characteristics may not be detected at the development stage. Torii Pharmaceutical analyzes and discusses such data and, where appropriate, the findings are fed back to medical experts. This is a process aimed at delivering drugs to patients effectively and safely.

**Communicating with Customers**

The customer service centers of Torii Pharmaceutical and JT communicate with customers (patients and health-care practitioners), handling feedback on their products and inquiries about the proper use of drugs. Such information provided by customers plays a vital role in improving the properties of drugs, such as convenience in handling and administration.

**Accelerating Development Through Partnerships with Other Companies**

JT is strengthening its R&D resources, while seeking partnerships with other companies, in order to speed up both the development of safe, effective drugs and provision of those drugs to the patients that need them. Specifically, license-out agreements are in place with F. Hoffmann-La Roche Ltd. (Switzerland) for "JTT-705" (a hyperlipidemia drug), Gilead Sciences, Inc. (U.S.) for "JTK-303" (an anti-HIV drug) and GlaxoSmithKline (U.K.) for new compounds at the preclinical stage.

JT and Torii Pharmaceutical also acquired exclusive commercialization rights in Japan for three anti-HIV drugs of Gilead Sciences, each of which was put on the market in April 2004 through Torii Pharmaceutical.

**Sales**



Torii Pharmaceutical Co., Ltd.

# JT's Endeavors as a Value-creating Manufacturing Company

TECHNOLOGY  
ENVIRONMENT

QUALITY  
DEVELOPMENT



Passing the Baton of New Drug Development Through JT Group Collaboration

Various departments are engaged in the pharmaceutical business, from R&D to production and distribution, with each working in concert with others. Every employee in each of these departments is dedicated to the objective of timely delivery of original new drugs to patients.

## Working Together on Hypothesis-driven Drug Discovery

The mission of a pharmaceutical company, we believe, is to develop the drugs that are needed by patients and medical experts. It is therefore imperative that not only scientific information from academic societies and papers but also the needs of the places where medical services are provided.

In selecting new development themes, all relevant departments work together to analyze such information and needs, which are gathered and compiled by the Research Planning Department. The themes selected are then evaluated by each laboratory for efficacy, pharmacokinetics, safety and properties in order to come up with candidate compounds. In this development stage, the Research Planning Department is also tasked with creating a cooperative framework for addressing the diseases and symptoms concerned, and with mapping out strategies for conducting the necessary clinical trials.



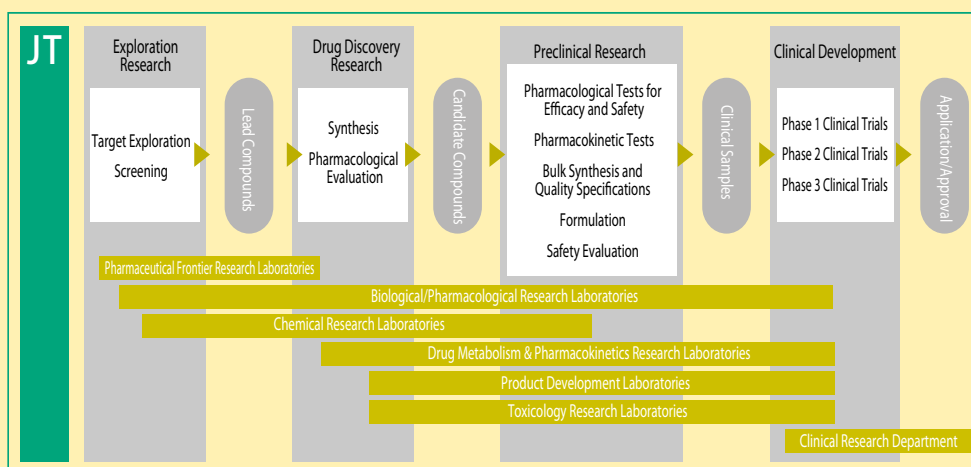
**Mitsuki Kano**  
Research Planning Department

## Capitalizing on Cutting-edge Technologies to Identify Drug-discovery Targets

The Pharmaceutical Frontier Research Laboratories is positioned as the "uppermost stream" of drug discovery. We identify drug-discovery targets through a process of trial and error, discussing what should be done to cure diseases, and incorporating the latest theories and technologies. Our goal is to come up with targets leading to new drugs that will be well received by patients, and this is where we believe the real value of research efforts lies.



**Satoki Doi**  
Pharmaceutical Frontier Research Laboratories



## Torii Pharmaceutical Co., Ltd.

### Contributing to Medical Care Through Information-sharing

Medical representatives (MRs) play a vital role in providing accurate information on drugs to medical experts. Each of us is tasked with communicating the efficacy and proper use of drugs, coupled with their scientific data.

In addition to offering such information, MRs are responsible for gathering first-hand information on the safety, efficacy and quality of drugs for feedback purposes. Our MRs also provide information on the efficacy and proper use of drugs to marketing specialists (MSs) working for drug wholesalers, which distribute drugs to medical institutions, pharmacies, etc. All of Torii Pharmaceutical's MRs are committed to their tasks and conscious of their responsibilities.



**Ryota Waki**  
Kyoto Branch Office  
Torii Pharmaceutical Co., Ltd.

### Conducting Reliable Clinical Trials to Obtain Reliable Data

The Clinical Research Department conducts clinical trials of compounds developed by the laboratories, for evaluation purposes. It is also tasked with filing applications with the Ministry of Health, Labour and Welfare to obtain manufacturing and marketing approval. Both of these processes are critical steps in bringing new drugs to the world.

Our goal is to enable the release of new drugs in the shortest practicable time for the benefit of the greatest number of patients. Clinical trials start with the selection of medical institutions, while the feasibility of obtaining a sufficiently large number of patients are examined. The trials themselves are conducted according to a proven blueprint, which incorporates an effective method of collecting the best data that can be obtained.

While it usually takes a few years to reach the stage where we can file an application for manufacturing and marketing approval, it is extremely satisfying and rewarding when the results of a trial indicate that a new drug is likely to prove both efficacious and safe.



**Kazuhiro Okamiya**  
Clinical Research Department

### Experimental Techniques – the Key to Successful Drugs

The Biological/Pharmacological Research Laboratories is deeply involved in drug discovery efforts – e.g., examination of new targets for drug discovery purposes, evaluation of candidate compounds and implementation of preclinical trials to determine their potential as drugs. One of my duties is to create an evaluation system for each experiment to evaluate the efficacy of new drug candidates. The design of this system determines the accuracy of evaluation, which in turn leads to drug discovery. It is very rewarding to work on candidate compounds with the goal of ensuring that they qualify to be developed into successful drugs.



**Minako Tanimoto**  
 Biological/Pharmacological Research Laboratories

### Designing a Unique Compound

The Chemical Research Laboratories is where we conduct research into the design and synthesis of the compounds (seeds) that we hope will become JT's original new drugs. Specifically, those compounds are presented to us together with information on their physiological actions. We are tasked with designing and synthesizing compounds, with expected efficacy in mind, while cooperating with other laboratories in optimizing their development as a drug so that the "seeds" germinate and grow to bear "fruit." I am currently engaged in research on compounds that appear to work on certain serious diseases, and I am motivated by the prospect of patients being delighted by the efficacy of our drugs. It is very satisfying for researchers to see the compounds on which we are working advance to the stage of commercialization and delivery to patients.



**Tomoya Miura**  
 Chemical Research Laboratories

### Keeping Track of the Invisible "Behavior" of Drugs

The duties of the Drug Metabolism & Pharmacokinetics Research Laboratories range from selecting and optimizing new candidate compounds (the drug discovery stage) to examining their effects on humans and relations to drug levels (the clinical development stage). It is particularly important for us to collect and evaluate the data that are needed to ensure safe and proper use of new drugs. Pharmacokinetics should thus be evaluated from an objective perspective.



**Akihiro Takemori**  
 Drug Metabolism & Pharmacokinetics Research Laboratories

### Aiming at More Reliable Quality

We, in the Product Development Laboratories, are in charge of one of the final stages of the Central Pharmaceutical Research Institute: bulk synthesis, analysis and formulation of compounds for clinical trial purposes.

My group is engaged in analytical research on bulk pharmaceuticals. One of its key roles is to develop test methods for bulk pharmaceuticals to evaluate their purity and crystal forms. Accurate evaluation of these parameters ensures the safety and efficacy of drugs, which is also one of our responsibilities. It is imperative that the quality of drugs is stringently and carefully evaluated because they affect the lives of patients. It has been my dream since childhood to research new drugs and to work for the benefit of people. I want to deliver new drugs as early as possible to those who need them. This is the philosophy that motivates my work.



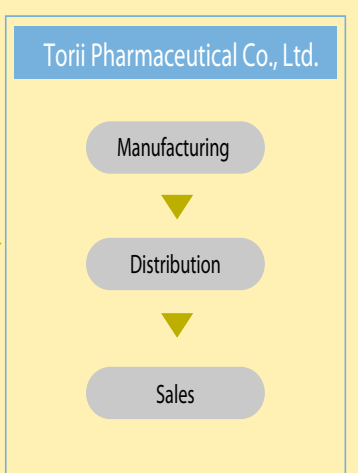
**Yosuke Mino**  
 Product Development Laboratories

### Pursuing Accuracy and Eliminating Error to Ensure Safety

The Toxicology Research Laboratories evaluates the safety of compounds that are most likely to be effective for certain diseases. Efficacy and toxicity are inextricably linked; the more effective a drug is, the greater its toxicity. So, there is a need to evaluate and predict the adverse effects on humans of the compounds concerned by means of animal experiments. Error-free accuracy is essential in our work because most of the compounds evaluated at our laboratories are those that are scheduled for upcoming clinical trials.



**Yasuhiro Masuzaki**  
 Toxicology Research Laboratories



# Environmental Approaches of JT's Pharmaceutical Business



JT's laboratories manage chemical substances responsibly and Torii Pharmaceutical's pharmaceutical plant is ISO 14001 accredited. JT is stepping up its efforts to help protect and conserve the environment.

The chemical business, in its nature, requires strict control of chemical substances. In addition to abiding by relevant laws and regulations, JT has in place a rigorous in-house system and regulations for the management of chemical substances.

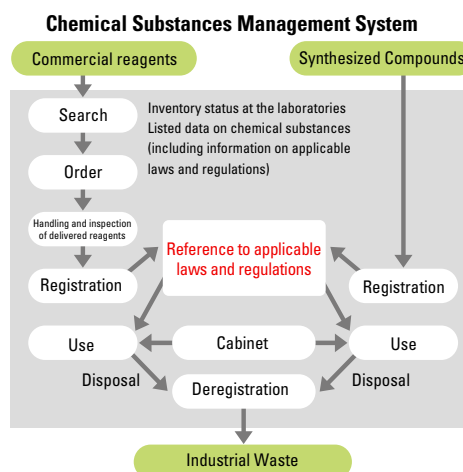
## Environmental Approaches of the Central Pharmaceutical Research Institute

The Central Pharmaceutical Research Institute, which is at the center of JT's pharmaceutical R&D activities, strictly manages all the chemical substances it handles, including reagents provided by suppliers and the compounds it synthesizes itself. Specific approaches include the following:

- A business contact is designated for the receipt of purchased reagents.
- The reagents purchased are checked for compliance with applicable laws and regulations before they are handed over to supervisors or users according to the in-house regulations

In addition to the above, the following procedures are followed for reagents that need to be kept under strict control:

- All reagents and compounds (hazardous drugs) are kept in a cabinet that is fitted with several locks
- The keys for the locks are managed by two or more staff members; all the keys are needed to open the cabinet
- Reagents and compounds are transferred to a portable locked cabinet for delivery to the places where they are used, by two or more staff members.



Central Pharmaceutical Research Institute (Takatsuki City, Osaka)

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

In line with the JT group's environmental action plan, Torii Pharmaceutical Co., Ltd. set numerical targets for 2005-2008, discussing and implementing environmental conservation measures in an effort to achieve specific targets set for each year.



Sakura Plant of Torii Pharmaceutical (Sakura City, Chiba)

For instance, the Sakura plant (Sakura City, Chiba) is implementing various measures aimed at filtering and reducing its emissions, effluents and waste.

In fact, the plant has been striving to reduce its environmental impacts ever since it achieved ISO 14001 status in 1999, by properly evaluating the impacts and setting specific targets. The achievement status of each target is reviewed periodically.

Four major themes govern our efforts to reduce environmental impacts: Reducing energy consumption (electricity, heavy oil, etc.);

reducing waste and improving recycling rates; reducing disposal of poisonous/hazardous substances; promoting green purchasing. Sakura plant employees are making concerted efforts to minimize the environmental impacts of the plant's activities. To this end, each staff member always takes the environmental policy into account and is highly conscious of the need to act appropriately in conducting his/her day-to-day operations.

Torii Pharmaceutical's environmental approaches  
 URL <http://www.torii.co.jp/company/envIRON.html>



Freezer using a new refrigerant



Sound barrier

### Making Concerted Efforts to Conserve the Environment

In addition to maintaining ISO 14001 certification, Torii Pharmaceutical, as a member of the JT Group, is working on environmental conservation in line with the JT Group Environment Charter and its environmental action plan as well as its own, localized environmental charter and action plan.

And, in FY2005, the company initiated publication of an environmental report for the purpose of internally and externally communicating its policy and activities. We are continuing to make concerted efforts to reduce the environmental impacts of our operations.

**Satoru Kanesaka**  
 Assistant General Manager  
 Planning and Administration  
 Department





# Site Report on the Sakura Plant, Torii



**Location:** Teranosaku  
2183-1, Ota-aza, Sakura  
City, Chiba

**Number of Employees:**  
78 (as of March 31, 2006)

**Major Products:**

Futhan for injection (protease inhibitor)  
Antebate (adrenal cortex hormone drug for external application)  
Urinorm (uricosuric drug or antipodagric)

The Sakura plant, which is the sole pharmaceutical production base of the JT Group, produces a variety of lines, including injections, tablets, ointments and allergenic formulations. While hoping to contribute to human health and welfare through the production and supply of drugs, we are making efforts to pass a healthy and productive environment on to future generations.

In particular, I place a premium on the "quality" delivered to patients, the "environment" to be passed on to the next generation, and the "technology" that controls both product quality and environmental protection.

This year, we adopted the slogan: "Quality is the life of the plant; convey our passion for manufacturing to patients." We are also exploring ways to take advantage of our manufacturing spirit in contributing to the environment and society. We believe that the ongoing efforts of households can also play a key role in conserving the environment, two examples being reduction of waste and separation or segregation of trash.



**Toshio Aoki**  
Plant Manager

## Implementing Strict Quality Control at Every Stage



Products are inspected for quality at every stage of production

The Sakura plant follows strict procedures aimed at preventing foreign objects from entering its premises; shutters are kept closed as much as possible when bringing in raw materials, and delivery pallets are washed regularly. In addition, products are inspected at every stage of production for quality assurance purposes. Thus, the drugs manufactured in the Sakura plant assure consistent quality and safety for patients.



**Norihiko Kiyokawa**  
General Manager  
Quality Control Department

## Providing Patients with Higher Quality Drugs

We are tasked with producing quality drugs. In particular, extremely strict quality and production control is required for injections, which are directly administered to the body.

The production environment is maintained in a clean and hygienic state to prevent formulations being contaminated with microorganisms, and standard operating procedures are followed to ensure consistency. We always pay close attention to quality so that we can deliver quality drugs to patients.



Creating an environment that ensures quality



**Shinichi Tsutsumi**  
Assistant General Manager  
Production Department

## Exercising Strict Control over Chemical Substances

A variety of chemical substances are used for the production of and research on pharmaceuticals. However, with the emergence of occupational accidents and soil contamination associated with the use of chemical substances as social issues, there is an increasing need to abide by relevant laws and regulations and to strengthen voluntary control measures.

Therefore, as part of its voluntary control measures, the Sakura plant sets targets for curtailing the use of chemical substances, switching to alternative substances and reducing emissions and waste.

We also have a Chemical Substance Safety Management Committee charged with patrolling and inspecting workshops, and holding seminars on how to handle chemical substances and ensure safety based on Material Safety Data Sheets (MSDS). These measures help to ensure that chemical substances are controlled and managed properly from the viewpoints of both occupational safety and environmental conservation.



Chemical substances are controlled and managed properly



**Genya Tamura**  
Chemical Substance Management  
GMP Control Department

## Consistently Striving to Achieve Zero Accidents

The keys to ensuring occupational safety are awareness by each employee and support from the company. In addition to seminars that are tailor-made to suit each section's needs, we hold a meeting once a month to report on "Hiyari-Hatto" (near-miss accidents) and view videos about occupational safety – efforts that have resulted in zero accidents over the past couple of years.

As employees acclimatize to their work environments, they tend to become less alert to dangerous situations. For this reason, our employees are obliged to inspect their workplaces every month for hazards and problems as seen from a third-party perspective. Meanwhile, in an effort to alleviate pressure and ensure the quality of visual inspections, inspectors are encouraged to take a 10-minute break every half-hour. For managers, mental health seminars are held as needed.

There is no "silver bullet" that ensures occupational safety; we need to make consistent efforts, while creating the most agreeable work environment possible. Each work activity should be viewed as part of the whole rather than as an independent component – a philosophy aimed at helping our employees to develop.



**Shinichi Ishida**  
Assistant General Manager  
Planning and Administration Department

# Overview of JT Group Businesses: Food Business

Delivering Safe, Reliable and Tasty Products to Customers under the Philosophy of "For the Dearly Beloved"

The Philosophy of JT's food business can be summed up in the words: "For the Dearly Beloved." As a beverage, processed food and seasonings manufacturer, we are committed to creating the new value that today's customers demand.

For example, with "Roots" as its core coffee brand, the beverage business continues to develop and release unique, quality products by taking advantage of its proprietary technology. The frozen food business contributes to increasing the pleasure of dining by offering an array of items including the "Obento Daininki" series (featuring a variety of menus), the "Imadoki Wazen" series (Japanese food) and the "Green Giant®" series (frozen vegetables). The seasonings business is developing tastes that meet the needs of customers, while strengthening the foundation and expanding the operations of purely natural seasonings.

## Beverage Business



Soft drinks

## Processed Foods Business



Frozen processed foods, Bakery, Chilled processed foods, Processed preserved foods

## Seasonings Business



Seasonings for professional and industrial use

## Raw Materials Procurement



JT, JT Group Companies



Supplier

## Basis of Safety and Reliability Improving the Traceability of Foodstuffs, Raw Materials

JT adheres to strict in-house standards for the procurement of raw materials in order to ensure the safety and reliability of its products, while working with suppliers to improve the traceability of raw materials. At the same time, natural products are becoming the mainstay of JT's seasonings.

### ● Integrated Management from Poultry Farming to Processing and Cooking: "Shinsendori"

"Shinsendori" is our brand of safe and reliable chicken reared on vegetable feeds (corn, soybeans, etc.), whose feeding and processing records can be readily traced.



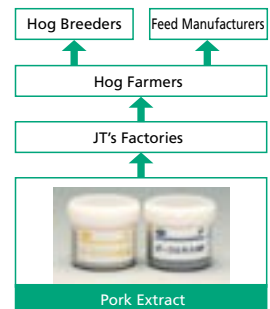
An integrated production system with one time batch freezing process ensures tasty, tender and juicy meat.

"Shinsendori" chickens are used in the production of packaged frozen foods, "Wakadori no Tatsutaage," and are also supplied to restaurants and food services.

### ● Ensuring Traceability of Seasonings: Pork Extract

We have a solid system in place to trace hog raisers and feed manufacturers for "Pork Extract," a natural extract manufactured by our subsidiary in Australia.

See related article on Page 41



※ → Information Flow

## Research and Development Product Development



JT, JT Group Companies

## Consolidating R&D and Product Development Resources: Food R&D Center

JT's R&D and product development resources in foods and beverages were consolidated in 2002 to develop products that harmonize the needs of consumers with the company's production techniques.



Food R&D Center (Ota Ward, Tokyo)

## Research and Development Product Development



JT, JT Group Companies

## Developing Products That Meet the Needs of Customers

### ● Creating a New Value, the First of Its Kind in Frozen Foods

The "Obento Daininki" series are designed to provide children with safe, reliable and tasty box lunches. "Butaniku no Sanshoku Yasaimaki" (tricolor vegetables rolled in pork), which hit the market in September 2005, is the realization of a food product that meets the needs of parents who want their children to eat vegetables regularly, and are looking to add a splash of color and healthier meal ideas to lunch boxes. This product won the "24th Excellent Hit Award" sponsored by Japan Food Journal Co., Ltd.

The "Imadoki Wazen" and "Irodori Wazen" series offer Japanese menus based on the concept of "adding another dish to the menu." They include complex menus such as "Toritsukune no Kinpiramaki" and "Tempura Moriawase" (assorted tempura).



### ● Incorporating Unique Technology and Ideas

The "Roots" series (canned coffee drinks) pursues "the original taste and flavor of coffee; it is being developed, incorporating JT's proprietary technology (the HTST production technique) and unique concepts ("wide-mouth bottles.)

JT is in partnership with Osaka City University to develop functional beverages. "GABA COOL WATER," which capitalizes on the function of GABA\* to control an increase in body temperature.

\* "GABA" refers to gamma-amino butyric acid contained in sprouted rice, cacao beans, etc., which is attracting widespread attention. One bottle of "GABA COOL WATER" contains 50mg of GABA.



Presentation of papers on the results of GABA studies at a conference of the Japanese Society of Nutrition and Food Science

### ● Custom-made Seasonings for Professional and Industrial Use

The seasonings business gives priority to custom-made seasonings, using natural ingredients such as dried kelp, dried bonito, pork extract and yeast. These ingredients are blended according to the recipes of customers, whose wide-ranging needs are met by safe and reliable raw materials and JT's advanced production techniques.

## Production



Factories

## Implementing Strict Safety and Quality Control in Factories

JT implements strict safety and quality control at its factories. Specific measures include voluntary health management based on JT's proprietary manual (quality standards), periodic quality inspections, site inspections/instructions by the quality control department, and implementation of HACCP (Hazard Analysis and Critical Control Points).



Quality control to ensure safety and reliability

## Distribution and Sales



JT, JT Group Companies

## Distributing and Selling Beverages, Processed Foods and Seasonings in an Environment-friendly Manner

JT's beverages, processed foods, seasonings, etc. are distributed through JT Foods Co., Ltd., while Japan Beverage Inc. and JT A Star Co., Ltd. are responsible for vending machine operations. Meanwhile, Saint-Germain Co., Ltd. operates in-store bakeries located primarily in the metropolitan Tokyo area.



In addition, Japan Beverage Inc. and JT are jointly working on environmental conservation and have set up an intermediate treatment plant for used beverage containers.

See related article on Page 43

JT Online Shop

URL: <http://www.shopjt.com/>

## Communication with Customers



JT, JT Group Companies

## Handling Feedback and Inquiries from Customers with Integrity

The Customer Service Center handles feedback and inquiries from customers in a "prompt and responsive manner." Information on such input is relayed to each department in order to help them with ongoing product improvement. Moreover, a system is in place to enable immediate tracing of any identified product defect.



Customer service center



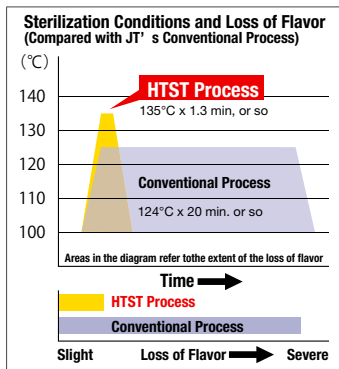
# JT's Endeavors as a Value-creating Manufacturing Company

JT is striving to develop proprietary technology and differentiated products in an effort to provide customers with "authentic flavor and taste" and "products that will earn their continuing respect and loyalty." At the same time, our already stringent quality control system is being strengthened so that we can deliver safe and secure products to customers.



## Delivering Products with True Flavor and Taste

### ● Offering Truly Tasty Coffee Anytime and Anywhere Technology Development for the "Roots"



"Roots" is a brand launched in collaboration with Key Coffee Inc. (a company specializing in coffee) to offer "canned coffee that tastes like regular coffee." A variety of original processes are incorporated to maintain the thick and sharp flavor of coffee along with its

rich aroma. One such example is the HTST (High Temperature Short Time) process (patent pending), which involves a short sterilization time to minimize loss of flavor. The "Lacto J" series (patent pending) are also unique in that they are lactic ingredients with antioxidant properties. We continue to develop new products with "Offering truly tasty coffee anytime and anywhere" as our slogan.



JT's pursuit of a unique canned coffee brand has culminated in the "Roots,"  
Roots official website  
URL <http://www.jt-roots.com/>

### We Are Developing New Technology to Deliver More "Delight"

The HTST process is the key to creating the original taste and flavor of the "Roots." In general, the longer the sterilization time, the more the original flavor of coffee will be lost. JT, therefore, came up with the "waist wave can," which has a "pinched-in waist" that enables high-temperature short-time sterilization by providing a path for steam. In addition, a variety of other processes and techniques are incorporated to minimize the loss of flavor. The products of "Lacto J" series are lactic ingredients that have antioxidant properties and help maintain the original flavor longer. "Aroma Black" comes in a wide-mouth bottle that complements the flavor of coffee, the first of its kind among canned coffee drinks on the market. The rich aroma of coffee emanates from the bottle the moment it is opened. We are currently engaged in further development work as we continue to pursue even greater degrees of "Delight."

#### Takahito Morishima

Development and Production Team, Product Development Group, Soft Drink Business Division



## Delivering Safer and More Reliable Products to Customers

### ● Managing our Farms and Factories in an Integrated Manner

JT operates its own farm and factory on Chongming Island (Shanghai City) to produce frozen vegetables. Both facilities are staffed by JT personnel who are responsible for supervising cultivation, controlling quality and selecting varieties. An integrated system is in place to manage the entire process from cultivation through processing and export to distribution. Specific measures to prevent JT's products from being contaminated by agrochemicals include: (1) soil and water quality

inspections at the farm, (2) strict controls on the management of agrochemicals and (3) agrochemical residue inspections at the factory and in Japan. Only products that survive these checks are imported into and sold in Japan.

In addition, farm codes are printed on packages, while a database is available where cultivation records can be obtained from farm codes and expiration dates.

Thus, the frozen vegetables series "Green Giant<sup>®</sup>" delivers "safety and reliability" as well as "delicious tastes" to customers.

#### Traceability



Green Giant<sup>®</sup> Spinach

#### Farm code on a package



A database is available, where farms, cultivation records (from planting to harvesting) and the names of supervisors can be traced back from expiration dates and farm codes

Expiration Date: 2007.0.0  
Farm Code: B12220L5B



Agrochemical residues, appearance and taste are analyzed and inspected



Raw materials and finished products are inspected for presence of foreign objects

JT's frozen vegetables are tasty, safe and reliable. For details about the process from cultivation and processing, and the lineup of frozen vegetables, please refer to this JT Web page:

URL <http://www.jti.co.jp/food/ggdayori/index2.html>



**● Developing Products that Earn Customers' Respect and Loyalty**

JT's frozen processed food business is striving to develop new technology in an effort to offer the taste of freshly made dishes to customers in a form of frozen foods, which they can enjoy anytime. "Mini Harumaki" comes out crispy when cooked in a microwave, as does the coating of "Tempura Moriawase." "Wakadori no Tatsutaage," produced by means of a special cooking method that maximizes the original flavors of

the ingredients, features the taste and texture of real tempura, with its coating unique to "tatsutaage."



Wakadori no Tatsutaage



**No Soggy Microwaved Harumaki**

The relationship between the flour wrapper and the filling is the key to keeping harumaki crispy on the outside. We are working on ways to prevent the juice in the filling from leaking through the wrapper. During the decade or so since we first launched "microwave harumaki" on the Japanese market, we have continued working on the development of unique techniques to make harumaki crispy and prevent leakage of the juice. Our quest for a harumaki that is as tasty as a handmade, freshly fried one is ongoing. Our technique for making harumaki crispy is also applied to croquettes, contributing to their crunchy texture, which is a feature unique to JT's croquettes. Our goal is to develop "products that taste the same no matter when or by whom they are cooked," so that our products will be accepted by as many customers as possible.



Mariko Tsuru (left) and Aya Tsuruta

**Aya Tsuruta**  
 Research & Development  
 Food Business Division

**We Pay Great Attention to Detail when Developing New Products**

"Wakadori no Tatsutaage" is the culmination of our combined efforts, including selection of raw materials, product design (composition of the coating) and production techniques to maintain the original flavors of foodstuffs. Every stage of the process, from raw materials procurement to production, was reviewed and improved. Food R&D Center and the factories, through a process of trial and error, came up with juicy meat and crunchy coating sprinkled with white powder. Our goal was to develop mass-produced fried chickens that taste like homemade ones. "Tempura Moriawase," meanwhile, is unique in the composition of its coating and the method of frying – both of which were also arrived at through trial and error. We sat down with sales representatives for objective discussions on ways to continue improving our products. We take it for granted that our products should taste good. So, what we need to do is develop unique JT products, paying attention to every detail.



**Mariko Tsuru**  
 Product Development, Food Business Division

**● Stepping Up Efforts to Control the Use of Agrochemical**

JT has a system in place to strictly control the use of agrochemical so that safe products are delivered to customers. This system is being strengthened through the "Positive List System"\* that took effect in May 2006. Specifically, a series of programs are underway to improve inspection systems and data management, prevent agrochemical from drifting onto JT's farm from other adjacent farms, select appropriate agrochemical and reduce their use as much as possible in accordance with new usage standards.

\*Positive List System  
 The Positive List System, which came into effect in May 2006, imposes a ban on the distribution and sale of foods that contain higher than specified levels of agrochemical whose residual levels are not regulated by other standards. Thus, it sets standards for the residual levels of each agrochemical listed. These standards apply not only to fresh foods but also to processed foods.

**● Indicating Allergens in Raw Materials**

Required information is printed on the packaging of JT's commercial frozen foods in appropriate type and color (effective in the spring of 2006) so that it is properly communicated to customers. Allergens contained in 25 items of raw materials are also printed on the packaging, as mandated by the Ministry of Health, Labour and Welfare.

**● Shifting to Natural Seasonings**

Natural products are becoming the mainstay of JT's seasonings due to the growing awareness among customers of food safety and reliability issues. Our production and sales of such natural seasonings are on the rise. Among them, extracts of quality raw materials (dried kelp, dried bonito, pork, etc.) that are readily traceable, and yeast with a high nucleic acid content originating from yeast strains developed and cultured by JT.



Indication of allergens in raw materials on a pack

# Environmental Approaches of JT's Food Business

Environmental approaches of JT's food business include "improvement of containers and packaging materials," "reduction of environmental impacts associated with production, distribution and sales" and "recycling of used containers." JT's afforestation programs are publicized via product packaging.

## Developing Products While Giving Due Consideration to the Environment

### ● Improving Frozen Food Packaging Materials (Disposability and Weight Reduction)

JT's philosophy is to design products that are environment-friendly. One such approach is a shift to environment-friendly containers and packaging materials. For example, frozen food packaging materials were changed from composite material (aluminized polypropylene) to white polypropylene in February 2002 with the aim of making them easier to recycle and segregate. In addition, package seal strength was reduced without compromising its integrity, which makes packages easier to open, while the configurations and strengths of inner trays were redesigned to make them lighter. As a result, the amount of resin used for the "Mini Harumaki" series, whose packaging materials were redesigned in 2005, has been reduced by 11 tons a year.

#### Packaging Film



#### Inner tray



## Reducing CO<sub>2</sub> Emissions Associated with Distribution and Sales Activities

### ● Introducing Low-emission Vehicles

Efforts are underway to reduce CO<sub>2</sub> emissions associated with distribution and sales activities – i.e., emissions from trucks and sales vehicles. JT Foods Co., Ltd., Japan Beverage Inc. and JT A Star Co., Ltd. – which distribute and market JT's products – are replacing parts of their fleets with low-emission vehicles (accounting for 40% of the total fleet as of March 2006).



Beverage delivery truck



Beverage delivery van

## Improving Energy Conservation in Sales

### ● Environmental Conservation Measures for Vending Machines

Japan Beverage Inc. is introducing vending machines equipped with a peak-cut system (see Page 72). Its energy-saving vending machines accounted for about 93% of the total as of March 2006. "JBC-3D," an in-cup espresso coffee vending machine consumes 46% less energy than the company's conventional models. It is an advanced version of the "JBC-2," which won the ECCJ (Energy Conservation Center, Japan) Chairman's Award in 2003.



Vending machine equipped with a peak-cut system

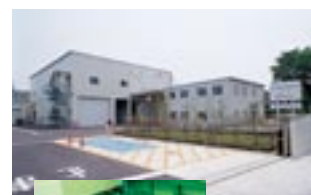
In-cup espresso coffee vending machine: JBC-3D

## Promoting the Recycling of Materials

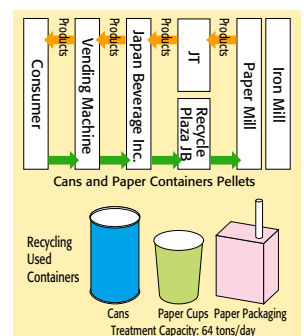
### ● Recycle Plaza JB

Japan Beverage Inc. and JT jointly launched "Recycle Plaza JB," an intermediate treatment plant for used beverage containers, in May 2003. This treatment plant won the "WASTEC Award" (Enterprise Activity) and the "Saitama Environmental Award" for its pioneering approaches to recycling. It produces high-purity metal pellets by heat-treating aluminum and steel cans, and is now equipped with additional compressors to treat a growing number of PET bottles.

"Recycle Plaza JB" also houses an "Environmental Education Room," which provides children and communities with opportunities to learn about the environment. Its admission fee is both unique and very creative: two aluminum cans. Visitors can tour the plant and watch the cans they brought with them being processed into pellets.



Recycle Plaza JB



Japan Beverage Inc.

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

## Publicizing Afforestation Programs via Product Packaging

### ● Publicizing Afforestation Programs

JT is publicizing its afforestation programs through messages printed on the packaging of its food products, and a proportion of sales revenue is allocated to the company's afforestation activities. See related article on Page 55 and 59



## Environmental Approaches of a Group Company Nihon Shokuzai Kako Co., Ltd.

### ● Making Concerted Efforts to Conserve the Environment



Nihon Shokuzai Kako Co., Ltd

We at Nihon Shokuzai Kako Co., Ltd. announced our "Environmental Policy" as a corporate mission statement that expresses our commitment to making concerted efforts to conserve the environment as a member of the JT Group. Specifically, we have a company-wide system for promoting environmental conservation activities, which includes an "Environmental Management Committee." Meanwhile, ad hoc subcommittees work on measures to reduce consumption of electricity, water and fuels, and these are proving effective for conservation purposes. We are continuing to press ahead with these measures. In particular, in FY2005, we began to focus on "water conservation measures," which are also producing anticipated results.

In addition to these efforts, our priorities will include: switching the quality of recycling (e.g., direct conversion of animal and plant residues into feed); reducing the environmental impacts of products (from the development stage); reducing waste; and reducing water consumption.

Environmental awareness, when shared among all employees, contributes to improving corporate performance. We continue to work on and carry out measures that are deemed "worthwhile" by each employee.



**Yuhei Ueno**  
President

### ● Management System Supported by Employees' Sense of Commitment



We are making concerted efforts to conserve the environment.

Six auditors conducted an internal audit from December 1 to December 3, 2005 to verify that the ISO 14001 management system was functioning properly. They found no "critical nonconformances," but noted some "minor nonconformances" and "issues to be monitored." The managers of individual departments were then briefed on the results and their proposed remedial measures were reviewed by the auditors for approval by the president.

As full participation by all employees is essential in implementing an environmental management system, each department organizes a working group headed by the department manager and assigns selected staff members to ad hoc subcommittees, in an effort to instill a sense of commitment in each employee.



**Hiroshi Sanuki**  
Director  
Administrative Department.  
(Internal Environmental Audit)

### ● Striving to Achieve Targets While Raising Employees' Awareness

We are implementing a variety of water conservation measures such as introduction of water-saving faucets, recycling of dehydrator water and use of impounded water for washing. In addition to setting numerical targets for environmental conservation and striving to achieve them, we are promoting other activities, which, although they may not appear notably effective when expressed in figures, contribute to raising employees' awareness of conservation issues.



**Shunichi Hidaka**  
Director  
Environmental Technology  
Department

### Major Environmental Approaches

<b>Energy Saving and CO<sub>2</sub> Emissions Reduction</b>	Introduction of high-efficiency boilers to reduce the number of units required (from four to three) Improvement of transportation efficiency through a shift from 30- to 40-foot containers Introduction of hybrid vehicles
<b>Waste Reduction Improvement of Recycling Rates</b>	Conversion of animal and plant residues into feed, Introduction of can compressors, Conversion of waste plastics into alternative fuel, Introduction of oxygen reduction equipment in order to discontinue use of boiler-cleaning agents, Installation of fish cake separation tanks
<b>Water Conservation</b>	Introduction of water-saving faucets Recycling of dehydrator water Use of impounded water for washing Reduction of water use in toilets



High-efficiency boiler



Can compressor

Company Name: Nihon Shokuzai Kako Co., Ltd. Address: Higashikaminaka 7-11375, Sadowara-cho, Miyazaki-shi, Miyazaki Capital: ¥140 million  
Number of Employees: 216 (as of March 31, 2006) Major Products: Seasonings, Desserts, Frozen Foods



# Iplingsyang Foods Corporation: Site Report

**Address:** Aza Kubara  
14-3776, Hisayama-cho,  
Kasuya-gun, Fukuoka  
**Capital:** ¥35 million  
Number of Employees:  
308 (as of March 31,  
2006)  
**Major Products:** Frozen  
Foods (Gyoza, Shumai,  
Harumaki, Yamcha)

Iplingsyang Foods Corporation, a JT group company that plays a role in the development and production of mainly JT's Chinese frozen foods, places a premium on manufacturing safe, reliable and cordial products "For the Dearly Beloved." In addition to ensuring the safety and reliability of raw materials, we are striving to develop proprietary technology that will enable us to offer unique, safe and tasty products to a variety of customers.



**Shoichiro Takagi,**  
President Iplingsyang Foods Corporation

## Working with Suppliers to Further Improve Quality

We believe that cooperation with suppliers plays a pivotal role in improving sanitation and preventing contamination of raw materials by foreign matters – both of which are essential in improving the quality of products. We hold periodic quality assurance meetings with invited representatives from about 50 suppliers, and we use photos and other presentation materials to convey our requests to them and discuss development of safe and reliable products.



We continue to improve our operations by taking advantage of periodic audits conducted by the JT Quality Management Department and inviting major suppliers to provide objective recommendations. We deliver "the familiar taste" to customers.

**Hiromichi Nakajima**  
Manager  
Quality Assurance Office

## Brushing up Proprietary Technology to Produce More Tasty Products



Production line for "Mini Harumaki" in the "Obento Daininki" series, the first of its kind in Japan that can be cooked in a microwave

Our Chinese menus, such as gyoza, harumaki and shorompo, have one feature in common: the filling is encased in a flour wrapper. It is imperative that we develop a wrapper that is best suited for each filling. So, we are focusing on wrapper processing (techniques for processing flour starch), partially as a way of differentiating our products – e.g., a wrapper that has the texture of handmade examples, or one that stays crisp even after being cooked.

We are not satisfied with where we are, meaning there is still room for improvement. Our quest for more tasty and genuine products continues.



**Junji Mori**  
Deputy Director  
Product Development Department

## Improving Quality and Productivity Through Information-sharing and Employee Know-how

The production department, which can be likened to "troops on the ground," comprises four elements: employees, raw materials, machinery and specifications (conditions). These elements all play essential roles in improving the quality of products. As our factory manufactures a wide variety of products in small production runs – sometimes as many as 30 different lines in a day – we frequently need to change production processes in such areas as

preparation, molding and packaging. This increases the potential for wasting materials and making mistakes. All employees should always share information in order to improve quality and productivity. So, we organize working teams and visualize their activities in figures and tables for communication and information-sharing purposes.

We have an open corporate culture, under which all employees feel free to make suggestions for improvements, capitalizing on their individual originality and creativity. For example, we are improving our method of washing cabbages and onions, which are used in bulk, as a result of employee suggestions.



Changes made to production lines are communicated via bulletin boards



Cabbage washing tanks are being improved, based on employee suggestions



**Yoshiaki Tanaka**  
Deputy Director  
Production Department

## Reducing Waste with the Philosophy of "Mottainai" in Mind

In giving consideration to the environment, we believe it is critical that we "never produce useless items" and "never waste anything." Accordingly, we are reducing waste in production processes as well as in materials purchasing. More important, however, is to have our employees come up with ideas, recognize their effects and feel a sense of accomplishment. To this end, we have instituted a system whereby they can set numerical targets and keep track of their development.

In April 2005, we adopted "eco uniforms" made from more than 50 percent recycled fiber from PET bottles. We followed this initiative in October 2005 with the introduction of "Bio Attack," whereby microorganisms decompose nutrients in a pretreatment tank in the effluent treatment facilities. "Bio Attack" is an environment-friendly process that produces much less dewatered sludge compared to the conventional "dissolved air floatation method," which mechanically removes nutrients by applying pressure.

We are gearing up to make improvements in many aspects of our operations and to develop effective measures for further reducing energy consumption and waste generation.



"Bio Attack," designed to decompose wastewater using microorganisms



Eco uniform



**Kazunobu Suzuki**  
General Manager



**Katsuaki Nakajima**  
Director  
Facilities Department



## Approaches to the Global Environment

### Achieving Harmony Between Business Activities and the Environment

JT and JT Group companies give the highest priority to conserving the global environment. Sharing the principle and action plan set by the "JT Group Environment Charter," we are committed to making concerted efforts to achieve targets set in the "JT Group Environmental Action Plans (2005-2008)."

### 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.



# JT Group Environmental Management

The JT Group is making concerted efforts to achieve targets set in the "JT Group Environmental Action Plans (2005-2008)."

## JT Group Environmental Action Plans (2005-2008) and the Achievements in Environmental Conservation Programs (FY 2005)

JT and JT Group companies tasked with implementing environmental management (19 domestic companies and one overseas company as of the end of FY2005) are working together to conserve the global environment. In line with the "JT Group Environmental Action Plans (2005-2008)," we are making headway toward achieving reduction targets for CO<sub>2</sub> emissions, water consumption and waste generation.

As for CO<sub>2</sub> emissions in particular, JT alone achieved a 30% reduction from the FY1995 level as against the original target of 20%. Likewise, the JT Group achieved a 16% reduction from the FY2003 level as against the original target of 5%.

At the same time, group-wide programs are underway to reduce waste and promote recycling. JT and JT Group companies have achieved zero emissions at 23 locations (13 factories and 10 branch offices) and 7 business sites.

	Objective	Target (FY2008)	Target Companies
Management System	Improve environmental management of group	Expand the targets of group companies target for environmental management	A
Products and Services	Promote development of Eco-products	Continue to develop and launch Eco-products	B
Process and Supply Chain	Reduce CO <sub>2</sub> emissions	JTG Reduce total CO <sub>2</sub> emissions by 5% of the level in FY2003 JT Reduce total CO <sub>2</sub> emissions by 20% of the level in FY1995	C
		JTG Increase the low emission-vehicles for company-owned cars by 50% JT Maintain a modal shift ratio of more than 50% for long-distance shipping related to domestic tobacco business (railway, ships)	C
	Reduce the amounts of natural resources	JTG Reduce the amount of water used at factories per unit of sales by 2% of the amount in FY2003 JT Reduce the total use of water by 40% against FY1995	B
	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
		Comply with management classification determined by JT Group chemicals management guidelines, and reduce the use amount of those substances	C
	Reduce the waste generated and promoting recycling	JTG Reduce the total amount of waste generated at our factories by 8% of the amount in FY2003 JT Achieve zero emissions at all of factories and company headquarters, increase recycling rate for natural resources by more than 60% at offices	C
		Increase the recycling rate of waste by more than 90%	B
	Promote green procurement of office supplies and equipment, and green procurement of raw materials	JTG Establish the standards for green procurement standards for office supplies and equipment and for assuring that such items are purchased according to those standards JT Increase the rate of green procurement of office equipment and supplies by more than 80%	B
		JTG Establish for the Standards green procurement for containers and packaging materials, as well as procurement targets thereof, by FY2006 (achieving those objectives targets by FY2008) JT Establish green procurement targets for containers and packaging material in divisions by FY2005 (achieving this target by FY2008)	B
		Require that major supplier for raw materials establish the environmental management system	D
Environmental Education	Raise awareness for the environment among employees	Develop and conduct environmental education programs for employees and management	B
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
	Afforestation Projects	Conduct of afforestation activities for the conservation of ecosystems and forest resources	E
	Appropriate disclosure of environmental information	Improve the contents of reports from the perspective of the entire JT Group	E

Definition of Target Companies

A: The entire JT Group, B: JT Group companies tasked with environmental management (domestic and overseas), C: JT Group companies (Domestic), D: Major JT Group companies, E: JT only

In fact, many of the targets for FY2008 set in the "JT Group Environmental Action Plans (2005-2008)" were achieved in FY2005. Whilst these outstanding results can be attributed in part to a decrease in tobacco manufacturing due to termination of the Marlboro licensing agreement and closing factories, each business site's efforts, based on its environmental management system and the incorporation of environmental conservation activities (saving energy consumption, segregation of waste, etc.) into day-to-day operations, also played a part.

We plan to review major environmental management targets and task more Group companies with implementing environmental management, thereby improving our environmental conservation programs.

Moreover, as a manufacturer, we promote the development of environment-friendly products, which includes simplifying the packaging of tobacco products, frozen foods, etc.

As for afforestation and forest conservation activities, in May 2006, we began working on a new program at "JT Forest Kosuge," as "JT Forest Nakahechi."

	Results (FY2005)	Plans (FY2006)	Related Page
	Review of expansion of Group environmental management	Review of expansion of Group environmental management	
	ISO14001 Shifted to the 2004 version, supported Asahi Shokuzai and Japan Metalizing in acquisition of ISO 14001 certification Environmental management system conforming to ISO 14001 standards Conformed to the 2004 version of ISO 14001, completed a system at JT Foods	ISO 14001 Support Asahi Shokuzai and Japan Metalizing for acquisition of ISO 14001 certification Environmental management system conforming to ISO 14001 standards Conform to the 2004 version of ISO 14001	49, 68
	<b>Tobacco</b> Review concepts of new eco-products; reduce use of containers and packaging materials <b>Food</b> Reduce use of containers and packaging materials	Commercialize environment-friendly products	30, 43
	<b>JTG</b> 16.4% reduction from the FY2003 level <b>JT</b> 29.8% reduction from the FY1995 level	Review targets as they were achieved ahead of schedule Comply with the revised Energy-Saving Law and Anti-Global Warming Measures Law	29, 30, 31 37, 43, 44, 52
	<b>JTG</b> Increased proportion of low emission vehicles to 40.1% <b>JT</b> Increased modal shift rate to 54.0%	Introduce low emission vehicles as the leases of existing vehicles expire	
	<b>JTG</b> Reduced water consumption by 35.5% from the FY2003 level	Review targets as they were achieved ahead of schedule	31, 44, 53
	The environmental audit team audited five business sites, with no non-conformances pointed out	Continue proper management of chemical substances	37, 50, 53
	Reduced total amount of chemical substances subject to PRTR by 2% year-on-year	Explore and discuss a shift to alternative chemical substances to reduce the use of chemical substances and the risks associated with them	
	<b>JTG</b> Reduced total amount of waste by 9.4% from the FY2003 level <b>JT</b> Achieved zero emissions at 13 out of 17 factories, with resource recycling rates standing at 98.8% at headquarters and 84.0% in offices	Review targets as most were achieved ahead of schedule	29, 31, 37, 44, 45, 53
	Achieved recycling rate of 81.1%	Share recycling information between JT and JTI	
	Presented the "JT Green Purchasing Guidelines" to Group companies Increased number of items conforming to the guidelines by 463	Monitor the status of the establishment of a green purchasing system at each Group company Review the guidelines	37, 54
	Set green procurement standards for tobacco materials and presented them to other divisions and JTI	Support preparation of green procurement standards	29, 30, 43
	Surveyed the status of the establishment of a management system at each supplier	Survey the status of the establishment of a management system at each supplier and request the establishment of systems as needed	
	Provided environmental education for incoming employees (FY2006) Prepared for the provision of environmental education tools through the intranet	Provide environmental education tools to all employees as well as to those in charge of environmental management	55, 56
	Participated in the "Team Minus 6%" and the "COOL BIZ" and "WARM BIZ" campaigns Made donations to organizations engaged in environmental conservation programs	Continue with "Team Minus 6%"	52, 56
	Implemented afforestation and weeding at "JT Forest Nakahechi" (Wakayama) Launched conservation activities at "JT Forest Kosuge" (Yamanashi)	Continue with conservation activities in Japan Discuss and plan overseas conservation activities	55, 59
	Issued the "JT Social and Environmental Report 2005," which features environmental approaches of the Group companies as well as their environmental and social aspects	Issue the "JT Social and Environmental Report 2006," with more information devoted to CSR	—

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

# Environmental Management Systems

We promote our environmental management systems among Group companies.

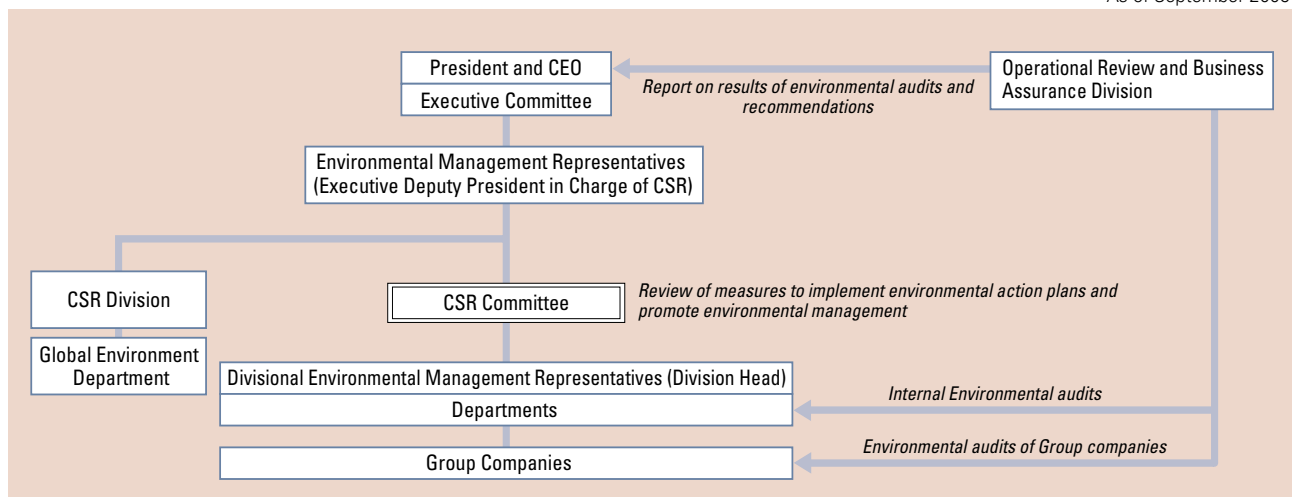
## Improving System to Promote Environmental Management

An "environmental management representative" who controls the JT Group's environmental management reports directly to the president and CEO, while a "divisional environmental management representative" in each business division promotes environmental management among business sites and Group companies under the division's jurisdiction.

The environmental management representatives reviews and discusses measures for implementing and maintaining environmental management (e.g., evaluation of developments in the JT Group's environmental action plan and the results of environmental auditing), at the CSR Committee of the JT headquarters to improve the JT Group's environmental activities.

In line with the "JT Group Environmental Action Plans (2005-2008)," each business division sets both its own environmental targets and those of JT Group companies, while the business sites concerned develop their own environmental action plans in accordance with the division's environmental action plans. Meanwhile, the Environment Committees in each business site examine and review the JT Group's environmental management programs.

As of September 2006



### Introducing ISO 14001 Environmental Management Systems

The JT Group designs environmental management systems according to 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 ISO 14001 certification by FY2003, and the headquarters, branch offices and laboratories had established ISO 14001 environmental management systems by FY2004.

JT Group manufacturing companies are acquiring ISO 14001 certification, while Group non-manufacturing companies are establishing either ISO 14001 environmental management systems or similar systems involving development and implementation of environmental action plans.

Meanwhile, our ISO 14001 environmental management systems will be updated by the end of FY2006 in order to comply with the 2004 version of ISO 14001.

[See related article on Page 68](#)

	ISO14001 Certification	Environmental management system conforming to ISO14001 standards	Simple environmental management system (developing and implementing environmental action plans)
JT	Factories	Offices (company headquarters, branches), laboratories	
Group Companies	Manufacturing companies	Non-manufacturing companies	

### Gathering Information through the JT Group ECO-NET (Environmental Information System)

In FY 2004, the JT Group began to collect environmental information through the JT Group ECO-NET (Environmental Information System) – e.g., information on environment-related targets and performances, chemical substance management, PCB management, awards received, training records, qualifications and environmental management manuals.

Such information is gathered by category – including the JT Group, company, business area and business site – in order to monitor and analyze performances.

Efforts are underway to accelerate data input, verification and aggregation processes.





## Environmental Auditing

### Auditing Standards and Status

Business sites adopting an environmental management system based on ISO14001 certification or in conformity to ISO14001 standards conduct self auditing as well as cross organizational auditing (i.e. A mutual auditing system designed to conduct a review of a business sites by another business sites in the same area, with the areas are predefined in a number of blocks). Aside from this, our company headquarters has been conducting an environmental audit encompassing 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 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 FY2004 included the management of chemical substance based on "Chemical Substance Management Guidelines", and the management of storage locations at consolidated storage facilities for PCB used equipment. Business sites are required to develop action plans to address observations arising from the audit. Observations that are considered important are reported to the President together with corresponding action plans, while at the same time communicated to the business sites, and supervising division of it. Operational Review and Business Assurance Division subsequently performs follow-up audit when necessary, to review the status of committed action plans.

### Auditee

Five JT's business sites were audited in FY2005.

See related article on Page 68

### Names of Laws and Regulations covered by Environmental Auditing

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

See related article on Page 68

### Audit Results

We noted some notification forms and reports specified by laws and regulations that were not submitted and requirement for the waste disposal consignment contract was incomplete. These have been addressed thereafter.

Exceptions	Non-reporting of the change of representative	1
	Requirement for the waste disposal consignment contract was incomplete	1

### Reports from Business Sites Other Than Those Concerning Environmental Audits

While each business site tries to ensure that it abides by laws and regulations concerning pollution control and environmental conservation, six cases were reported in FY2005 where measurement values exceeded standards (both compulsory and voluntary) – four cases had been dealt with in FY2005, while appropriate measures will be taken in FY2006 to correct the other two situations.

No business site was penalized for violating environmental laws and regulations in FY2005, 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 FY2005

The environmental audit in FY2005 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 which uses 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 or our environmental management system designed in line with ISO14001 standards, are obtained or introduced.

In such situation, several factors were taken into account in selecting business sites for the audits, such as the 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.

We conducted audit of legal compliance at 5 sites, including cigarette plants and leaf tobacco research facilities. We also reviewed 2 of those sites, where chemical substances are handled, for their management of chemical substances, and 4 of those sites, containing collective storage facilities for equipment that uses PCBs, for the management of their storage areas.

We noted reporting requirement was not adhered and requirement for the waste disposal consignment contract was incomplete in some of the sites we audited.

Relating to key environmental issues pertaining to business, our audit objective for this year was to assess management of chemical substances and consolidated storage facilities handling equipment that uses PCBs at selected sites. The results indicated that each sites was managing appropriately in accordance with the company's policy and no exceptions have been noted from our audit.

Exceptions noted during audit fieldwork will be communicated to auditees on site with our recommended action plan to support smooth implementation of corrective action. Furthermore, those exceptions pertaining cross-organizational issue will be noticed to responsible division, in order to encourage the necessary status monitoring and supervising activities are taken.

Each site obtains updates on revision of environmental laws mainly from Global Environmental Division (presently the Global Environment Department of CSR Division). Based on the information, we expect JT continues to comply with environmental laws regulations.

Nobuhiro Hayamichi  
 Vice President, Operational Review and Business Assurance  
 Division  
 Japan Tobacco, Inc.  
 March 31, 2006

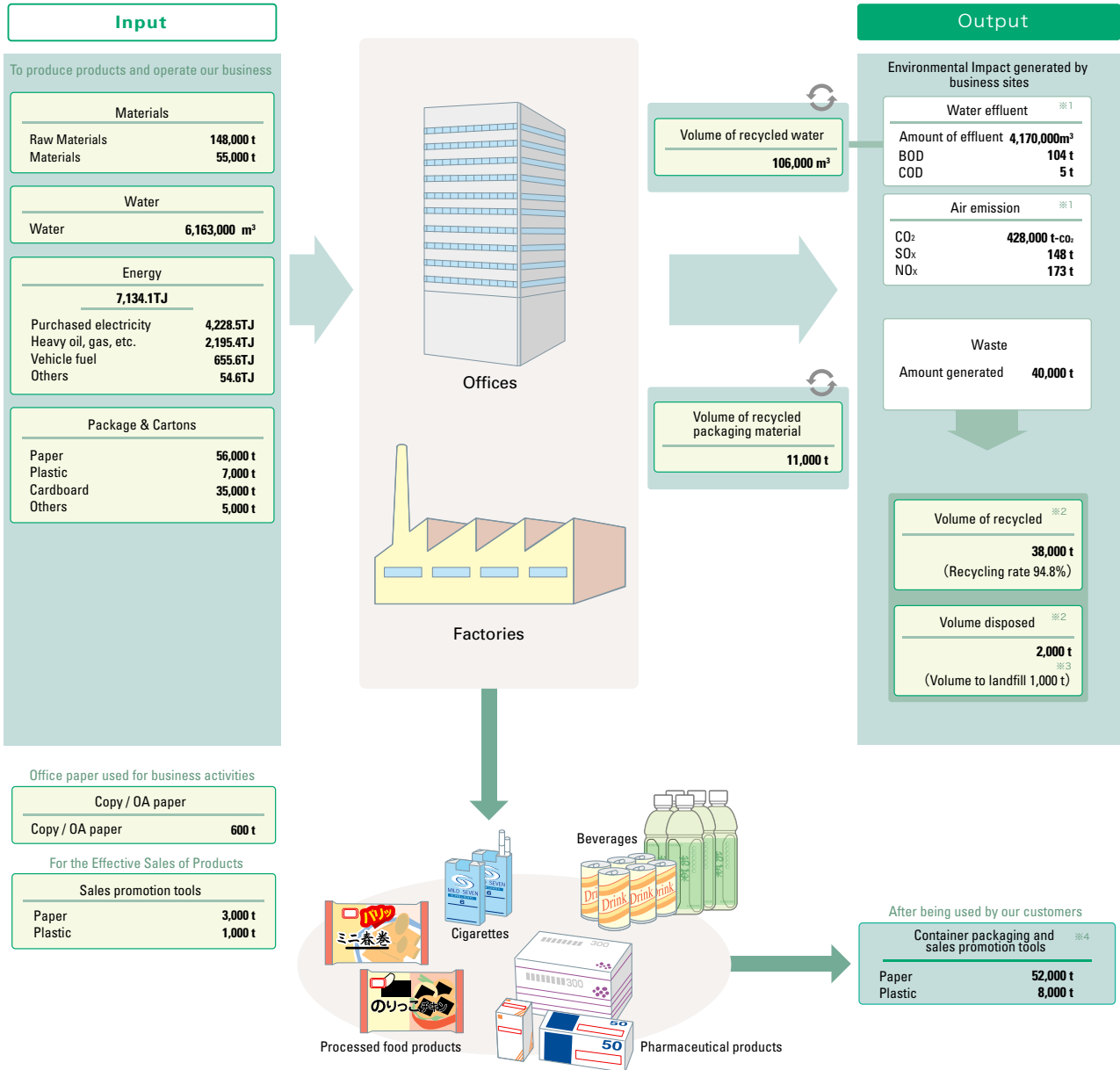
早道 信宏

# Approaches to Reduce Environmental Impacts

The following chart shows the natural resources used (input) and the volume of emissions released into the environment (output) in the whole process from procurement of raw materials through consumption in FY2005, as well as approaches adopted 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 "Amount of disposal" 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.

## ● Global Warming Prevention

With the Kyoto Protocol having taken effect in February 2005, efforts are underway to reduce greenhouse gas emissions on a global basis. The JT Group is also working on global warming prevention measures, with a focus on reducing CO<sub>2</sub> emissions. Specific measures include energy conservation programs, manufacturing rationalization, a fuel shift from heavy oil to natural gas, use of nighttime electricity, introduction of co-generation systems, and a switch to low-emission vehicles.

As a result, JT and the JT Group reduced their CO<sub>2</sub> emissions dramatically in FY2005, achieving a 30% decrease (from the FY1995 level) and a 16% decrease (from the FY2003 level), respectively.

In addition, the JT headquarters and the Production Technology Center were both ranked A+ (signifying a reduction of 2%) by the Global Warming Prevention Measures Planning System, which was launched by the Tokyo Metropolitan Government in FY2005.

We plan to review the "JT Group Environmental Action Plans (2005-2008)," while stepping up efforts to reduce greenhouse gas emissions.

## Implementing Global Warming Prevention Measures as a Member of "Team Minus 6%"

The government launched a national project dubbed "Team Minus 6%" in 2005, in an effort to attain its Kyoto Protocol target: a 6% reduction in greenhouse gas emissions from 1990 levels. JT, as a corporate member of this project, in 2005 began implementing global warming prevention measures, such as control of office air-conditioning and participation in "COOL BIZ" and "WARM BIZ" campaigns. The company also encourages its employees to take part in the project as individual members who are expected to promote global warming prevention measures both at work and at home.

Team Minus 6%  
 URL <http://www.team-6.jp/>

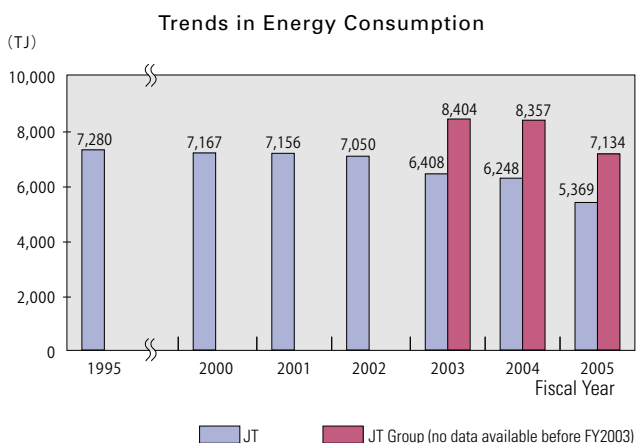
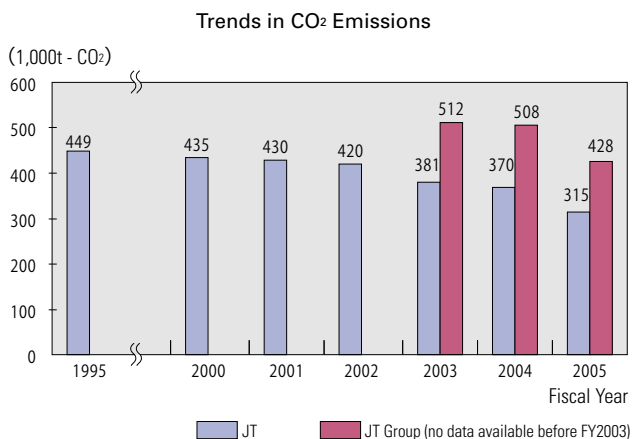


"Team Minus 6%" Logo

## Calling for Participation in "Team Minus 6%" through the "Picking Up Trash Makes You Fond of the Streets" Campaign

JT is calling for involvement in "Team Minus 6%" through its nationwide citizen participation cleanup activities (the "Pick up, and you will love your city" campaign) in cooperation with the Ministry of the Environment, while offering special "eco-bags" (designed to reduce the use of plastic shopping bags) to those who answer questionnaires.

As part of the "Team Minus 6%" initiative, the Ministry of the Environment came up with the slogan "Reduce CO<sub>2</sub> Emissions from Shopping and Waste," and is encouraging citizens to "use 'furoshiki' ('my bag') and say 'No!' to excess packaging." JT, meanwhile, is rolling out the "Pick up, and you will love your city" campaign, hoping to foster the spirit of "not littering" through the experience of "picking up trash." These initiatives are integrated into the collaboration between the two parties.



Many participants answer questionnaires



Special "eco-bag" offered through the campaign

### Related Article

See related article on Page 29	Tobacco	Introducing NAS batteries to make use of nighttime electricity
See related article on Page 30	Tobacco	Reducing CO <sub>2</sub> emissions associated with sales and distribution activities
See related article on Page 37	Pharmaceuticals	Approaches of Torii Pharmaceuticals
See related article on Page 43	Food	Reducing CO <sub>2</sub> emissions associated with sales and distribution activities
See related article on Page 44	Food	Approaches of Nihon Shokuzai Kako
See related article on Page 60		Rolling out citizen participation cleanup activities



# Approaches to Reduce Environmental Impacts

JT and JT Group companies tasked with implementing environmental management (19 domestic companies and one overseas company) are stepping up efforts to reduce environmental impacts in accordance with the "JT Group Environmental Action Plans (2005-2008)."

## ● Reducing Waste, Promoting Recycling and Saving Resources

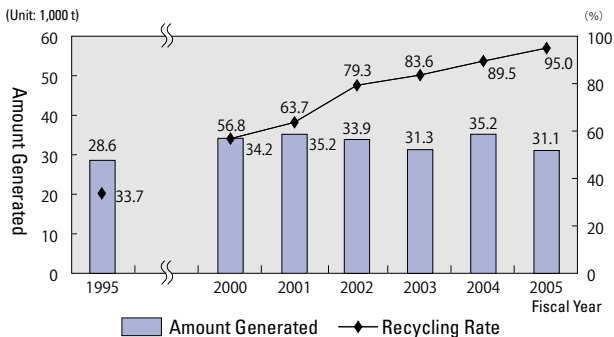
To conserve limited resources, JT is creating a recycling system, promoting the 3Rs: Reduce, Reuse and Recycle.

In FY2005, the JT Group reduced the amount of waste it generates by 9% from the FY2003 level. Efforts are also underway to simplify the casing (carton boxes) of imported tobacco raw materials, with plans in place to further reduce use of such packing materials.

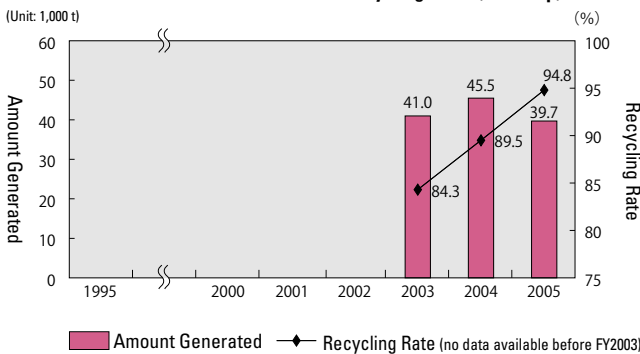
At the same time, recycling of waste is being promoted. JT Group companies, excluding JT itself, achieved zero emissions at seven business sites in FY2005; the average waste recycling rate of their domestic factories stood at approx. 98%. JT also achieved zero emissions at 23 locations (13 factories and 10 branch offices), with the average waste recycling rate standing at 99.5% for factories and 84.0% for offices.

We plan to revise the "JT Group Environmental Action Plans (2005-2008)" as needed, while continuing to reduce waste and promote recycling.

Trends in Waste Generation and Recycling Rates (JT)



Trends in Waste Generation and Recycling Rates (JT Group)



Related Article

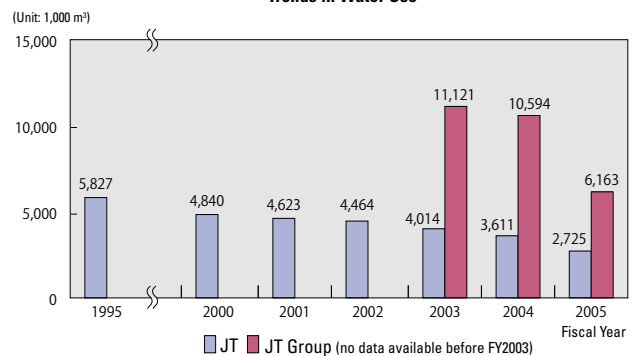
- See related article on Page 29  
Tobacco Reducing waste
- See related article on Pages 37-38  
Pharmaceutical Approaches of Torii Pharmaceuticals
- See related article on Page 44  
Food Approaches of Nihon Shokuzai Kako

## ● Conserving Water Quality and Reducing Water Use

JT has programs in place to preserve water quality (control of the concentration of wastewater, etc.) and reduce water use. Specifically, manufacturing processes are being improved and integrated, and employees are encouraged to save water, both for water conservation purposes. In addition, some wastewater is being recycled.

As a result, JT Group reduced water use by 36% (from the FY2003 level) and JT reduced 54% (from the FY1995 level), respectively, in FY2005.

Trends in Water Use



## ● Managing and Reducing the Use of Chemical Substances

JT continues to manage chemical substances properly at its laboratories and factories according to the "Chemical Substance Management Guidelines," which are in line with the "PRTR Law Guidelines" and a total of 20 laws and regulations related to chemical substances, including the "Poisonous and Deleterious Substances Control Law" and the "Air Pollution Control Law." JT's laboratories, meanwhile, set manuals based on the guidelines, thereby managing the handling of chemical substances in an integrated manner, from purchasing to disposal.

Six substances handled by 10 business sites were subject to the PRTR Law in FY2005; the amount released into the atmosphere and transferred to other locations should be reported. In particular, chemicals used for R&D (acetonitrile, chloroform and dichloromethane) are handled properly, with a system in place to reduce emissions and dispose of them. The fuel used for factory forklifts contains xylene and toluene, and the refrigerant for freezing machines, chlorodifluoromethane. The total of amount of chemicals reported under the PRTR Law was down 2% year-on-year to 18.6 tons in FY2005.

Trends in Release and Transfer of Chemical Substances under the PRTR Law (Total of 10 Business sites)

Chemical Substances	Amount Released		Amount Transferred	
	FY2004	FY2005	FY2004	FY2005
Acetonitrile (t)	0.03	0.04	5.10	7.66
Chloroform (t)	0.16	0.14	8.72	7.56
Dichloromethane (t)	0.28	0.00	0.83	0.00
Xylene (t)	0.01	0.06	0.00	0.27
Toluene (t)	0.80	0.73	1.20	0.09
Chlorodifluoromethane (t)	1.84	2.03	0.00	0.00
Dioxins (mg-TEQ)	9.80	5.53	57.8	17.7

### ● Management and Disposal of PCB Waste

JT properly stores and manages PCB wastes such as high-voltage transformers, fluorescent lamp ballasts in accordance with in-house guideline "PCB Management Regulations". And as a result of our efforts to consolidate our storage areas in order to enhance management, there were a total of 31 facilities (as of the end of FY2005).

Japan Environmental Safety Corporation (JESCO), which is a special company established based on the Japan Environmental Safety Corporation Law and wholly owned by the government has begun to treat the PCB wastes at several treatment facilities since late 2004. JT commissioned JESCO in order to expeditiously treat the stored PCB wastes.

**Storage of PCB Waste (JT, as of the end of March 2006)**

Types of wastes	High-voltage Transformers	High-voltage Capacitors	Fluorescent Lamp Ballasts	Waste PCB Oil, etc.
Amounts of Units	163	604	81,994	1,248

### ● Promoting Green Purchasing

JT sets forth "Green Purchasing Guidelines," which specify standards and procedures for green purchasing, to encourage the purchase of goods that have less environmental impact – those 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.

Our purchasing and leasing activities are all conducted through an intranet-based purchasing system, with an electronic catalogue that lists items, taking into account their environment-friendliness as well as their prices. JT's green purchasing rate is increasing along with the number of items purchased through the system; the rate increased from 54% in FY2001 to about 60% in FY2005 (on a value basis), as did the number of items, from 177 in FY2001 to over 1,000 in FY2005.

### Taking Remedial Measures for Soil Pollution Cases

After the issuance of the "JT Social and Environmental Report 2005," soil pollution occurred at two former factory sites. These cases were made public and reported to the administrative agencies and communities concerned, followed by briefings to the media. Remedial measures are being taken, based on the results of soil analysis, with each verified by the agencies. JT is developing measures to prevent the recurrence of such accidents, reviewing operational procedures and inspecting similar facilities. The following provides an overview of the two cases:

#### Leakage of Solution from an Air-conditioning Unit

In July 2005, during the dismantling of an air-conditioning unit, the residual solution (400 liters) leaked from the tank and seeped into the ground at the former Tokushima Factory in Naruto City, Tokushima. As the solution contained 0.15-0.29% of lithium chromate (a hexavalent chromium compound), measures to prevent diffusion of pollutants were taken immediately; the contaminated soil (about 600 tons) was replaced and treated in compliance with relevant laws and regulations. In addition, the groundwater beneath the site and its neighboring areas was examined regularly until March 2006 to verify that the soil was not contaminated with hexavalent chromium compounds.

#### Leakage of Insulating Oil from Special High-voltage Substation Facilities

In June 2006, insulating oil (650 liters) leaked from a joint in a pipe within the high-voltage substation facilities and seeped into the ground at the former Kumamoto Factory in Kumamoto City, Kumamoto. As the oil was thought to contain a trace amount of PCB, measures to prevent diffusion of pollutants were taken immediately; the contaminated soil (about 630 m<sup>2</sup>) is being replaced and treated properly. (To comply with the relevant laws and regulations regarding PCB concentrations in soil, the soil was analyzed and found to contain 19 ppm of PCB.) At the same time, the groundwater beneath the site was examined; no PCB was detected.

### ● Voluntary Survey on Soil Pollution

In addition to a mandatory soil pollution survey associated with real-estate transactions, we voluntarily surveyed all of our 937 business sites (including operating factories and branch offices) from FY2002 through FY2004 in order to prevent their surrounding areas from being polluted and ensure the safety of our employees.

Specifically, we traced the history of all the sites, of which 40 were surveyed for surface soil contamination. As it turned out, a dozen sites proved to be slightly contaminated and hence were treated properly in consultation with the administrative agency concerned.

# Environmental Communication

JT places a premium on human resources development that takes into account reduction of environmental impacts and creation of a better environment, and we promote internal and external communication.

## Environmental Education and Internal Communication

Afforestation and forest conservation activities in "JT Forest" provide our employees with opportunities to realize the full significance of environmental conservation; these activities are expected to play a role in educating personnel to become environmentally conscious both at work and at home. In addition, internal communication tools such as company magazines contribute to raising the environmental awareness of our employees. The JT Group is stepping up environmental activities, providing the information that environmental representatives need and holding a variety of environmental seminars.

### ● Afforestation and Forest Conservation Activities

JT's tobacco and food businesses use plants and other natural raw materials such as leaf tobacco, vegetables, tea leaves, etc. It is fair to say that JT's business depends primarily on the blessings of nature. For this reason, we are actively engaged in afforestation and forest conservation activities as part of our environmental conservation initiatives, thereby expressing our gratitude to nature, which supports our business, and fulfilling our corporate social responsibility.

#### The "JT Forest" Program

The "JT Forest" program, which is highly regarded for its performance, is underway in Wakayama and Yamanashi prefectures, Employees who take part in this program establish relationships with local communities and come to realize the importance of nature through afforestation and forest conservation activities.

The "JT Forest" program is unique in that:

- It covers a wide range of areas.
- It involves not only afforestation but also forest conservation activities such as weed trimming.
- It is designed to develop a mixed forest comprising needle-leaves trees and broad-leaved trees in consideration for regional vegetation.
- It provides participants with opportunities to understand the significance of the program through afforestation and forest conservation activities, lectures by experts, and exchange of opinions.
- It solicits participation by members of local communities in order to help them feel involved.



JT Group's employees and their families work together with local communities

See related article on Page 59



Local vegetation patterns are taken into account when creating forests

### ● Cooperating in the Forest Therapy® Project

JT cooperates in the "Forest Therapy Project" as part of its forest conservation activities in an effort to encourage people to "make use of forests." Facilities such as forest therapy stations and therapy roads are being set up across the country, creating a human-nature interface and contributing to forest conservation.

### ● Disseminating Environmental Information Through Company magazines, Brochures and the Intranet

JT and its Group companies disseminate and share environmental information through the intranet, company magazines, etc.

Company magazines, for instance, feature JT's approaches to environmental conservation so that each individual employee can gain a clear picture of environmental problems and measures to address them. In addition, "Eco Report," a brochure designed to publicize JT's environmental approaches, is issued for internal and external communication purposes.

Meanwhile, the latest information on environmental laws and regulations and updated guidelines are disseminated in a timely manner through the intranet, a business support tool that feeds up-to-date information. The intranet also features the "Environment Counseling Room," to which employees are invited to submit opinions and questions.



Company magazine

Eco Report

Intranet

#### Forest Therapy®

Forest therapy is said to restore us both physically and mentally, sharing with us the blessings of the forest – its scenery, scent, sounds and textures.

The Forest Agency and the National Land Afforestation Promotion Organization are jointly pushing ahead with the "Forest Therapy Project." This project is designed to create a system for accom-

modating those who seek forest therapy in mountain villages and hamlets, taking into account the particular benefits of each forest area. Specifically, "forest therapy stations" are being set up across the country, with each adopting medically accepted means to provide citizens with places where they can feel at home, relax and de-stress. The presence of these stations is also expected to reinvigorate adjacent villages and hamlets.



## ● Environmental Education and Training

Training programs are underway to develop human resources capable of handling environmental issues.

For example, programs concerning Environmental management system conforming to ISO14001 standards (which are being practiced in offices and laboratories) include training of personnel who manage and maintain environmental management systems and of environmental auditors tasked with mutual environmental auditing to be conducted between business sites in each area.

A series of training programs was also held for the JT Group ECO-NET (Environmental Information System), in which participants learned how to handle measuring instruments and environmental data.

In addition, each business site provides environmental education by establishing and managing its own environmental management system based on ISO 14001 standards.

See related article on Page 68

## ● Holding a Workshop on "Furoshiki"

In cooperation with the Ministry of the Environment, JT held a workshop on "furoshiki", which is a Japanese traditional wrapping cloth at the headquarters in order to implement one of the "Six Actions" set by the "Team Minus 6%" initiative: Reduce CO<sub>2</sub> Emissions from Shopping and Waste. The objective was to encourage citizens to say 'No!' to plastic/paper shopping bags and instead use "furoshiki" to reduce waste and help prevent global warming. A total 63 JT employees participated in the workshop, which was held in June (the Environment Month) to explain the objective of the approaches and demonstrate furoshiki-wrapping techniques. The participants were later asked to answer a questionnaire about how they make use of furoshiki in their daily lives; they are expected to develop a more environment-friendly life-style.



A furoshiki workshop held at the headquarters

## External Communication and Evaluation by Third Parties

As part of its corporate social responsibility, JT places a premium on environment-conscious management, for which it believes it is held accountable to stakeholders. Accordingly, we make it a rule to disseminate environmental information widely and appropriately. The JT Social & Environmental Report and the Internet play a central role in communicating environmental information both internally and externally, while employees, customers, etc. are asked to contribute their opinions and ideas through questionnaires so that we can analyze and keep track of where we are – a means to improve our environmental performance.

### ● Disseminating Environmental Information via the Internet, etc.

The latest information on JT's efforts to reduce environmental impacts and conserve the environment is posted on JT's website (JT delight world – Environmental Activities) and published in the JT Social and Environmental Report.

The latest and previous editions of JT's environmental reports can be downloaded from the website; each plays a vital role in providing stakeholders and our employees with the information they need. Meanwhile, customers and citizens can make inquiries about JT's environmental approaches by phone, fax or e-mail.



Approaches to global environment conservation

URL <http://www.jti.co.jp/JTI/environ/Welcomel.html>

### ● Results of Questionnaire

#### "Eco Report" Questionnaire Postcard

A questionnaire postcard is attached to "Eco Report" in order to gather opinions on the report and the JT environmental conservation activities. To date, we have received 64 replies, including the following:

We are continuing to issue "Eco Report," while communicating our environmental approaches both internally and externally.

- The report gave me a clear picture of JT's various environmental approaches.
- JT ought to further promote its environmental activities.
- JT should publicize its environmental activities more widely.
- JT should issue "Eco Report" periodically.

### ● Placing Newspaper Ads

We placed newspaper ads from August 2005 through March 2006 to publicize the JT Group's approaches to environmental conservation. The following are some examples:



"Irreplaceable" Delight for the Globe (August 22, 2005)



"Irreplaceable" Delight for the Globe – Reducing CO<sub>2</sub> Emissions (March 2, 2006)

#### Online Survey

We are conducting surveys via the Internet in order to determine how our environmental conservation activities are recognized and rated; in FY2005 alone, a total 2,400 adults completed questionnaires, with most giving high marks to JT's afforestation and forest conservation activities. Their requests to JT included the following:

- Promotion of good smoking manners campaigns
- Development of highly biodegradable cigarette filters
- Development of reduced-odor tobacco
- Provision of smoking areas (separation of smoking areas)

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

We are rolling out cleanup activities dubbed the "Pick Up, and You will Love Your City" campaign, in which we cooperate with various parties (municipalities, schools, volunteers, the steering committees of various events, etc.) in picking up trash in the streets.

This campaign has been a great success in that the participants find it "fun" and "worthwhile" to pick up trash, saying things like "we will never again litter the streets." TV ads for this campaign are on the air.

## The "Pick Up, and You will Love Your City" Campaign (Nationwide Version)



JT is rolling out citizen participation cleanup activities dubbed the "Pick Up, and You will Love Your City" campaign across the country.

Festivals and cleanup activities share one thing in common: people's attachment to their towns.

The campaign, which is designed to foster the spirit of "not littering" through the experience of "picking up trash," will continue.

The "Pick Up, and You will Love Your City" campaign.

Simply being aware improves your manners.

JT, The Delight Factory

(as of the end of July 2006)

## Becoming a “Good Corporate Citizen” and “Good Neighbor” in Communities

### Social Contribution Activities of The JT Group

The JT Group strives to be a “good corporate citizen”, coexisting with and continuously contributing to society through various corporate activities.

The JT Group works specifically for the regeneration and revitalization of local communities as a “good neighbor” to the communities it serves, and regards community-based social contribution activities, preservation of the natural environment, and aid for disaster-stricken areas as its top priorities. Our social contribution activities focus mainly on supporting social welfare and cultural and artistic activities.

The JT Group, based on the above concepts, globally implements a wide variety of social contribution activities to assist the development of local communities while earning the goodwill of these societies.

URL <http://www.jti.co.jp/JTI/contribution/Welcome.html>





# Social Contribution Activities Topics

JT is engaging in afforestation and forest conservation activities from the standpoint of showing an appreciation of the natural world that supports its business, and in consideration of the importance of tackling global environmental problems. In addition to cleanup activities aimed at improving smoking manners, JT also promotes independent cleanup programs, conducted by our business sites, in which our employees collaborate with local people as part of our social contribution activities. JT also promotes community street cleanup programs at festivals and events in regions throughout Japan, encouraging local citizens to take part in cleanup activities.

## Afforestation and Forest Conservation Projects

Currently, JT is carrying out afforestation and forest conservation activities in two areas.

### ● Projects Implemented in Wakayama and Yamanashi

JT's tobacco business uses raw materials derived from the natural environment, such as leaf tobacco. Similarly, our food business uses raw materials such as vegetables and tea leaves. It could be said that our business wouldn't exist without these natural blessings. In light of such characteristics of our business, we implement afforestation and forest conservation activities as part of our efforts to conserve the natural environment in order to express our appreciation for the various benefits we enjoy and from the standpoint of fulfilling our social responsibilities. In 2005, JT launched afforestation and forest conservation activities, entitled "JT Forest Nakahechi" in the area around the old Kumano Road (Kumano Kodo), a World Heritage Site in Nakahechi-cho, Tanabe City, Wakayama Prefecture. In 2006, a second project entitled "JT Forest Kosuge" began in Kosuge-mura, Kitatsuru-gun, Yamanashi Prefecture, near the water source forest for the Tokyo metropolitan area. In the future, JT will continue to engage in afforestation and forest conservation activities from a medium- and long-term viewpoint as a part of our efforts to preserve the natural environment.

### ● Employees, their Families and Local Citizens Working Together

JT employees and their families participate in "planting tree" and/or "weed trimming" as part of our afforestation and forest conservation activities.

JT hopes that participation in these activities will lead to renewed realization of the splendor of nature by our employees and their families, and provide opportunities to think anew about the importance of nature conservation and take appropriate action both in the workplace and at home.

JT seeks to conduct these activities with the cooperation of local citizens and to promote exchange between participants, making these activities beneficial to both JT and local citizens.



Children also enjoyed planting trees during the activity

### JT Forest Nakahechi

Many people have participated in the JT Forest Nakahechi project, including JT and the JT Group employees and their families from across Japan, together with representatives of the Wakayama Prefectural Government, Wakayama Forest Owners Cooperative Association, Tanabe City Government, Nakahechi Forestry Cooperative, and Chikano Promotion Association. A tree-planting ceremony was held in March 2005. About 100 people trimmed weeds during another event that took place in September 2005 and about 180 people took part in the second tree-planting activity in April 2006.

In conducting these activities, JT values advice from instructors from the Nakahechi Forest Owners Cooperative and interaction with local citizens. This project is the largest among the afforestation projects (a total of 112 hectares of forest across 20 locations) that have been undertaken under the "Corporate Forest" (Kigyo-no-Mori) system advocated by Wakayama Prefecture. The system is highly valued as a model to stimulate a "green employment program" and promote interaction with local citizens.



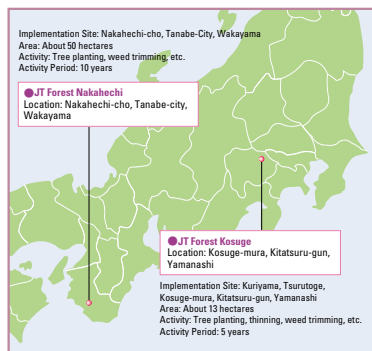
In September, some 100 people participated in weed trimming activity in JT Forest Nakahechi as a follow-up to the first tree-planting event in March 2005.

### JT Forest Kosuge

In May 2006, JT began afforestation and forest conservation activities in JT Forest Kosuge in Kosuge-mura, Kitatsuru-gun, Yamanashi Prefecture as a follow-up to the JT Forest Nakahechi project.

The planting will take place within the water source forests for the Tokyo metropolitan area and is located on the ridge that separates the Tama River and Sagami River water systems. This project aims to "develop a mixed forest" through thinning of needle-leaved trees and planting of broad-leaved trees. This initiative is expected to improve the function of the a water source forest.

About 180 people participated in the tree-planting ceremony held in May 2006, including JT and the JT Group employees and their families and representatives from Kosuge-mura, Kitatsuru Forestry Cooperative, Hana-to Midori-no Sato-zukuri-no Kai, Kosuge Village Eco Therapy Study Group, and Kosuge Village Forestry Study Group.



The first tree-planting event in JT Forest Kosuge (May 20, 2006) attracted more than 170 participants.



### Participant's Comment

I took part in the weed trimming activity in JT Forest Nakahechi last year and I really wanted to come back with my daughter to plant trees this year. It was also a very good experience for my daughter. (Mitsuharu Matsushima of Kobe Area Sales Headquarters with his daughter Maika at the second tree-planting activity held in April 2006)

## Cleanup Activity by JT

### JT conducts cleanup activities throughout Japan.

#### ● Cleanup Activity as A Way to Promote Better Smoking Manners

Over the past thirty years, JT has been conducting activities to help people "improve smoking manners," through the launch of "Smokin' Clean Campaign" (launched in 1974) and other measures, which were designed to discourage thoughtless discarding of cigarette butts and promote consideration for non-smokers.



Cleanup activity conducted in the area around the JT building - about 200 people participated in this activity, including employees and executives

As part of these activities, JT's business sites throughout Japan conduct cleanup programs in cooperation with tobacco shops and the tobacco growers' association.

JT also promotes independent cleanup programs, which are voluntarily conducted by our business sites to help people "improve smoking manners" in the local neighborhood.

#### Spreading Cleanup Activity - JT Employee's Comment



JT has been implementing cleanup programs with the cooperation of tobacco shops and the tobacco growers' association for more than thirty years, as part of the campaign to encourage people to "improve smoking manners." The "circle of cleanup activity" has widened in recent years to include various activities, ranging from independent cleanup programs voluntarily conducted by our employees through community cleanup programs conducted jointly with neighborhood associations and other local citizens to cleanup programs that are designed to encourage local citizens' participation. We hope to contribute to society and the local community through these activities as we strive to become a good corporate citizen and good neighbor in our society.

Yusaku Okubo, Social Environment Creation Division, JT

#### ● Conducting Cleanup Activities as a Community Member



Employees of JT Kyoto Area Sales Headquarters and volunteers engaged in cleanup activity

JT actively participates in street cleanup programs jointly conducted in cooperation with neighborhood associations to which our business sites belong, volunteer organizations and local governments, as we strive to become a "good corporate citizen" and "good neighbor."

#### Participating in Cleanup Activity Organized by Volunteer Organization - JT Kyoto Area Sales Headquarters

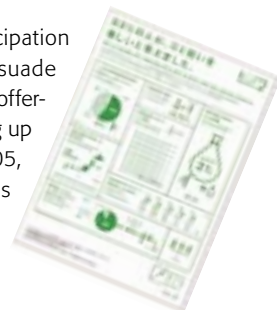
In 2004, JT Kyoto Area Sales Headquarters began participating in cleanup activities organized by the City Police Club, a youth volunteer organization for university and college students launched by the Kyoto Beautification Promotion Association (Kyoto-city Machi-no-bika Jigyodan) as part of its range of activities.

In 2005, JT Kyoto Area Sales Headquarters began informing its employees of cleanup activities organized by the City Police Club in order to encourage them to take part in this initiative. Currently, about ten employees participate in each cleanup activity.

#### ● Citizen Participation Cleanup Program - "Pick up, and you will love your city" Campaign

In 2004, JT launched a citizen participation cleanup program in an effort to dissuade people from "throwing away trash" by offering the first-hand experience of "picking up trash" throughout Japan. In April 2005, we stepped up our effort to conduct this type of cleanup program by launching the "Pick up, and you will love your city" campaign.

JT sets up booths at various events with the cooperation of local governments, schools, volunteer organizations, executive committees and other participating groups in an effort to encourage local citizens to participate in cleanup activities. In FY 2005, more than 100,000 people took part in cleanup activities organized by JT.



This print ad appeared in major newspapers in April 2005



More than 6,000 people participated in cleanup activity at the Hakata Dontaku Port Festival, Fukuoka (May 3-4, 2005), with support from festival staff, local government, NPOs and related organizations. This set a new record for the number of participants in any program activity to date.

#### Comments by Citizens who Participated in the Cleanup Program

- To my surprise, it was fun. It feels good to see clean streets.
- I wanted to be part of it when I first saw the TV spot. I hope this movement will spread more widely.
- I did it, and I discovered that there was so much trash in the streets. I will never litter again.
- I participated in the program with my children. I hope that the children will clearly understand the purpose of this activity.
- There was so much trash in the streets! Someone stopped littering when he saw me picking up trash.

"Pick up, and you will love your city" Campaign

URL <http://www.jti.co.jp/sstyle/manners/clean/index.html>

See related article on Page 72



# Social Contribution Activities Coexisting with Communities

With the aim of being a good neighbor and a good corporate citizen, JT is working on a variety of activities that contribute to local society in areas where our business sites are located. In addition, The JT Group's business sites nationwide open up company-facilities for use by local residents. For example, we provide parking spaces when needed for neighborhood facilities or neighborhood association events, lend out grounds for use by neighborhood children's sports associations, and open our grounds to local residents for springtime cherry blossom viewing.

## Community Contribution Activities

**JT values interaction with local citizens.**

### Participation in and Cooperation in Community Activities

The JT Group's business sites nationwide participate actively as members of their local neighborhood associations in festivals and street cleanup activities. In addition, we take part in other activities that make a contribution to society at the local level, such as cooperative activities with local governments and NPOs, and hosting or cooperating with local sports events.

#### Local Jazz Event – "Jazz in Tokyo"

"Jazz in Tokyo," which was first held in July 2002, is a local live music event organized in cooperation with local residents in the Toranomon and Shimbashi districts of Tokyo's Minato-ku, where JT's headquarters is located.

The program, promoted by local citizens and the neighborhood association,



The Akifune Neighborhood Association held a summer festival on August 12, 2005. Thirteen people, including 7 JT employees and 6 members of the staff of "Jazz in Tokyo," joined local residents in carrying a miniature shrine around the neighborhood.

features a variety of different events, including the jazz concert, "Live @ Toranomon," which is staged at JT Art Hall Affinis.



Students of the Minato Jazz Workshop, a musical instrumental class for elementary and junior high school students and their parents, performed at two venues during the Minato Kumin Festival (held on October 8-9, 2005 at venues in and around Shiba Park in Minato-ku).



#### Boys' Baseball Tournament Initiative

JT Takasaki Area Sales Headquarters held the 9th Nobinobi Takasaki Junior Baseball Team Tournament (JT Cup) (on May 20, 21 and 27) and teams from Takasaki took part in an exciting contest. This annual event is now well established as one of the major baseball tournaments open to community children who play for junior baseball teams.



### Office Furniture Donated to NPOs and Other Community Organizations



In January 2006, JT Sendai Area Sales Headquarters held the MOT-TAINAI Office Furniture Recycling Fair (co-sponsored by the Sendai Office of Mainichi Shimbun) to donate office furniture that is no longer required due to improved operational efficiency. About 100 items of office furniture, such as office desks and cabinets, were offered at no cost to NPOs and other organizations within the community.

### Combining the Environment and Welfare: "Eco & Hello Campaign"

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

At the JT Headquarters building, employees join in this easy-participation effort by voluntarily separating aluminum cans and non-aluminum cans.



Kyoko Hamaguchi, a Japanese female wrestler and employee of Japan Beverage Inc., presented a wheelchair to the Ichigaya Elementary School (in Shinjuku-ku) at the 5th Community Teachers Fair (Machi-no Sensei Mihon-ichi) held by Environmental Learning Supporters in Shinjuku (on February 4, 2006).

### Participating in Snow Removal Volunteer Activity as a Corporate Citizen

Although more than 12 months have passed since the Niigata Chuetsu Earthquake hit the region, many people are still forced to live in provisional housing. Among them are many elderly people who can't shift snow on their own. In an effort to improve the situation and in a spirit of community cooperation, employees of Niigata Area Sales Headquarters and Niigata Regional Leaf Tobacco Headquarters and their families volunteered to remove snow around provisional housing in Nagaoka-city.

By putting themselves in the positions of disaster victims, employees of Niigata Area Sales Headquarters and Niigata Regional Leaf Tobacco Headquarters were motivated to plan and implement a series of snow removal volunteer activities, twice in December 2005 and once each in January and February 2006.



On January 21, 2006, a total 27 people from Niigata Area Sales Headquarters and Niigata Regional Leaf Tobacco Headquarters participated in snow removal volunteer activity at provisional housing in the Yukyuzan district of Nagaoka-city.



## Opening Company Facilities to the Public

JT opens up its company facilities for the convenience of local people.

### ● Opening up a Flower Viewing Spot – Kyushu Regional Leaf Tobacco Headquarters

Each year, during the cherry blossom season, JT Kyushu Regional Leaf Tobacco Headquarters opens its grounds to provide the public with access to a flower viewing spot.



### ● Sponsoring the JT Junior Softball Tournament – Kyusyu Factory

The JT Cup, which is organized jointly by JT Kyushu Factory and Chikushino-city Softball Association, is a well-established event. (This was the 14th tournament.) The best players from city junior softball teams took part in an exciting contest on the grounds of JT Kyushu Factory from 12 to 13 November, 2005.



### ● Opening up Parking Lot for Jidai Festival – Kyoto Area Sales Headquarters

About 2,000 people joined the parade at the Jidai Festival, which is one of the three most representative of Kyoto's festivals, on October 22, 2005. JT Kyoto Area Sales Headquarters opened up its parking area to provide a park-and-ride embarkation point for the shuttle bus service to the festival site, and allowed access to ground floor toilets for festival-goers from the Nanajo 3rd school district.

## International Contribution Activities

In 2005, JTI, an overseas subsidiary of the JT Group, established new policy and guidelines with the objective of improving the focus and quality of its Corporate Philanthropy programs around the world. The new policy defines three important pillars of JTI's international social contribution activities: Charitable Donations, Cultural and Artistic Sponsorship, and Disaster Relief. As part of Charitable Donations,

two global causes were selected: Care for the Elderly and Adult Literacy.

JTI management has begun the process of reviewing market programs and spending to ensure that the company's goals are achieved over time, and that markets incorporate one or both of the global causes as part of their local Corporate Philanthropy programs.

### ● Programs to Support the Elderly and Improve Adult Literacy

**Spain** JTI supports charitable organizations which offer Spanish language programs to adult immigrants, as well as courses in basic administrative and regulatory processes.

**France** Funding was provided to the Association Emmaüs Adult Literacy Centre to organize different workshops for adults on writing, theatre, and cooking. JTI France has been supporting this association for the past three years. Additionally a Christmas Eve party was organized with the Association Les Petits Frères des Pauvres for the elderly of modest means.



Christmas Eve party

**Germany** Vehicles and drivers are made available to support the elderly. In rural areas where public transport is scarce, JTI provides volunteers to accompany the elderly on their visits to doctors.



### ● Welfare Program

**Latvia** JTI collaborated with Apeirons, an organization supporting people with disabilities, to run a variety of programs to integrate disabled persons into society.

**Lithuania** JTI collaborated with the G. Steponavicius Foundation to assist self-realization of the blind through artistic activities.

# Social Contribution Activities Culture and Art

The JT Group's support for cultural and artistic activities includes initiatives to foster the development of musicians and orchestras. JT also conducts research on tobacco, salt and biohistory and makes the results available to the public.

## Cultural and Artistic Activities in Japan

**JT is involved in activities that contribute to the development and improvement of musical performance and other forms of art and culture.**

### ● Support for Nurturing Musicians

JT is involved in fostering and supporting a wide range of classical musicians in Japan, providing them with venues where they can independently perform and introduce their music according to career and rank. The principal showcase for emerging musical talent is the JT Art Hall Affinis. <sup>(\*)1</sup>



JT Art Hall Affinis

### JT Art Hall Chamber Music Series

Between 1995 and 2005, the year in which the JT Art Hall celebrated its 10th anniversary, JT staged more than 270 concerts, involving leading Japanese musicians, who are mutually respectful of each other's creative energies and inspiration, in every stage from planning of the programs to the actual performances. With the help of such eminent musicians as Tsugio Tokunaga (former concert master of the NHK Symphony Orchestra), JT has planned and made possible quality chamber music that is easy to listen to.



Schubert's "Octet" and other pieces were performed on the second night (October 29, 2005) of the 10th Anniversary concert, entitled "Saiten" (Colorful Festival), which was held to celebrate the 10th anniversary of the JT Art Hall.

### The Ensemble Series Sponsored by JT

These concerts provide promising young musicians with a venue in which they can work together to improve their art through ensemble performance (chamber music).

The first concert was held in 2002. JT commissions 6 musicians who are passionate about fostering other performers to produce and stage six concerts a year.



A variety of masterpieces were performed at the 10th Anniversary concert under the theme of "Octet with Youth and Passion" (October 12, 2005).

### Afternoon Concerts with Promising Music Majors

These concerts provide music majors at music colleges in the Tokyo metropolitan area with a showcase for their works. The program not only helps them improve their techniques but also provides opportunities for people who rarely listen to classical music and who work in the vicinity of the JT Building to enjoy free performances during their lunch breaks. The twice-monthly concerts have brought much pleasure to a large number of such people.



Music majors at music colleges in the Tokyo metropolitan area, Aichi and Kyoto are offered a venue in which to present their work, twice a month

### ● Supporting Japanese Orchestras

#### The Affinis Arts Foundation

The Affinis Arts Foundation <sup>(\*)2</sup> was founded in 1988, primarily for the purpose of supporting professional orchestras in Japan. Its diverse activities include providing financial assistance to help members of professional orchestras to study and perform classical music abroad, and to purchase musical instruments. The foundation also holds music seminars and presents chamber music concerts.

It has been holding the "Affinis Summer Music Festival" every year since 1989. During the festival, performance lessons are given by world-class musicians to members of professional orchestras and community-based musical events are held. In 2005, the foundation held its 17th Affinis Summer Music Festival.



Open seminar held at the 17th "Affinis Summer Music Festival" (August 18 to 26, 2006)

The "AIUE Family Concert" was also organized for small children as part of the summer music festival



<sup>\*</sup>1 JT Art Hall Affinis  
F2 JT Building, 2-2-1 Toranomon, Minato-ku, Tokyo TEL : 03-5572-4945

<sup>\*</sup>2 Affinis Arts Foundation

URL <http://www.jtj.co.jp/Culture/Affinis/Welcomes.html>

● **Studies, Research and Disclosure**

**Tobacco & Salt Museum**

The Tobacco & Salt Museum was opened in 1978 to collect materials and conduct studies and research about tobacco, an item of taste which has long been cherished by people around the world, 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 tobacco and salt.

The museum holds a "Summer Vacation Salt Class" to provide elementary school students with an opportunity to have fun while learning about salt through experiments and exhibits.



In 2005, students were given the opportunity to think and learn about the "mysteries" of the sea and salt through experiments and exhibits, under the theme: "Sea and Salt".

Tobacco & Salt Museum  
1-16-8 Jinnan, Shibuya-ku, Tokyo TEL : 03-3476-2041  
URL | <http://www.jti.co.jp/Culture/museum/WelcomeJ.html>

**JT Biohistory Research Hall**

The JT Biohistory Research Hall was opened in Takatsuki City, Osaka Prefecture, in 1983, for the purposes of conducting research on biohistory, which looks at life in terms of historical existence, and of providing a place where members of 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 topic 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 TEL : 072-681-9750  
URL | <http://www.brh.co.jp/>

**International Contribution Activities**

JTI, an overseas subsidiary of JT, is involved in various activities aimed at contributing to the protection and fostering of cultural heritage and the promotion of Japanese culture and art.

● **Protection and Fostering of Cultural Heritage**

**Russia** In 2005, JTI donated funds toward the construction of a new symphonic concert hall for the Mariinsky Theater in Saint Petersburg, which is scheduled for completion in 2008.



JTI President  
Pierre de Labouchere (right)



Drawing of the Mariinsky Theater

**Greece** In Greece, JTI provided funding to the Museum of Cycladic Art to enable the Museum to display the results of the excavation of the Eleftherna site, a project which has been underway for more than 20 years. JTI was recognized for its contribution and was given an award of excellence by the Ministry of Culture.



● **Activities to Introduce and Promote Cultural Heritage of Japan**

The JT Group is proud of its cultural heritage, and supports efforts to promote Japanese culture internationally within the communities we serve.

In cooperation with the Greek-Japan Chamber of Commerce, JTI sponsored an exhibition of Japanese contemporary art at the Athenias Museum, featuring the works of 11 Japanese painters which were loaned by the Museum of Contemporary Art in Tokyo for this exhibit. In France, JTI collaborated with the Sèvres National Ceramic Museum for an exhibition of contemporary Japanese ceramics.



At the press conference held to announce the exhibition





# Social Contribution Activities Aid for Social Welfare & Disaster-stricken Areas

The JT Group is involved in various social contribution activities aimed at improving social welfare and supporting disaster-stricken areas from the standpoint that such activities are essential to building a sustainable society.

## Activities for Youth Development

JT is involved in various activities to nurture young people who will forge the future.

### ● NPO support projects for youth development

We believe human resource development to be an essential task in order to revitalize and activate local communities and construct a better society. Accordingly, we provide support in each local community to youth cultivation projects led by NPOs and other organizations.

#### “Kupi Fashion Art Group” NPO that Received Financial Assistance in 2005

“Kupi Fashion Art Group” is a nonprofit organization that aims to foster better understanding and promote the concept of normalization for the benefit of disabled children. To this end, youth volunteers and disabled children use large canvases and many paint colors to create “Big Art” works based on pictures drawn by disabled children. The group exhibits the finished works at various venues and events in Okinawa.

In August 2005, three JT employees joined the effort to create “Big Art”.



Group photo taken upon completion of “Big Art” by Kupi Fashion Art Group in August 2005.

NPO Support Project for Youth Development  
 URL <http://www.jti.co.jp/JTI/contribution/npo/index.html>

### ● Holding Events

#### JT Honobono (Heartwarming) Concerts

We host JT Honobono Concerts as an independent project aimed at introducing songs for use in school music classes and children’s songs that incorporate beautiful archetypal images of Japan in order that these are handed down to future generations.



Scene from a “JT Honobono Concert – Songs We Want to Hand down to Our Children Vol. 4” (March 26, 2005)

### JT Shogi Japan series tournament for kids

We host the JT Shogi Japan Series Tournament for Kids simultaneously with the professional shogi official tournament, the JT Shogi Japan Series. Through this tournament, we hope to encourage children to grow up with good manners and consideration for others, while experiencing the joy and sorrow of playing the game of Shogi.



In last year’s tournament, 480 elementary school lower grade students and 713 upper grade students contested the preliminary rounds. Four players eventually won through to the finals, which took place on December 11, 2005, at Hibiya Public Hall.

JT Shogi Japan Series Tournament  
 URL <http://www.jti.co.jp/JTI/shogi/Welcome.html>

### ● Aid for Improving Educational Opportunities

#### Aid for Children in Asia and Africa

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 the children of tobacco farmers in such countries.

In addition, JT has agreed to cooperate in and is involved in fund-raising activities for Child Fund Japan<sup>(\*\*)</sup>, a specified nonprofit organization that provides support to children who live in poverty-stricken regions of the Philippines.

We provide positive support through a range of activities. For example, we pass out pamphlets to ask for help and sell goods made by local people at the “Afternoon Concerts with Promising Music Majors.”



\*1 Eliminating Child Labour in Tobacco-growing (ECLT) Foundation: Established jointly by the International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers’ Associations (IUF), the International Tobacco Growers’ Association (ITGA), tobacco manufacturers and tobacco suppliers, this foundation is committed to working toward the elimination of child labor, with the International Labour Organization (ILO) acting as advisor. The foundation is engaged in various activities in Malawi, Tanzania, the Philippines, Uganda and other regions with the aim of improving educational environments by constructing elementary schools and vocational training schools, raising awareness of child labor issues within these regions, and improving water quality, food hygiene, farming techniques, healthcare and medical treatment.

\*\*2 Child Fund Japan: A nongovernmental organization that have worked for 30years to provide support to children in Asia and Africa, with a particular focus on children in the Philippines, in an effort to promote healthy growth in children and self-reliance in local communities. For more details, please visit the website of Child Fund Japan at URL <http://www.childfund.or.jp>

## International Contribution Activities

**JT provides scholarships to help privately financed Asian-region students study in Japan.**

### ● Scholarships for students from Asia

Since FY1998, JT has been providing scholarships for privately financed students who have come from Asia to study in Japan. Our purpose is to promote international exchange and nurture human resources. Scholarships are provided to privately-funded foreign students who have come to Japan from Asia to help support them while studying at university and or in conducting research. As part of the project, JT performs exchange events three times each year as an opportunity for students on scholarships to gain understanding and experience of Japanese culture and history, as well as to visit JT facilities and deepen personal exchanges with JT employees of the same generation.



Fifteen scholarship students visited the Tobacco & Salt Museum as part of the "First Exchange Event for JT Asia Scholarship Students in 2005" (July 9, 2005).

## Sports Promotion

**Both men's and women's JT volleyball teams that play in the V League teach volleyball classes.**

### ● 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 V League, teach volleyball to elementary and junior high school children, as well as to moms' teams. These volleyball classes are held by local governments and take place mostly in Hiroshima Prefecture, which is the Thunders' home turf, and in the Kinki region beginning with Hyogo and Osaka, where the Marvelous are based.



## Aid for Disaster-stricken Areas

**The JT Group provides aid for victims in disaster-stricken areas thro when natural catastrophes occur in Japan and around the world.**

## International Contribution Activities

As an important element of JTI's overseas Corporate Philanthropy effort, the JTI Foundation was established in 2001 with the objective of providing meaningful and immediate relief to the victims of natural and man made disasters. The JTI Foundation is registered in Switzerland and operates on a global basis. In 2005, the JT Group and the JTI Foundation responded quickly to a series of natural catastrophes which occurred around the world.

● Funding was provided to assist victims of Hurricane Katrina, which the Southern U.S. on August 29, 2005. In addition, matching gift programs and charity drives were implemented to augment these donations.



● Early in September 2005, Timis County in Romania was devastated by severe flooding. The JTI Foundation provided funds to the Freedom House Foundation to help victims of the floods rebuild their houses.



● Hurricane Stan battered the coasts of Mexico on October 4, 2005. The JTI Foundation contacted the Mexican Red Cross and provided funding for the provision of food, shelter and medical treatment.

● When a major earthquake occurred in Pakistan on October 8, 2005, the JT Group offered support including financial aid. The JTI Foundation separately provided im-



mediate funding within hours of the earthquake to the Turkish Search Rescue and Ecology Group (GEA) for tents, water filtration equipment, weatherproof clothing and vehicles. GEA was the first international rescue team to reach the devastated area less than 24 hours after the earthquake.

# Volunteer Activities by Employees

We have introduced various systems to encourage and support our employees in their participation in volunteer activities.

## Supporting Volunteer Activities

### ● Volunteer Activity Support Systems

Internal volunteer activity support systems include the following:

**"Let's go! Let's give it a try!"**

In each issue of "Yours", JT encourages employees and their families to participate in volunteer activities.



Article about volunteer information in the in-house magazine

#### Information Provision

##### Providing Volunteer-related Information in the Company Magazine

We provide a wide range of volunteer information in the "Citizenship News" section of our company magazine "Yours," to encourage employees and family members to participate in volunteer activities.

#### Signup System

##### Volunteer Signup System "Smiling"

This system offers JT employees and family members who wish to participate in volunteer activities the opportunity to sign up for activities in their areas of interest, and then provides them with information on those specific areas as needed.

#### Other Systems

##### Volunteer leave System

Under this system, JT employees are permitted to take a leave of absence of up to 5 days per year in order to participate in certain volunteer activities such as providing support for victims of natural disasters or for disabled people.

##### Leave of Absence System for Bone Marrow Donors

This system allows JT employees to take the required leave of absence for registering or undergoing examination at a bone marrow bank, or to stay in hospital for the purpose of bone marrow transplantation.

##### Leave of Absence for Serving as a Japan Overseas Cooperation Volunteer

We have a system of leave of absence in place to allow employees to serve as Japan Overseas Cooperation Volunteers (dispatch period approx. 2 years and 3 months).months).

See related article on Page 16

### ● Examples of Volunteer Activities

Here are some examples of volunteer activities that employees have undertaken to date:



At the 16th Citizenship Event (on August 21, 2005), "Eco Mime and Waste Percussion Instruments for Children" was performed to encourage children to think about environmental issues while enjoying musical activities.

#### JT Citizenship Events

We hold independently planned events to which we invite people in various fields who have contributed to society. The purpose of these events is to enhance levels of concern and understanding among citizens and JT employees in local

regions, and through this to encourage people to start volunteer activities.

#### Interacting with Disabled Children

A nonprofit organization, KIDS, organizes the annual "KIDS Project" to enable disabled children who require assistance to spend an exciting and enjoyable day at Tokyo Disneyland.

Some employees regularly participate in this project. On June 3, 2005, 7 employees took part, including Nobuaki Konishi (Operations Division, JT Tachikawa Area Sales Headquarters) who was on his fifth participation.



Nobuaki Konishi (far left)

#### Support for Charity Event

Member companies of Minato Net, an organization that coordinates the social contribution activities of companies operating in Minato-ku, Tokyo, joined with Child Fund Japan, a nonprofit organization that provides assistance to children



The second-hand book fair held in JT Building

in the Philippines and Nepal, to organize and run a charity second-hand book fair on August 4-5, 2005.

JT provided the JT Art Hall Affinis on the second floor of JT Building as the venue, and many JT and JT Group employees volunteered to help run the fair. Volunteer employees also planned and ran a charity event in which many employees participated. The proceeds of all sales made during the two-day charity events were donated to Child Fund Japan.



# Supplemental Materials

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

	ISO 14001 Certification		Environmental Management System complying with ISO 14001 Standards	Simple Environmental Management System
JT	Cigarette Factories, Okayama Printing Factory, Vending Machinery Division		Company Headquarters, all branches, all laboratories	
Group Company	Tobacco Business	JT International S.A. (15 factories) 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, Ltd. Fuji Flavor Co., Ltd. Japan Metalizing Co., Ltd.	JT Logistics Co., Ltd. (tentative)JTI offices	TS Network Co., Ltd.
	Pharmaceutical Business	Torii Pharmaceuticals Co., Ltd., Sakura Plant		
	Food Business	Nihonshokuzai Kako Co., Ltd. Sunburg Co., Ltd. Ipiningsyng Foods Corporation Japan Beverage Inc. (tentative) Asahi Shokuzai Co., Ltd.	JT Foods Co., Ltd.	JT A-Star Co., Ltd.
	Real Estate Business	JT Real Estate Inc.		

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).

\*As of September 2006.

## Environmental Auditing

### ● Auditees

JT audited the following business sites for environmental issues in FY2005.

Category	Business Site
Tobacco Business	Osaka Area Sales Headquarters(P)
	Nagoya Area Sales Headquarters(P)
	Morioka Factory (P.C)
	Kumamoto Factory (P.C)
	CHU Shikoku Regional Leaf Tobacco Headquarters
<b>Total</b>	5 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		Johkasoh Law
Sewerage Law	Noise Regulation Law	Vibration Regulation Law	Factory Location Law	
Offensive Odor Control Law	Law Concerning Reporting, etc. of Release to the Environment of Specific Chemical Substances and Promotion Improvements in their Management			
Fire Service Law				
High Pressure Gas Safety Law				
Law Concerning Special Measures against Dioxins		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 Persons in Charge of Environment-related Business Activities in FY 2005

Name of Training Course	Target	Contents of training course	Number of trainees
Environmental Management System	Training for environmental auditors	Persons in charge of environment-related business activities	Training of internal auditors (theory) 46
	On-the-job training for environmental auditing	Persons in charge of environment-related business activities	Training of internal auditors (practice) 36
Environmental information system (JT Group Eco-Net)	Persons in charge of environment-related business activities	Explaining operation of environmental information system	189

## Reducing Environmental Impacts 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 burdens 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: re-use  
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.
  - Useage 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.
  - Useage of materials being considered environmental impacts 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 Burdens Associated with Business Operations

### ● For JT

FY		1995	2000	2001	2002	2003	2004	2005	Unit
<b>Amount of energy used</b>		7,280	7,167	7,156	7,050	6,408	6,248	5,369	TJ
	Heavy oils, etc.	1,646	1,637	1,464	1,368	1,008	1,047	812	TJ
	Gas	524	719	877	921	969	1,048	1,010	TJ
	Purchased electricity	4,864	4,574	4,588	4,526	4,220	3,948	3,363	TJ
	Vehicle fuel	221	205	203	210	187	180	164	TJ
	Others <sup>(*)</sup>	26	31	25	25	23	25	19	TJ
<b>Amount of water used<sup>(**)</sup></b>		5,827	4,840	4,623	4,464	4,014	3,611	2,725	1,000 m <sup>3</sup>
<b>Amount of copy and OA paper</b>		618	554	555	465	451	407	319	t
<b>Amount of CO<sub>2</sub> emitted</b>		449	435	430	420	381	370	315	1,000 tons
<b>Waste</b>	<b>Amount of waste generated</b>	28.6	34.2	35.2	33.9	31.3	35.2	31.1	1,000 tons
	<b>Recycling rate</b>	33.7	56.8	63.7	79.3	83.6	89.5	95.0	%

### ● For Companies Under Environmental Management in Japan<sup>(\*\*\*)</sup>

FY		2003	2004	2005	Unit
<b>Amount of energy used</b>		8,404	8,357	7,134	TJ
<b>Amount of water used<sup>(**)</sup></b>		11,121	10,594	6,163	1,000 m <sup>3</sup>
<b>Amount of CO<sub>2</sub> emitted</b>		512	508	428	1,000 tons CO <sub>2</sub>
<b>Waste</b>	<b>Amount of waste generated</b>	40.9	45.5	39.7	1,000 tons
	<b>Recycling rate</b>	84.3	89.5	94.8	%

(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=1 x 10<sup>12</sup>

### ● 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 JT 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 JT Group means a recycling rate of greater than 99.5%.

● Recycling rate = internal and external recycled volume + waste and other generation × 100

● Waste and other generation = internal and external recycled volume + internal and external intermediate disposal volume + landfill disposal volume without intermediate disposal + 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 places (factories, branches, local business sites, laboratories, etc.)  
 Tabulation period: FY2004 (April 1, 2004 - March 31, 2005), FY2005 (April 1, 2005 - March 31, 2006)

Unit: 1 million yen

Environmental Preservation Costs <sup>(*)</sup>						
Category		Main areas for FY2005	FY2004 Performance		FY2005 Performance	
			Amount of investment	Amount of expenditure	Amount of investment	Amount of expenditure
(1) Environmental preservation costs to reduce production/service-derived environmental impacts in JT's business areas (business area cost)		—	1,240	1,595	932	1,552
Breakdown	① Pollution prevention cost	Improvement of exhaust and deodorizing equipment Adoption of LEVs Maintenance of pollution-control facilities	176	488	455	633
	② Global environmental preservation costs	Improvement of air-conditioning control system and boiler Remodeling of energy-saving equipment Maintenance of energy-saving facilities, etc	833	215	378	181
	③ Resource circulation costs	Adoption of heavy-duty plastic pallets Maintenance of waste incinerators that produce less dioxins Waste recycling costs	231	892	99	738
(2) Costs of reducing production/service-derived impacts upstream or downstream during resource circulation (upstream/downstream costs)		Recycling of packaging materials	—	260	—	251
(3) Environmental preservation costs in management activities (management activity costs)		Organization of groups responsible for environmental auditing and measurement Monitoring and measurement of environmental impacts	—	334	—	251
(4) Environmental preservation costs involved in R&D (R&D costs)		Reducing weight of containers	—	58	—	24
(5) Preservation costs involved in social activities (social activity costs)		JT Smoking Manners Campaign Donations to environmental conservation groups Development of the environmental report	—	4,803	—	4,780
(6) Costs of dealing with environmental damage		Pollution impact levies Costs for studying and treating ground pollution	—	511	—	364
(7) Other environmental costs		—	—	39	—	140
Total			1,240	7,600	932	7,362

Environmental Preservation Effect						
Contents of effect		Item	FY2005 performance <sup>(*)</sup>			
			Physical quantity reduction effect	% increase/decrease	Economic effect	
Effect corresponding to costs within business areas	Effect on resources invested in business activities	Amount of purchased electricity	-585,500	GJ	-14.8%	-671
		Amount of fuel used	-279,000	GJ	-26.6%	-306
		Amount of fuel used for vehicles	-15,500	GJ	-8.6%	-45
		Amount of water used	-885,000	m <sup>3</sup>	-24.5%	-92
	Effect on environmental impacts and waste produced by business activities	Amount of CO <sub>2</sub> emitted	-54,800	t-CO <sub>2</sub>	-14.8%	—
		Amount of wastewater <sup>(*)2</sup>	-569,000	m <sup>3</sup>	-26.8%	—
		Amount of waste commissioned to other companies for disposal	-1,500	t	-53.6%	-32
		Amount of waste commissioned to other companies for recycling	-1,800	t	-5.8%	-39
Total		—	—	—	-1,185	

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

### 1. 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.

### 2. Environmental Preservation Effects

- 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 effects.

**Materials increase and reduction effects = amount of environmental impact for FY2005 - amount of environmental impact for FY2004.**

### 3. Economic Effects

- The above-mentioned environmental effects, 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 FY2005 - amount of environmental impact in FY2004) x unit cost for FY2004.**

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



## History of Major Compliance-related Training in 2005

Name of Training Course	Target (Content)	Number of Training Sessions	Number of Trainees
Compliance Training for New Employees	New employees (JT Group Basic Compliance Training)	1	144
Compliance Training for New Managers	New managers (Compliance, Risk Management, Human Rights Protection)	14	389
Compliance Practice Training for Leaders	Leaders in charge of compliance (Enhancing Risk Management Practice and Compliance)	3	69
Compliance Seminar	Directors, managers at headquarters, executives of group companies	1	177

## Record of Youth Development-related Financial Aid to NPOs in FY 2005

Responsible Branch	Recipient Organization	Name of Project
Morioka	Shirakami Nature School at Hitotsumori	Shirakami Matagi Village Youth Work Study Program
Sendai	Miyagi Message Board, "Yururu"	NPO Summer Volunteer Program for Senior High School Students in 2005
Utsunomiya	Iwaki Independent Living Center, "Enjoy" Exchange Support Center, "Atelier"	Fureai (Exchange) Sports Lessons for Disabled Persons Play & Study Experience Yuyu (Play with Friends) Club
Takasaki	Multilingual Education Research Institute (MERI) Nekko (Roots) Society Shinshu Forest Work Dream Space Community and Heart Growth Society in Matsushiro	Program to Develop Youth Leaders with International Community Aspirations Experiential Activity in Nature to Foster Spirit and Independence in Youth Showa Elementary School Forest Project Community Study and Exchange between Different Generations through Community Tours
Saitama	Physical Communication	SAKURA is our Secret Base Project
Chiba	NPO Sakura Kodomo Station	Creation and Performance of Musical Works by Children
Tokyo	Nishiogi Machi Media Artists and Children	Children's Science & Art Festival "Nishisugamo Green Curtain Café" Plan
Tachikawa	Eco Works	Let's create green spaces! "Creating Our Own Green Spaces in Musashino"
Yokohama	International NGO AIUEO Circle Association Japan	Youth Development through International Exchange with Children in Nepal
Shizuoka	Dream Field	Music Therapy Program for Truant Students and Disabled Children
Nagoya	Ibi River Water Eco Station Ena Mountain Green Society ASK NET Sunflower Friends	Ibi River Main Stream Cleanup Mission – Water Seminar Youth Development Program linked to Improvement of Bamboo Grove "Social Entrepreneur Navi" Program for Junior and Senior High School Students "Community Station" at the local shopping area to promote interaction between residents
Kanazawa	Kawada Dream Green Forest Energy Forum	Holding Urushi Land Cram School for Children's Future Ecology Workshop to Develop an Appreciation of Planet Earth
Kyoto	Kyoto Education Support Center Foggy Mountain Network Nara Machizukuri Center	Program to provide comprehensive support of rounded development of youth, including those who don't attend school Program to preserve the special conservation area of Heijokyo Kurokami Mountain Project to develop a caring, feeling society and people who will contribute to the community
Osaka	Nanki Kodomo Station	Kumaso School Challenge
Kobe	For Life Itami Athletic Club Empowerment Kansai for Women & Children	We can see the world through soybeans – No.1 Roots Quest Project Program to provide "Youth Workshops to Develop a Zest for Life"
Hiroshima	Land of Comfort	Rediscovery of Preciousness of Human Life "Discussing the Subject of Death with Local Children"
Takamatsu	Community is Family - Communication Everyone's Yoshino River Society	Grow and Challenge Club Yoshino River Nature School
Kumamoto	IOB Sports Promotion Organization	Handicapped Friends Terakoya - helping children to learn about traditional culture preserved by the community
Okinawa	Okinawa	Big Art Creation

## Glossary

### CB Valuator

The CB Valuator is a results indicator linked directly to cash flow, valued based on financial data and surveys and questions given to the stakeholders, as a model for valuating corporate brand, developed by Professor Kunio Ito of Hitotsubashi University and Nihon Keizai Shimbun Co., Ltd. Among those surveyed are clients, employees and private investors. The survey enables comparison with other companies. In 2005, JT had a corporate brand ranking of 44 out of 724 companies.

### JT Brand-ing Valuator

The JT Brand-ing Valuator is an evaluation index independently developed by JT for valuating the depth of the relationship between JT Brand-ing in the society and our stakeholders. Among those surveyed are people chosen from among the general public, employees, and private investors. Surveys are conducted once a year, with the results thereof being analyzed. The survey questions are reviewed each year based on social trends and measures in place at JT. The valuator is designed to appropriately value corporate brand value.

### OHSAS 18001

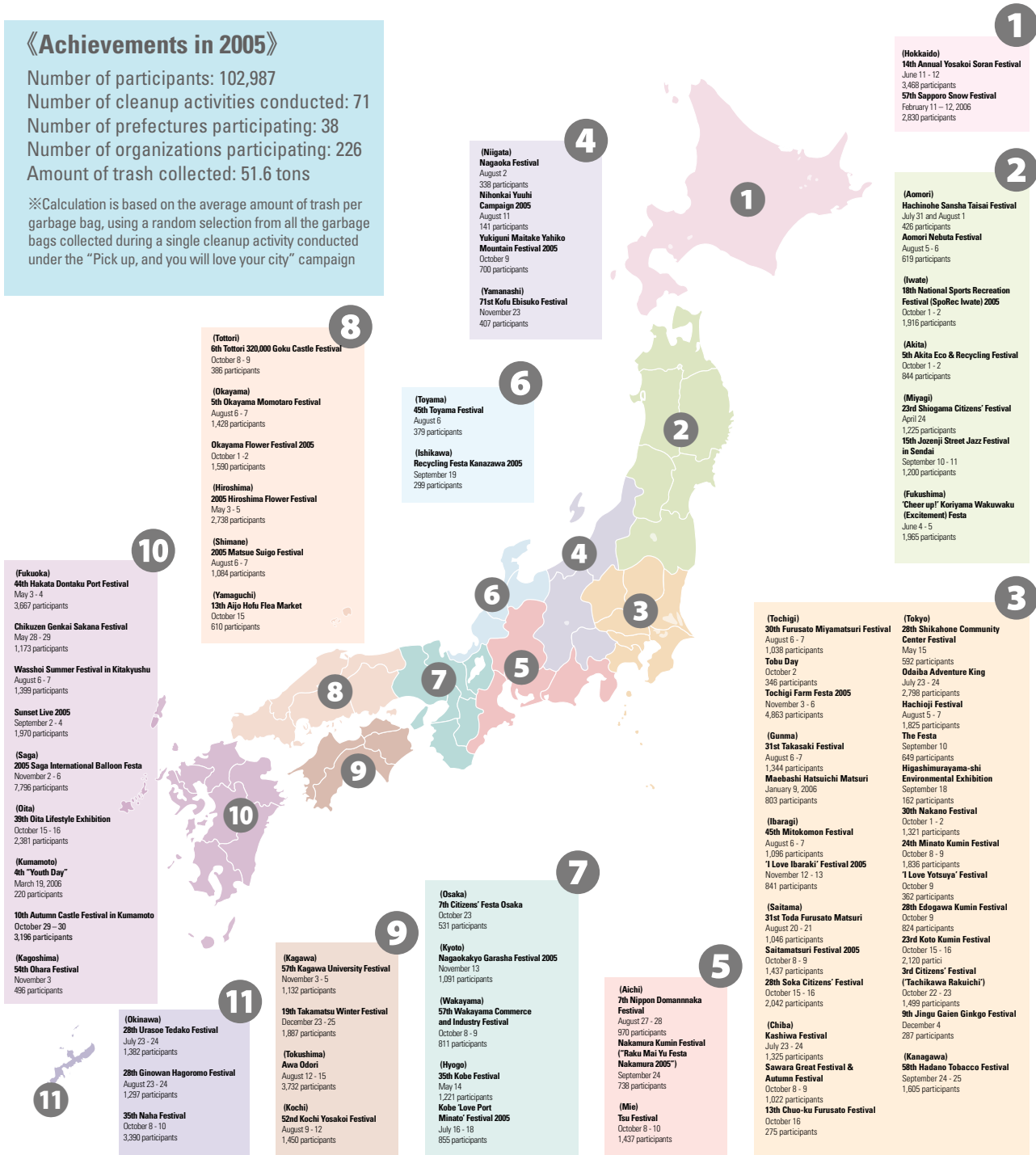
OHSAS (Occupational Health and Safety Management Series) is a tool for supporting organizations that strive to minimize risks for their management and employees in an effort to improve business performance and occupational safety and health measures. Coupled with ISO9000s (quality management) and ISO14001 (environmental management), it contributes to improving operational efficiency.

# Achievements of "Pick Up, and You Will Love Your City" Campaign in 2005

## 《Achievements in 2005》

Number of participants: 102,987  
 Number of cleanup activities conducted: 71  
 Number of prefectures participating: 38  
 Number of organizations participating: 226  
 Amount of trash collected: 51.6 tons

※Calculation is based on the average amount of trash per garbage bag, using a random selection from all the garbage bags collected during a single cleanup activity conducted under the "Pick up, and you will love your city" campaign



## PRTR System

The Pollutant Release and Transfer Register (PRTR) system tracks and publishes information on the amount, sources and handling of toxic chemicals generated by industrial activities, and the amount of toxic chemicals discharged from business sites.

PRTR has been adopted by an increasing number of countries. In Japan, the Law for Pollutant Release and Transfer Register (PRTR) came into force in 1999.

## Declaration of Helsinki

This is a statement of "Ethical Principles for Medical Research Involving Human Subjects" adopted in 1964 by the 18th World Medical Association General Assembly, Helsinki, Finland. Based on acknowledgement that medical progress is based on research that ultimately must partially rely on experimentation involving human subjects, it declares that in the conduct of medical research on human subjects, considerations related to the well-being of the human subject should take precedence over the interests of science and society.

## Peak cut system

It is a system designed to dramatically reduce the power consumption of vending machines during the peak hours of 13:00-16:00 in the summer.

## Comments from Sustainability Advisor on the JT Social and Environmental Report 2006

This is a translation of ChuoAoyama PwC Sustainability Research Institute Co., Ltd.'s comments of the Japanese version of the JT Social and Environmental Report 2006.

We believe that corporations should meet various stakeholder demands and expectations. In order to achieve this, we believe it is important that corporations build good relationships with stakeholders through information disclosure to communicate their activities, as a first step in pursuing sustainable business.

We provided advice for Japan Tobacco Inc. ("JT") on information disclosure during the preparation of the JT Social and Environmental Report 2006 ("the Report").

Our comments are summarized below.

JT operates under three business lines of tobacco, pharmaceuticals, and foods, each of which is dedicated, through their business activities, to achieving the company's group-wide mission, the "JT Branding Declaration".

In order to fulfill its long term vision, JT issued its medium term management plan, "JT 2008" in May 2006. In developing its companywide management targets, JT identified issues and challenges with regard to the four stakeholders (shareholders, customers, employees, and society). Moreover, the company established the CSR Division in July 2005 to take stakeholders into further consideration in its management. The CSR Division subsequently interviewed headquarters staff in order to gain a better understanding of the status of CSR activities at JT.

We noticed that the Report this year tried to demonstrate the company's ethical values, missions, and responsibilities to the readers of Report by adding new information to the Report, including interviews with the presidents of the three business lines of tobacco, pharmaceutical, and foods, JT's "Value Creation through Manufacturing" which describes JT's technology and manufacturing activities, and "Site Report" which covers activities at JT's factories and group companies. It is also commendable that the Report included information which JT's stakeholders may have concerns about and an interest in, such as negative information on soil pollution in environmental preservation activities, occupational health and safety activities at JTI (an overseas subsidiary), and performance of social contribution activities.

On the other hand, we would recommend that JT improve its information disclosure with improvements in the readability of its future reports, especially on the efforts made to respond to external opinions and internal dialogues, and on information related to tobacco. Given that JT's three business lines have different CSR focuses, we believe that future reports should describe as much as possible not only each business's CSR activities but also JT's relations with society, including suppliers and business partners. By doing so, JT will be able to increase stakeholders' understanding of each of JT's business. We believe that this will also lead to sustainable development of both within JT and in society in general.

Going forward, we hope that JT will develop a framework to manage the following steps organically and continuously; "development and utilization of communication mechanisms with key stakeholders", "efforts towards sustainable business", "monitoring of the progress of such efforts" and "information disclosure through the reports", and that based on this framework, JT will further promote its CSR activities and actively disclose information thereof.

Please note that the comments above do not express any of our independent views and/or opinions either on the effectiveness of the information gathering and reporting process for the Report or on the reliability of the information contained therein.

August, 2006

ChuoAoyama PwC Sustainability Research Institute Co., Ltd.



Senior Researcher Akiko Goshō  
Researcher Yumiko Tahara

On September 1 2006, ChuoAoyama Sustainability Research Institute Co., Ltd. will change its name to MISUZU Sustainability Research Institute Co., Ltd.





### What do you think of the JT Social and Environmental Report 2006?

In 2005, the JT Environmental Report, which had been published annually since 1997, was expanded and renamed the JT Social and Environmental Report. This reflected our decision to enhance the document's content by reporting on not only matters related to the physical environment but also our policies and activities of the 'social environments' in which the company and its stakeholders live and operate.

The JT Social and Environmental Report 2006 is designed to outline and communicate company-wide efforts to stakeholders in an easy-to-understand form, in accordance with our basic policy and with our desire to include reports from JT manufacturing sites and other group companies, together with updates on social contribution activities conducted in foreign countries.

In July 2006, we have integrated functions relating to environmental conservation and social contribution activities into the responsibilities of the CSR Division. And, this autumn, we will establish CSR Committee, to be chaired by Chief CSR Officer and consisting of presidents of the three businesses and other staff members.

We are committed to advancing our efforts to promote CSR activity while giving full consideration to stakeholder's views on this subject. During FY2006, we are working to further enhance the company-wide structure for promotion of CSR activity (PDCA Cycle).The CSR Committee and the JT Social and Environmental Report are two examples of these efforts.

We look forward to receiving your opinions and comments on this report and the business activities of JT Group.

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