



Climate for change

Japan Tobacco International

Environment, Health & Safety Report 2007



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A successful year

Expanding our business

In 2007 we doubled the size of our business in terms of volume, sales and number of employees.

Improving performance

Alongside our business growth, we had a successful year in EHS, substantially reducing our injury rates, energy use* and carbon dioxide emissions*. A full summary of our EHS performance is on page 24 and the inside back cover.

Widening our responsibilities

We recognize the importance of addressing sustainability issues right across our value chain and started a long-term program to address environmental impacts from tobacco farming.

* Per unit of production.

Welcome

Welcome to our fourth Environment, Health and Safety Report. 2007 was a remarkable year for JTI. We accelerated the momentum of our business by achieving a seventh consecutive year as the fastest organically growing company in the tobacco industry, while simultaneously nearly doubling our size by integrating the Gallaher businesses and brands.

This success comes with a wide range of responsibilities to many stakeholders and to society in general, and throughout the year we have sought to live up to our long-standing commitment to sustainability and responsible business practice. This report shares our ongoing activities and progress as part of our commitment to minimize environmental impact and ensure employee and contractor safety.

Our employees are the key to our success and the means by which we integrate responsible actions into our day-to-day operations worldwide. In last year's report we expressed our intent to be a leader in workplace safety, and I am particularly pleased to see that through leadership and involvement of all employees across our expanded manufacturing base, we have delivered a significant improvement in safety performance. I am also pleased that no work or vehicle-related fatalities were reported in 2007, although we did have a sharp increase in reported vehicle accidents as a result of the acquisition, and will work hard to reduce them.

We also made substantial progress in addressing our environmental impacts with reductions in energy consumption and greenhouse gases per unit of production. We recognize climate change as a key concern to our business and society at large, and are taking steps to address this across the full range of our activities.



We see a growing importance in addressing sustainability right across our value chain, and in 2007 we successfully launched a Reforestation and Community Support Program in Tanzania and Malawi, two important countries from where we procure tobacco. These are long-term initiatives to reduce environmental impact and enhance rural livelihood, and are described later in this report. The more we learn about sustainability the more we are convinced that it is the right thing for all our stakeholders – the people we employ, our investors, our suppliers, our customers and the communities where we operate.

Finally, we know we are on a journey to integrate social and environmental considerations more and more into our business operations and that we still have much to do. We strive for world-class performance across every aspect of our business and are committed to sharing our progress and challenges with all of our employees and stakeholders who have an interest in our business. Therefore I hope you enjoy reading the stories and information on 2007's activity and successes in our new-style report.

Pierre de Labouchere
President and Chief Executive Officer

“We recognize climate change as a key concern to our business and society at large”

Scope of this report

This report explains the Japan Tobacco International (JTI) approach to the wide range of Environmental, Health and Safety (EHS) issues associated with our business and gives an overview of our performance and activities in 2007.

EHS is just one part of our wider position on corporate responsibility. To find out more about who we are and where we stand, for example on smoking and health, please go to our website at www.jti.com.

The EHS data and statements made in this report have been verified externally by Lloyd's Register Quality Assurance. The verification statement and our response can be found on page 23 of this report.

Who we are and what we do

Japan Tobacco International (JTI) is the international tobacco division of Japan Tobacco Inc. (JT), the world's third-largest industry player, with a global market share of 11%.

We manufacture and market internationally recognized brands around the world, including three of the top five worldwide cigarette brands; Winston, Mild Seven and Camel, and two leading Virginia brands; Benson & Hedges and Silk Cut.

In 2007 JT acquired the Gallaher Group for US\$19 billion, significantly expanding the JTI business. At the time this was the largest foreign acquisition by a Japanese company, nearly doubling the size of JTI in terms of cigarette sales and number of employees.

We are now the growth engine of the JT Group with operations in more than 50 countries, selling our products in more than 120, and generating 70% of the Group's volume and 45% of its EBITDA¹.

Some of JTI's key operations worldwide

● Markets ● Factories

Japan Tobacco International in 2007

Part of the **3rd largest**
international tobacco manufacturer

US\$8 billion
net sales

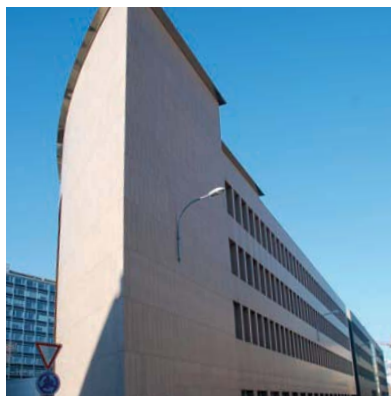
385 billion
cigarette sales²

Over **23,000** employees



¹ EBITDA – Earnings Before Interest, Tax, Depreciation and Amortization.

² The figure includes cigarettes manufactured under license for JTI.



JTI's new headquarters in Geneva, Switzerland

JTI at a glance

- JTI is part of Japan Tobacco Inc (JT), the world's third-largest international tobacco company.
- It was formed in 1999 when JT acquired the international tobacco business of RJR Nabisco Inc.
- The acquisition of Gallaher, in April 2007, added 11,000 employees to the JTI business.
- JTI now has over 23,000 employees, operates over 30 factories in 23 countries and has sales offices in more than 50 countries.
- Our 16-member Executive Committee includes 11 different nationalities.



Guide to this report

We've taken a slightly different approach to 2007's EHS report. We still include the traditional data and reports on the year's activity, but we have also included a number of feature articles covering major topics and events from the year. We hope you enjoy reading them.

The features start over the page with a description of the work that's been done in **bringing two world-class tobacco companies together as one...**

Our vision and strategy

Integration at the double

Japan Tobacco acquired Gallaher in April 2007, its largest business investment since the formation of JTI in 1999. The aim was to integrate Gallaher and JTI as quickly as possible – in effect, just about doubling the size of the company, both in number of employees and sales. So, what was the plan, how is it progressing and what was the effect on EHS activities?

The aim was to strengthen JT's position as a leading tobacco company, extending the company's capabilities and adding more geographic spread and brands to the company's portfolio.

At this early stage of the three-year plan, all seems to be on course. Frits Vranken, head of Business Development and Corporate Strategy, and member of JTI's Executive Committee (Excom) states:

"It's moving ahead very well. A large part of the success was in the preparation, which started before we even made an approach. We explained to all managers clearly our rationale for the acquisition, and were quick to resolve any early uncertainty. Though there had been a different business mindset between the two companies, we have great people on both sides, and already we regard ourselves as one company."

This view is confirmed by Bill Schulz, head of Global Supply Chain:

"Integration has been faster and easier than we thought. The JT Group global approach, long-term vision and commitment to quality have all been embraced by our new employees, and there is an appreciation of our commitment to industry leadership."

What about the view from factory level? Jim McMaster is Cigarette Production Manager at Lisnafillan in Northern Ireland, a former Gallaher factory:

"The pace of the integration plan was daunting, but looking back I'm glad it didn't drag on. For everyone there was apprehension to start with, quickly replaced by excitement at the investment plans, the reassurances about jobs and the future. So while cultural changes might take some time and effort, there is a desire to succeed and not to let anyone down."

"We're now a much bigger company," confirms Frits Vranken, **"and, importantly, more diverse in many ways. I believe it's far more enriching for everyone involved."**


Integrating EHS

EHS integration followed the same fast-track schedule as the business, with ten former Gallaher factory sites assessed during June 2007. The assessments included discussions with managers, supervisors and operators to gain a detailed insight into the existing way of managing EHS, while also explaining JTI's expectations. The assessment team then met over several days in July to plan the integration.

Frits Vranken offers the Excom view:

"We know EHS is important and the board of JTI takes it very seriously. On my visits to factories I have been pleased to see the Global Safety Change Program in action and we are committed to safety across the whole company. We invest in supporting EHS properly, and ensuring common standards throughout our new organization."

Those two words – common standards – summarize the objectives of last summer's assessment and planning program. The aim was to develop site policies and management systems, and align them across the business. At the end of each assessment visit, the integration team shared and agreed its findings with the local management.



These conclusions were then prioritized and all new factories built EHS plans and targets within the business planning process and started to implement core programs.

Jim McMaster, again taking a viewpoint from factory level at one of the former Gallaher plants, adds:

“There are very clear goals for everyone and a commitment to performance in all areas, not just cost. Safety was added to our key performance indicators and there’s been a big shift in the way we manage it – more preventative rather than reactive. There are also indicators for environmental issues such as energy consumption and waste. Now we are focusing on these areas, we’re in an even better position to drive improvement.”

Pictured above:
Emma Boyens, Peter Bulfin,
Andy Chamberlain,
Anna Iaquinandi, Brian Murphy,
Nicky Small, Lisa Smyth,
Dale Stacey, and
Ludvik Thorsteinsson in
Weybridge, UK.

“We’re now a much bigger company and, importantly, more diverse in many ways. I believe it’s far more enriching for everyone involved.”

Frits Vranken, Business Development & Corporate Strategy

Our vision and strategy

2007 was a successful year as we integrated new factories, markets and people into the business while continuing to deliver on our EHS plans and targets.

<p>Global EHS Policy, Standards and Targets set.</p> 	<p>ISO 14001 Resource Efficiency Program begins. First external EHS Report.</p> 	<p>OHSAS 18001 Fleet Safety Program starts. First EHS Excellence Awards.</p> 	<p>Exceeded all environmental targets. Set new vision and principles for safety.</p> 	<p>Gallaher Integration 15 factories, 11,000 people. New Best Practices (page 4)</p>  <p>Global Safety Change Program (page 12)</p> <p>Global Efficiency Programs (pages 18-19)</p> <p>Reforestation Program (page 20)</p> <p>Reforestation Program starts. Reaches 17,000 households in Africa</p> 
2001-2003	2004	2005	2006	2007

Over the last seven years JTI has been following an Excellence Plan designed to integrate EHS fully into our business activities. It's based on core systems and programs and the timeline below shows some of the key milestones and achievements to date.

By the end of 2006 nearly all our cigarette factories had been externally certified to the international standards for environment (ISO 14001) and health and safety (OHSAS 18001). We had put safety and resource efficiency programs into practice globally and had started to work with suppliers and customers to share information and reduce EHS impacts in our value chain.

Our challenge in 2007 was to continue to achieve what our plans called for, at the same time as integrating the new Gallaher business. I'm pleased to report that EHS programs were successfully executed and with the new combined business we achieved a fourth consecutive year of improved EHS performance.

The following pages describe the programs and results.

The integration program began with an assessment in June 2007 of ten Gallaher factories, to collect and share information for integration planning. The assessments focused on leadership and safety culture, organization and management systems.

The new EHS culture has been fully embraced by Gallaher sites and our 2007 performance reflects this spirit of continuous improvement.

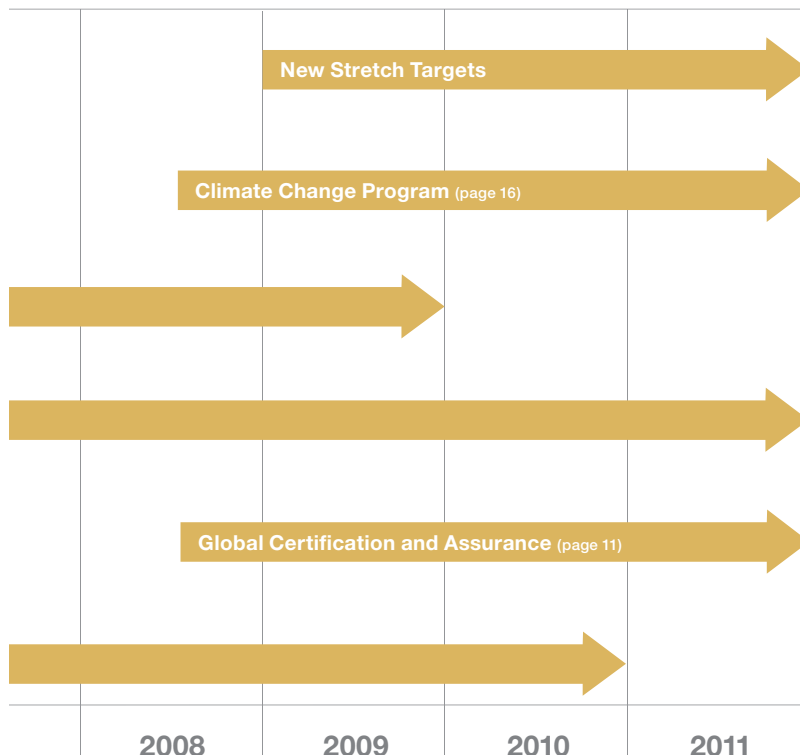
Our current strategy is based on three key areas:

1. Continuing to strengthen our EHS management system foundations with consistent standards applied around the world.
2. Challenging targets with supporting programs to deliver improved performance across all our operations
3. Driving sustainability throughout our value chain from the sourcing of raw materials to the disposal of packaging and waste.

While we have made progress in all these areas, and have achieved a fifth year of improved EHS performance from our 2003 baseline, we realize that there is still a lot more to do. The timeline below shows the programs we have started, or will start over the next four years, to achieve our objectives. JTI will make these objectives an integral part of the business's annual strategic planning process and set stretch targets for the new JTI to encourage continuous improvement in our EHS performance.



Dr Robert Harries
Vice President, Corporate EHS



Managing EHS in JTI

As a core value, protecting our people and the environment is integrated within the overall JTI business strategy. In late 2007, we reorganized EHS reporting lines to reinforce this, and to ensure EHS is embedded within day-to-day operations across the whole business.

EHS is now part of the Regulatory Affairs team and connects with the business through:

- **Operating Environment Management Meeting**
This meets ten times a year and oversees the development, implementation and communication of policies, including EHS elements, across JTI. It incorporates connections to regulators and stakeholders in our operating locations.
- **Operating Committee Meeting**
EHS participates twice a year in this meeting of senior company officers to ensure EHS initiatives are executed efficiently and properly in our operations.
- **JTIH BV* Board Meeting**
EHS reports to the full JTI Board twice per year to update and discuss EHS performance, material issues and overall strategic direction.

In operations, EHS continues to report directly into line management in all factory and market locations.

* JTIH BV is the holding company of JTI.

Performance and targets

And the winner is...

As a large international organization, it's very important that JTI recognizes the outstanding contributions of the people behind our success – people who focus on values such as innovation and dedication.

One way to do that is to stand up and applaud those teams of employees who search for, and carry out, new ways to advance JTI's performance and progress. So, in 2005, JTI launched its annual Excellence Awards. The Awards, presented by Chief Operating Officer, Tom McCoy, are assessed in three categories – the Environment, Health and Safety and Teamwork – and are judged by a trio of external experts. 2007's award ceremony took place in the new Geneva headquarters.

Setting the pace for change

Pictured are 2007's award winners. The winner in the Environment category was an exciting solar energy project in Tunisia, featured on page 19. An advanced car-tracking system for reducing road accidents won in the Health and Safety category (page 15), and 2007's Teamwork winner offers a great lesson in how important it is to find the connections between small- and large-scale environment issues – read more on page 11.

Special Award

A special award was also presented to JTI Tanzania for its efforts in furthering our community-based reforestation program in Tanzania and Malawi – you can read more about it on page 20.

Success across the board

The day wasn't simply about winners – it was more about celebrating creativity throughout JTI. 2007's runners-up included JTI Canada, whose Wellness Program offers staff lifestyle management workshops and on-site clinical services, and the Trier factory's energy-reduction program. A two-day safety-training event for apprentices, also organized at the Trier factory, was the runner-up in the Teamwork category.

Once again, the EHS Awards have been a reminder of the constant drive for excellence by teams across JTI. We look forward to seeing further examples of innovation and will continue to share our best practices in 2008.



Environment
Solar energy, Tunisia
Hind Ben Ayed
and Anouar Fradi



Health and safety
Car tracking, Tanzania
Boni Mabusi
and Jesse Mwangi



Environment
Energy recovery, Trier
Arnhelm Koester and
Thomas Oberkirch



Health and safety
Wellness project, Canada
Candida Pereira



Teamwork
Apprentices' safety, Trier
Doris Schwaenzl and
Christian Steinmetz



Special award
Reforestation, Tanzania
Paul Makanza and
Trent Bunderson



Teamwork
EHS improvement circle, Canary Islands
Federico Marrero
Giráldez and Enrique
Gutiérrez del Olmo

“We have an obligation to society – we all know that it’s easier to give money or plant a tree and then walk away rather than to make long-term commitments. These people who won awards are our ambassadors for change.”

Tom McCoy, Chief Operating Officer



Performance and targets

Our improving EHS performance is built around solid foundations to deliver long-term sustainable change

At a glance

Consistent reporting

By July 1st 2007, newly acquired factories were reporting EHS performance data monthly.

Improving performance

All EHS KPIs for the new JTI show significant improvement over our baseline year of 2003.

New targets

We will set stretch targets covering 2009 – 2011.

EHS performance... targeting success

Strong EHS performance is built through solid foundations with organization, systems, and processes embedded in day-to-day operations, as the basis to drive improvement.

In 2007, we added 15 factories and a number of new markets to our business, significantly expanding the company's portfolio and environmental footprint. The table below illustrates the difference in our cigarette factory environmental footprint before and after the acquisition of the Gallaher business.

Changes to JTI's cigarette factory environmental footprint in 2007

	Unit of measure	Former JTI only Jan-June	Enlarged business July-Dec
Production volume	Billions of cigarettes	107	212
Energy	Millions MJ	780	1,348
CO ₂	Tonnes	57,645	108,036
Total waste	Tonnes	14,751	28,539
Water	Cubic meters	378,494	659,713

Note: Figures are for comparative purposes only. The data excludes former Gallaher factories for the period April 18 to June 30.

In addition a comprehensive EHS survey of our new markets revealed that our car fleet increased from 4,000 to 6,500 vehicles and consumed just under 18 million liters of fuel.

We recognize that the total impact of the new JTI has increased as a result of the expanded business, but there are also significant opportunities for improved efficiency to reduce overall impact.

As a first step in the integration process we shared information and best practices, and also reviewed all our EHS Key Performance Indicators (KPIs) to ensure they are the right ones and are applied consistently throughout the new organization.

Just hot air?

Germany, Trier Factory – Energy Reduction

Starting in 2005, the Trier factory focused on energy saving and heat recovery. A detailed survey identified many potential opportunities to save energy – both large and small – from improved maintenance to a major investment in a state-of-the-art heat-recovery project. Work has been ongoing since 2005 to implement these projects, which gathered pace in 2006 and 2007.

The energy savings achieved accounted for more than half of the total energy savings achieved at JTI factories worldwide in 2007. With an investment of about \$2.8 million, the factory saves \$1.1 million per year and avoided 3,000 tonnes of CO₂ emissions in 2007.

EHS Excellence Award winner



Adrian Nollberg working at the new heat-recovery system in Trier, Germany

EHS Key Performance Indicators (KPIs)

Safety

The main safety KPI across the company is the Lost Time Injury (Lost Time Incidence) Rate*. In the markets we also measure the Vehicle Accident Frequency (VAF) Rate, the number of vehicle accidents per million kilometers driven. As these are both measured as rates, it is possible to measure 2007 performance against our baseline year of 2003. The LTI Rate was reduced significantly in 2007, due to the Global Safety Change Program, which was embraced across all factories, and is featured on page 12. In contrast the VAF Rate increased significantly in 2007, due to the Gallaher acquisition (see page 15).

Environment

In measuring factory environmental performance, we use five performance indicators: energy, CO₂, waste and water per million cigarettes and waste recycling.

In addition, starting from 2008, vehicle fuel consumption (liters/100 km) will be added as an additional KPI in our markets, and targets set.

Energy and water consumption, and CO₂ emissions per million cigarettes, decreased for the fourth consecutive year against the 2003 baseline. While waste and recycling also showed improved performance versus 2003 they showed slightly poorer performance from 2006 levels, due to less well-developed waste management practices in former Gallaher factories.

* Number of lost time incidents per 200,000 hours worked.

Stretch targets

In 2003, we set KPI targets for the period 2004 to 2006 and reported progress in our last EHS Annual Report. The chart below shows a summary of our 2007 EHS performance against our 2003 baseline.

Factories and market operations will set new stretch targets for the period 2009 – 2011 as part of the 2008 business strategic planning process. These targets will be reported in our next Annual Report.

Global certification – assurance and performance

If implemented properly, the international standards for environmental (ISO 14001) and health and safety (OHSAS 18001) management systems can be a powerful tool to ensure compliance and drive performance. JTI is committed to certify all our cigarette factories to these standards, in a way that will promote consistency and focus on behavior as the key to performance improvement. We will certify all our factories by 2010.

Teamwork drives improvement

Canary Islands – EHS Improvement Circle

This project clearly shows the value and importance of widespread employee involvement and teamwork to achieve EHS improvements.

A multi-disciplinary team met on a monthly basis and was the catalyst for many EHS projects, including energy and waste reduction, and recycling (which reached 55% in 2007 from zero in 2002). The individual changes – many of them simply involving better organization of space, equipment and materials – produced fast results, which created a momentum to continue making improvements.

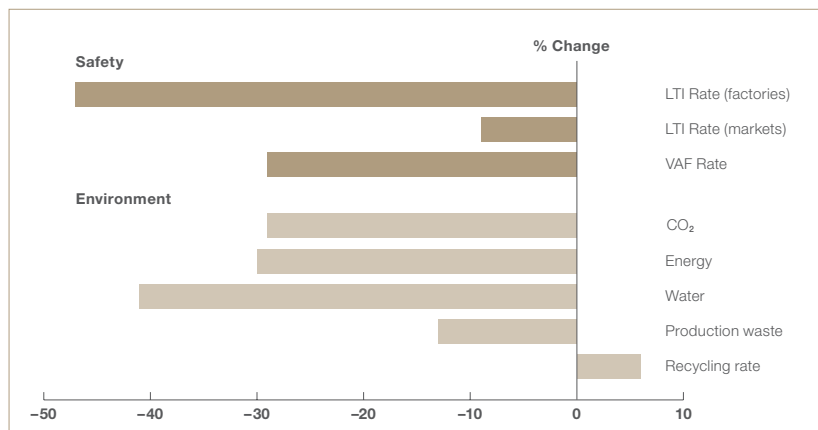
The project really contributed to positive change as the factory moved from being a small family-owned business to part of a multi-national company.

EHS Excellence Award winner



The EHS Improvement Circle Team

Summary of EHS KPI performance in 2007 vs. 2003 baseline





Health and safety

Successful safety in action

A new Global Safety Change Program that prioritizes the issue of safety in our factories has been a major success.

The program, which looks at safety from a fresh perspective, has reduced injury rates, and created a simple, durable and highly effective way of improving safety at work.

At the heart of the program was the identification of the fact that around 90% of injuries were caused by actual behavior – and not for lack of relevant procedures or controls. So the program focuses on the individual as the primary factor in achieving our vision that **together we will create an injury-free work environment.**

The program came to fruition after a frank assessment of the company's safety record. Says Bill Schulz, head of the Global Supply Chain:

“We realized we had some work to do, that best practices were not being shared between sites, and that we could improve by concentrating on safety. We took it to our Executive Committee and they have supported us all the way – we want to be the best in safety.”

The Global Safety Change Program takes a refreshing and clearly effective approach, and has involved collaboration with DuPont Safety Resources, who are recognized experts in the field. So often, regulations, procedures and guidelines concerning safety at work are conceived, drawn up and implemented without considering the individual's pivotal role in his or her own safety. The program addresses this, encouraging management to lead by example, driving changes to safety culture throughout the organization.



"It's all about changing the safety behavior of our people, so a BIG thank you to all manufacturing leaders for leadership and ownership of the program."

Carlos Perez, Global Safety Change Program Director

Jim McMaster, Cigarette Production Manager at the Lisnafillan factory, Northern Ireland, confirms this:

"There's been a big shift in the way we manage our approach to safety. It's far more structured and is based on changing people's mindsets rather than reacting to incidents. In fact, when safety was added to our performance indicators we quickly realized it was as important to the company as quality, service and cost."

According to Bill Schulz:

"It's been very positive. Our people are very engaged by the program and there's a lot of interest in it. We are making solid progress, but we also know there is a lot more we can do."

Thanks to the Global Safety Change Program, the injury rate in our factories has fallen by 53% since 2005.

The results so far speak for themselves. Carlos Perez, Global Safety Change Program Director, says of the success of the program:

"It fits perfectly with our vision of an injury-free work environment, and shows how excellent results can be achieved quickly if the right approach is taken. However, we are not satisfied and the challenge now is to ensure we deliver long-term and sustainable improvement."

Health and safety

Our goal is to eliminate all work related injuries and illnesses.

The health and safety of employees and contractors is an absolute priority for JTI.

At a glance

No fatalities and lower injury rate

There were no fatalities reported in 2007 and the LTI Rate was down by 21%.

Global Safety Change Program

More than 1,100 factory managers and supervisors trained in safety leadership.

Safety change for drivers

Vehicle Accident Frequency Rate increased by 67% in 2007 and driver safety will be a focus for 2008.

JTI is striving to achieve world-class health and safety performance throughout its operations through leadership accountability, management processes and operational excellence. In our 2006 EHS Report we said that employee and contractor safety was a key concern for us and that we were determined to reduce work-related injuries, with a goal of zero.

Safety Performance

In 2007 our LTI Rate fell by 21% from 2006, our second solid year of improvement and a 38% reduction from 2005. These figures include Gallaher operations from 18 April 2007, the date of the acquisition. The improved safety performance is a direct result of the Global Safety Change Program in our factories that involves visible leadership and active engagement with employees. The Global Safety Change Program was one of the first programs introduced as part of the integration process, with all managers and supervisors in both organizations, more than 1,100 people, trained in safety leadership by the end of 2007.

Reduction in LTI Rate



Of the 117 injuries recorded in 2007, 74 occurred in the factories and 43 in the market organization. Six out of 30 factories and 26 out of 42 markets recorded no lost time incidents, and one factory, Shymkent, Kazakhstan, has recorded no lost time incidents since our baseline year of 2003.

There were no work-related fatalities recorded for JTI employees, or contractors in 2007.

On track to improve road safety

JTI Tanzania

In 2006, despite ongoing defensive driver training, JTI Tanzania suffered 23 automobile accidents, five resulting in fatalities to JTI employees or members of the public. This shocked local management and the team looked at ways to make real change.

The solution? A new system to both monitor and track driver behavior by

installing computer-based GPS tracking systems on the cars that record important information about driving habits. It monitors driver's speed, the primary cause of vehicle accidents, as well as acceleration and braking. Drivers were counseled to improve driver behavior.

The results? No fatalities and a 60% reduction in accidents in 2007.

EHS Excellence Award winner



Fleet safety

In early 2008 we conducted a survey of the expanded JTI sales and marketing fleet and our Vehicle Accident Frequency Rate increased by 67% versus 2006. This is a result of the integration of the former Gallaher markets, which had not previously measured fleet safety performance. Although the number of accidents increased, there were no fatalities recorded and the market-related LTI Rate was lower than 2006 at 0.11.

However, the high number of vehicle accidents represents a high risk for serious injury and after presenting these results to senior management it was agreed to reinforce Fleet Safety through a Change Program in 2008.

This program will build on the solid foundations that led to a 57% reduction in vehicle accidents from 2003 to 2006, by positioning fleet safety as an important performance metric. Tools and training will be rolled out in the second half of 2008, and we will set stretch targets as part of our business planning process.

In 2007 we also started to share our experiences in fleet safety outside of JTI. Working with the International Safety Council, we delivered defensive driver training for instructors in Lebanon and a public seminar with the Ministry of Transport in Syria. We will look to extend these activities in 2008.

HIV/AIDS and Malaria

HIV/AIDS is one of the biggest challenges facing Africa today, and JTI has been taking an active role in helping fight that challenge for nearly a decade. The battle isn't just about prevention – AIDS sufferers face the extra burden of a whole range of prejudices, which make education and information vital tools.

In 2007, JTI's Tanzania Cigarette Company (TCC) was awarded "First Position in The Fight Against HIV/AIDS" by the Association of Tanzanian Employers, in recognition of the range of its work – which includes the provision of anti-retroviral medication to employees and family members, and a firm 'no tolerance' approach to AIDS discrimination, amongst other initiatives.



HIV/AIDS Technical Committee hold their award from ATE for being the "Company with the Best HIV/AIDS Program."

**"Pamoja Tutashinda
(together we will win) is our motto"**

Judith Fernandes, AIDS program manager in Tanzania

"A major goal of our health program is to engage with our employees about AIDS," explains Judith Fernandes, the TCC Recruitment Manager responsible for overseeing the programs.

"We urge employees to take advantage of our free voluntary counseling, testing and treatment."

Elsewhere, JTI South Africa launched a new theme for its AIDS work in 2007 – Be Informed, Be Protected. World AIDS Day was the springboard used to extend the HIV/AIDS message to non-JTI employees and introduce a more structured approach to the disease at the former Gallaher factory. 'Power Pack' toolkits, including health booklets and CDs, were given to all employees, making it easy to pass on information to friends and family.

Despite the importance of these efforts, it's important to remember that AIDS is not the only life-threatening disease to plague much of Africa. Malaria, although preventable, kills more than 100,000 people in Tanzania every year, and accounts for up to 40% of outpatients visiting Tanzanian hospitals. To help combat this, TCC has a range of prevention and awareness schemes, including the distribution of mosquito bed-nets, health education seminars, and an in-house medical facility offering immediate treatment.

A clean bill of health

JTI Canada

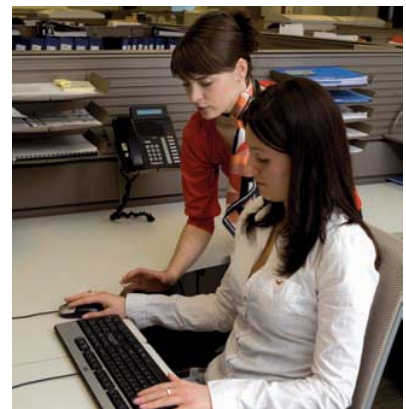
In 2007, the JTI Canada market launched an initiative to promote a healthy work environment and employee well-being.

The Wellness Program was implemented in collaboration with medical experts and consists of three components: a Wellness Workshop to encourage healthy lifestyles; ergonomic assessments to reduce musculoskeletal injuries and encourage early detection of injury; and on-site

clinical services to provide convenient access to on-site healthcare and to detect and treat health problems at an early stage.

As a result of the program in 2007, 58 employees received a total of 110 medical treatments. Feedback from employees shows great acceptance and a number of chronic health problems such as backaches and headaches have been improved.

EHS Excellence
Award winner



JTI and climate change

JTI sees climate change as both an opportunity and a duty to act in an environmentally conscientious way. So as well as compiling a cohesive company-wide strategy, we're encouraging a range of initiatives at factory level.

Developing a formal strategy

In 2007, climate change came to be acknowledged, more than ever, as the most critical challenge facing our planet. Changes to weather patterns affected agricultural output around the world, affecting both the supply and cost of basic food and raw materials. These and other consequences of climate change will have direct effects on our business.

In recognition of the seriousness of the threat, in 2007 we prepared a discussion document to raise the issue at executive level, and in 2008 the new Regulatory Affairs group started to develop a clear strategy on climate change.

While we have set targets and monitored our own energy consumption since 2003, and have achieved real improvements in energy efficiency, we have now started to map our wider carbon footprint across our whole value chain. Thus, our new strategy will address more than just our own greenhouse gas (GHG) emissions.

The direct impact we have

We estimate that the new JTI's total emissions of GHGs from our own factories, offices, warehouses and business travel to be over 300,000 tonnes of CO₂ equivalent per year. While CO₂ emissions in our own manufacturing operations have increased from our baseline year of 2003, our carbon 'intensity', or CO₂ emissions per million cigarettes, decreased by 32% from 2003, as a result of efficiency initiatives (see page 18 for more detail). Also in 2008, we measured the fuel consumption of our now 6,500 sales vehicles and will set targets from 2009 for reduction through using fuel-efficient vehicles and fuel economy measures.

Our wider carbon footprint

Initial calculations of our wider carbon footprint show that across the whole value chain – including the sourcing, manufacture, distribution, consumption, and disposal of our products – most CO₂ emissions occur in our raw material supply chain. This assumes that the smoking of cigarettes does not add to CO₂ emissions in the atmosphere, as the CO₂ released is balanced by carbon uptake in tobacco growing as part of the carbon cycle.

We estimate that GHG emissions in our raw material supply chain are around five times our own emissions, coming primarily from paper and acetate products and energy used for curing tobacco.

Pages 20-22 carry details of our plans to address some of these emissions, including reforestation, encouraging use of fuel-efficient curing barns, and working with major customers to minimize emissions from distribution vehicles.

As we try to understand the best way forward to reduce our carbon footprint, all parts of the organization will have different roles to play. EHS is clearly in a strong position to promote best practices and review our progress, and R&D and engineering can prioritize energy efficiency as a development and design criterion, while all employees will also have a key role to play.



Innovation at work

“Our success in reducing CO₂ and energy intensity is attributable to a combination of global efficiency programs and local innovation,” states David Dooley, Environment Director.

The following projects show examples of simple ideas that have been turned into practical projects by our operations.

In Tunisia, the factory completed the installation of solar energy panels for water heating (see page 19), which reduced CO₂ emissions by 15%.

Elsewhere, an energy reduction program at the Trier factory in Germany (page 10) has eliminated about 3,000 tonnes of CO₂ emissions per year.

Our distribution center in Crewe, UK, has worked with major retail stores to minimize vehicle deliveries. They also faced an interesting challenge after installing new security cameras – how to provide enough light during the night without being wasteful.

The team decided to install a series of daylight-sensitive 70w fluorescent bulbs, which automatically judge when to switch on and off. The factory now uses over 350 kilowatts less, each night, than it would with the original bulbs!

In Romania, we’ve been piloting a scheme of in-house climate control. Not only were we able to reduce energy consumption for heating and cooling by over 19% on the previous year but, importantly, have done so without affecting machine efficiency or product quality.

The business and ethical challenges posed by climate change are only going to intensify in coming years. That can be a sobering thought, but at JTI we see a slightly different picture: countless opportunities to apply our creative problem-solving abilities to a vitally important cause.

“We are taking steps to address climate change across the full range of our activities.”

Pierre de Labouchere, President and Chief Executive Officer

Environmental programs and performance

We have put in place strong environmental programs and delivered sustained improvements in our environmental performance since 2003.

At a glance

Environmental impact

Integration of former Gallaher operations and higher production volumes have increased our total environmental impact.

Improved efficiency

We reduced our carbon intensity by 6% and energy intensity by 11% in 2007.

Cutting waste

We reduced waste by over 1,000 tonnes, with annual savings over US\$1 million, through re-use of tobacco cases.

We have identified, and regularly review, our environmental impacts and continue to set targets for energy, CO₂, waste and water. We can demonstrate sustained and strong improvements in these areas, which have been achieved through many individual programs, both at company and site level. Some examples of the programs are described in this report. This approach will continue in 2008.

Carbon emissions and energy consumption

Climate change is a key environmental focus area for JTI. We have reduced carbon emissions per unit of production and we will re-set targets and implement energy- and carbon-reduction programs in our efforts to minimize our carbon footprint.

The main source of carbon emission from activities directly under our control is manufacturing, principally by consuming electricity and burning fossil fuels (oil and natural gas) at our factories. This is followed by our sales and distribution activities, including electricity consumed at our offices and fuel in our vehicles. Finally, we cause emissions of carbon through business travel (see chart).

In 2007, we released over 300,000 tonnes of CO₂ and consumed nearly 3.8 billion megajoules of energy through our manufacturing, sales and distribution activities and business travel. This represents an increase of 50% over 2006 figures for energy and CO₂, and results from the integration of Gallaher operations.

However, a more representative figure to judge efficiency is CO₂ and energy intensity, measured as carbon emissions and energy consumption per million cigarettes.

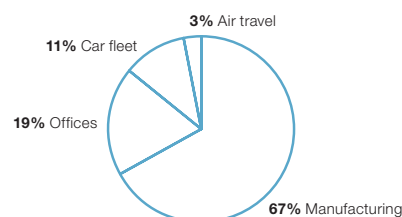
In 2007, our cigarette factories reduced their CO₂ intensity from 0.52 tonnes of CO₂ per million cigarettes, to 0.49 tonnes – an improvement of 6%. Since 2003, our carbon intensity has improved by nearly 30%.

Energy intensity of our cigarette factories improved by 11% in 2007 and 30% since 2003.

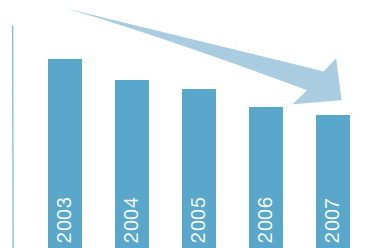
Energy reduction projects, such as at our Trier factory in Germany (page 10), and strong performance of former Gallaher factories have contributed to these CO₂ and energy reductions.

Moving forward, we will continue with efforts to reduce energy use and CO₂ emission, including a systematic approach to reduce energy across all factories. For example, we will roll out an energy-reduction project piloted at our Romania factory in 2007. The project minimizes the amount of energy required to control temperature and humidity in our factories and delivers significant energy savings and CO₂ reductions.

Sources of CO₂ emissions



Reduction in CO₂ intensity



Detailed environmental performance data are shown on page 24 and the inside back cover.

Waste management

Our manufacturing operations and commercial activities generate waste. We recognize that this is a cost to the business and affects the environment both by consuming resources and through its disposal. We manage waste according to a hierarchy of elimination, re-use, recycling and finally, disposal.

We generated over 50,000 tonnes of waste in 2007 including office waste and exceptional items such as demolition waste. 40,000 tonnes of this was production waste from our manufacturing operations, of which we recycled 74%. The 2006 total figure was approximately 34,000 tonnes, and the increase can be explained by the expansion of the business and increase in production volume.

We measure the efficiency of our cigarette manufacturing processes through the intensity of waste generation – tonnes of production waste per million cigarettes. In 2007, this was 0.126 tonnes per million cigarettes. This increased from 0.124 tonnes per million cigarettes in 2006, nearly 2% more waste. Furthermore, in 2006, 78% of this had been recycled. These poorer results are due to the integration into the business of operations with higher waste and lower recycling rates.

Overall, however, we have reduced waste intensity by 14% and increased recycling by 5% since 2003. We will implement targets and programs to further reduce our waste intensity. A program to re-use tobacco shipping cases (see story on this page) will drive waste elimination in 2008 and beyond.

Water use

We use water throughout our operations, for cleaning, heating, sanitary and operational uses.

In 2007, our business used nearly 2.6 million cubic meters of water, compared to 2.35 million cubic meters in 2006. As with other resources, total consumption has risen as a result of the business expansion and production volume increases.

We track our water consumption intensity in cubic meters of water consumption per million cigarettes produced. In 2007, this figure was reduced by 14%. Since 2003, our factories have reduced water intensity by 42%.

A major initiative in Turkey to clean and re-use water was responsible for nearly half the savings we achieved through water reduction projects in 2007. Strong performance by the former Gallaher factories also contributed to the improvement.

We will continue to look for ways to reduce our water consumption and all our factories will set water consumption targets for 2009 – 2011.

Renewable energy

Solar power in Tunisia

Our Kairouan factory in Tunisia enjoys over 300 days of sunshine every year – an ideal renewable energy source and a great alternative to fossil fuels.

In 2006, the factory launched a feasibility study into using solar power. One year later, solar panels were installed to heat the factory's water. This has made a real difference to the factory's carbon footprint – CO₂ emissions are now 15% lower.

At a one-off cost to the factory of US\$5,500 – and supported by a \$3,500 grant from the Tunisian Government – the factory also saves \$3,000 per year.

EHS Excellence
Award winner



Waste reduction

Good for the environment...
good for business

In 2007, we started to re-use the cardboard cases in which we transport tobacco leaf and processed tobacco around the company. These cases account for roughly one-third of the production waste we generate.

The main changes implemented by the project required new packing equipment to be installed and supply routes to be established for the return of used cases.

Vedat Gumusgerdan, Global Manufacturing Director coordinating the project, said, "A critical step in our case re-use project was to change the case packing equipment in our Yelets factory. We did this in November, and this allows us to re-use cases that were previously thrown away."

In 2007, this yielded improved efficiency, avoiding 1,200 tonnes of waste per year and annual savings of around US\$1 million. In 2008, we intend to expand this project to avoid about 3,000 tonnes of waste per year and save around US\$7 million.



Customers and suppliers

Many winners in reforestation program

In 2007, JTI launched a community-based project to mitigate the effects of deforestation in Tanzania and Malawi. The problem is due to land clearing for agriculture, the high demand for wood, particularly for cooking, heating and construction.

The tobacco industry has an important role to play, not least because of the amount of wood consumed for building barns and tobacco curing. The program looks to stop deforestation through encouraging sustainable forest management, fuel-efficient curing and active reforestation, as well as good agricultural practice.

The Reforestation and Community Support Program (RCSP) began in January 2007 as a four-year project, and although JTI funds it, the work is implemented by third parties. As well as partnerships with regional tobacco dealers, the project enjoys the support of Washington State University, which has extensive experience in this field, and Total LandCare (TLC). TLC is a non-governmental organization (NGO) based in Malawi and Tanzania with a mandate to work with rural communities in providing sustainable and community-based natural resource management.

The knowledge and expertise of these experienced NGOs has been vital as the RCSP looks to satisfy its three key objectives:

- Reducing deforestation by improving the management of natural resources;
- Increasing farm productivity to provide better food security;
- Enhancing village and household health standards with safer water and sanitation.

Based on discussions with a number of regional tobacco companies and associations, the RCSP chose Tabora as the main site to focus on in Tanzania, and several tobacco-growing areas in Malawi. Tabora is the largest tobacco-growing region in Tanzania, with high potential for expansion – but little in the way of irrigation and sanitation programs.

So, how did the RCSP's objectives translate into action? When it came to tree-planting, more attention was needed in selecting appropriate (fast-growing and termite-resistant) trees, with a view to providing wood for rural households and giving the indigenous woodland the opportunity to recover. There were also efforts to encourage a range of energy-saving techniques – fuel-efficient kitchen stoves can save 30 – 50% of the wood used for cooking, and improvements introduced to curing barns can halve the amount of wood to cure tobacco. On a visit to Tabora to officially launch the JTI program, Professor Mark Mwandosya, at the time the Tanzanian Minister of State with responsibility for the environment, publicly urged every tobacco farmer to start using the new barns.

The final component of the program is the introduction of more sustainable farming methods. Says Trent Bunderson of TLC:

"The farmers save time, labor and money. Ultimately their whole environment is improved and sustained, and their productivity can increase."

This was echoed by Othman Mlinde, Sikonge District, Tanzania.

"TLC has given us lessons in irrigation farming that we'll use for generations to come. These techniques help make farming much more reliable and dependable."

Alongside these specific efforts, the RCSP has also looked to encourage the general concept of regeneration and woodland management in the area.

The more firmly rooted this idea becomes, the easier it is for communities to start reaping the rewards of sustainable farming methods. People in the region have shown a real willingness to learn, which can only be a good sign for the future.

Ultimately, we hope the project will spread benefits way beyond the four-year time frame. Increases in tree planting and protection will improve the soil for years to come, while the enhancement of food security and income-generation promise to trickle down, inspiring wider social improvements.

That's the real strength of the RCSP – JTI can improve the sustainability of tobacco production, while simultaneously addressing its own impacts and directly helping people's everyday lives.

"I'm delighted that the Minister of State was so complimentary about our company's work in Tabora. In fact he felt the exercise was so valuable he urged us to try to speed up the pace at which we are spreading knowledge and skills to the local community."

Paul Makanza, Director of Corporate Affairs, Tanzania Cigarette Company.

"All the components of the program are going as planned, in fact better than planned, and we are happy with the results so far."

Trent Bunderson, Director East & Southern Africa, Total LandCare.

A woman with dark skin and short, dark hair is standing in a field of dark, rich soil. She is wearing a bright yellow long-sleeved shirt and a green and white patterned skirt. She is looking towards the camera with a slight smile. To her left is a young tree with green leaves and a thin brown trunk. The background shows more of the same soil and some other plants.

“JTI wants to see tobacco grown sustainably
and see farmers’ livelihoods improved as a
result of our program.”

Trent Bunderson, Director East & Southern Africa, Total LandCare

Customers and suppliers

Working with our business partners.



Encouraging self-sufficiency Dorothy Mickson, Msungacharu, Malawi receives one of our subsidized farmers' starter packs including the irrigation pump, fertilizer and seeds required for two crops a year.

At a glance

Customers

We are starting to work with key international customers to address sustainability issues.

Suppliers

We have processes in place to ensure our suppliers meet our standards on EHS issues and encourage sustainability.

Addressing impacts

We are starting to address our EHS impacts across our value chain.

Our products reach consumers through a complex network of retailers and distributors, and we also work with over 400 global suppliers to source raw materials, packaging and services. In all areas sustainability issues are becoming a bigger part of our interaction with our business partners. This section describes our activities and progress in these areas.

Working with customers

In the last few years a number of our large international customers have started to take a much stronger position on sustainability issues, and have set ambitious targets in areas like safety, energy use and greenhouse gas emissions. The sustainability strategies of global retailers can have significant impacts on their supply chains and we welcome this development. We have responded to growing requirements from our customers and have shared our performance and experiences. We will also look to explore opportunities for joint initiatives.

Working with our suppliers

We work with many suppliers, ranging from strategic relationships with Contract Manufacturers and Licensees (CMLs) that produce JTI-branded products, to global and local suppliers of raw materials and services. Across the board we look to our suppliers to meet our standards on social and environmental issues. Our overall approach includes:

- Pre-assessments before we start working with a new supplier;
- EHS requirements in supplier contracts; and
- Review of EHS in supplier engagements.

For our CMLs we also have EHS Guidance, to define minimum EHS requirements for partners manufacturing our products. Our minimum requirement is to meet all local regulations, although in the absence of developed legislation we also set our own standards.

We also conduct surveys, the last one was in 2006, to establish baseline performance against environmental criteria including policy, targets, emergency planning, management systems and legal compliance. We will extend the survey in 2008.

Addressing impacts

We have also identified key environmental impacts in our supply chain and are taking action to mitigate them. One of our main key raw materials is tobacco, which we purchase from international leaf dealers. The main potential EHS impacts from tobacco growing are the use of wood for tobacco curing and barn construction, agrochemicals use and deterioration of soil from intensive farming methods. JTI has been encouraging sustainable tobacco production, through our suppliers, for a number of years. In 2007, following discussions with our suppliers, we started a program in Tanzania and Malawi, aimed at sustainable forestry and improving rural livelihood (see page 20).

The results of the program are summarized in the table below:

2007 Results of Reforestation and Community Support Program

Intervention	Result
Tree seedlings raised	3,862,125
Trees planted	3,255,770
Natural woodlands under management (ha)	971
Energy-efficient curing barns built	29
Irrigation sites	42
Improved kitchen stoves installed	1,154
Water wells installed	1
Eco-pit latrines installed	57

The reforestation program is currently contracted through to 2010, and with a long-term commitment to sustainability.

Verifier's statement

Our Annual EHS Report has been independently verified since 2004. The statement from our verifier LRQA is published below, together with our response.

Scope and objectives

Lloyd's Register Quality Assurance Ltd (LRQA) was commissioned by JT International (JTI) to independently assure its Environment, Health and Safety Report 2007 'Climate for Change' (the Report).

The objectives of the Assurance were to:

- Check that the information in the Report is accurate and represents JTI's performance fairly;
- Review the completeness and relevance of information presented in the Report;
- Assess JTI's systems for definition, measurement, collection, calculation, collation, aggregation and presentation of information and data in the Report.

The Assurance was undertaken as a sampling exercise and was carried in accordance with LRQA's assurance procedures. It did not extend to data and information accessed through web-links identified in this Report.

The Report remains the responsibility of JTI and has been approved by them.

Method

Between January and June 2008, LRQA:

- Reviewed information and data presented in the Report;

- Examined the materiality of the Report content;
- Interviewed personnel responsible for EHS programmes, data and information management;
- Checked EHS records and relevant documentation;
- Carried out site visits at JTI headquarters in Geneva (Switzerland); JTI Factories in Moscow (Russia), Lisnafillan (Northern Ireland), Johannesburg (South Africa), Dar es Salaam (Tanzania), Hainburg (Austria) and Montreal (Canada); Market Offices in Johannesburg (South Africa) and Toronto (Canada); and Total LandCare and tobacco farms in Malawi.

Findings and conclusions

The Report is a balanced presentation of the most important EHS issues in JTI. Source information and data sampled support the content of the Report.

JTI continues to demonstrate EHS performance improvement. Systems for collecting EHS data are now well established in the factories and market offices, but some minor inaccuracies were noted in the monitoring and reporting of EHS data from former Gallaher locations. However, these do not contribute to any significant material error in the data and JTI is working

to improve the quality of the data in these locations.

LRQA was impressed by JTI's Reforestation and Community Support Program operating in Malawi and Tanzania and its contribution to improved sustainability of tobacco farming. Progress with the implementation of the Global Safety Change Program was also notable.

In last year's report, LRQA reported that EHS culture in the markets was not as strong as in the factories, and weaknesses in the monitoring and reporting of factory non-production waste and vehicle mileage in markets. This year LRQA saw evidence of a robust approach to health and safety issues in the market, and no issues with reporting of non-production waste. The reporting of vehicle mileage still needs refinement but the inaccuracies identified do not contribute to any significant material error in the data.

Suggestions and improvements

Further opportunities for improvement were identified during the verification:

- Evidence was seen that management of change in operations needs strengthening to ensure all significant EHS issues associated with operational changes and new projects are identified and controlled;
- A policy could be implemented to address sustainability issues associated with forestry derived non-tobacco production materials;
- A more formalised materiality process for determining the content of the Report in future years could be implemented.

JTI response to verifier's statement

External verification plays an important part in the preparation of our EHS Annual Report. The verifiers question and challenge the scope and content of the Report, request evidence to validate statements we make and audit the various EHS management processes that we use to collect information.

LRQA have concluded that we have reported our EHS performance accurately and in a fair and balanced

way. However, the verification has also identified areas for improvement, and in response to the findings and conclusions of LRQA, we will:

- Strengthen our process for management of change in operations to ensure EHS issues associated with new projects are addressed;
- Develop a process to address sustainability of forestry derived non-tobacco materials;
- Review our process for determining materiality and Report content.

C. E. Rosser

For and on behalf of LRQA 24 June 2008



This Assurance Statement is valid for one calendar year from the date of issue.

To see a full copy of the LRQA Assurance Statement, please visit our website at www.jti.com.

Data summary

JTI shows significantly improved performance from our 2003 baseline.

These charts show the EHS performance of our operations since 2003 and explain our progress in 2007. All indicators show improved performance versus 2003, however there was a sharp increase in vehicle accident rate over 2006, and this will be a focus in 2008.

New stretch targets will be set in 2008 for the period 2009 – 2011.

Scope of data

In 2007, 30 factories and 42 markets from 39 countries reported EHS data. Operations that were formerly part of the Gallaher Group submitted health and safety data from the date of acquisition (April 18th 2007) and environmental data from July 1st 2007.

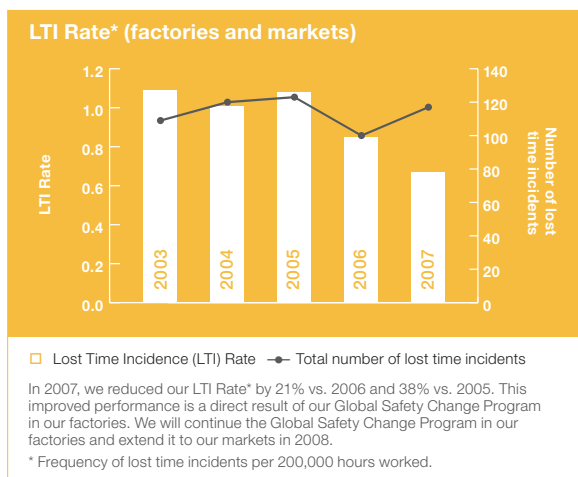
Environmental KPI data (per million cigarettes) includes cigarette factories only. Total consumption and emissions data include all JTI operations (factories, offices* and travel).

* Estimated

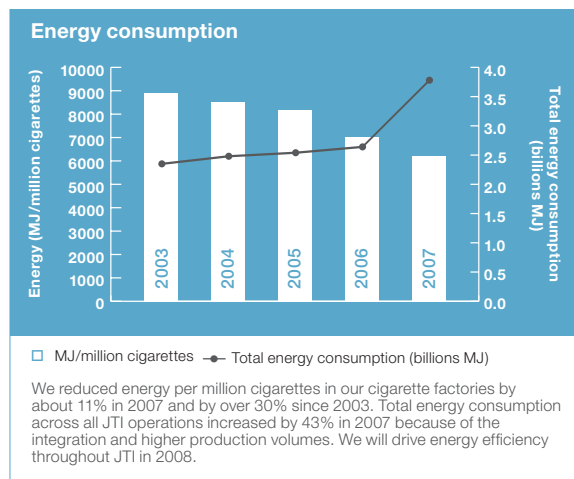
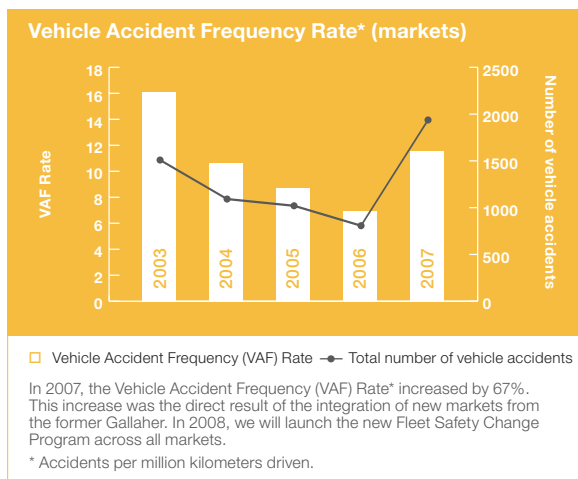
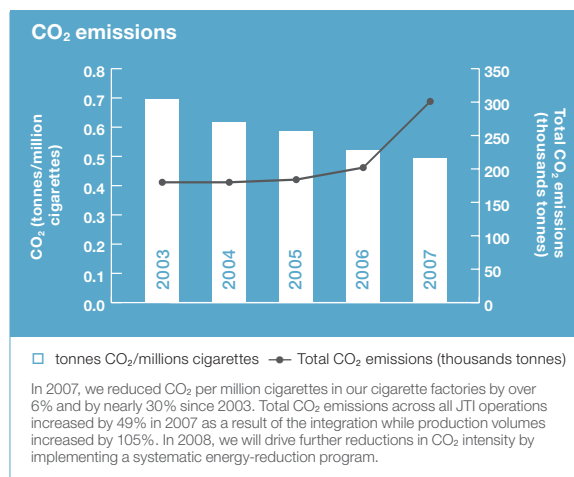
Data collection and quality

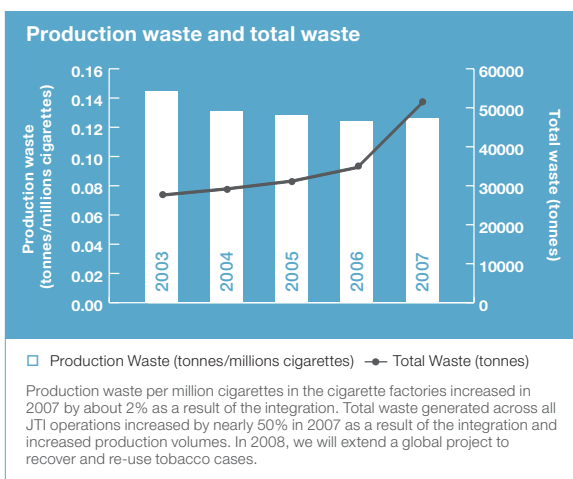
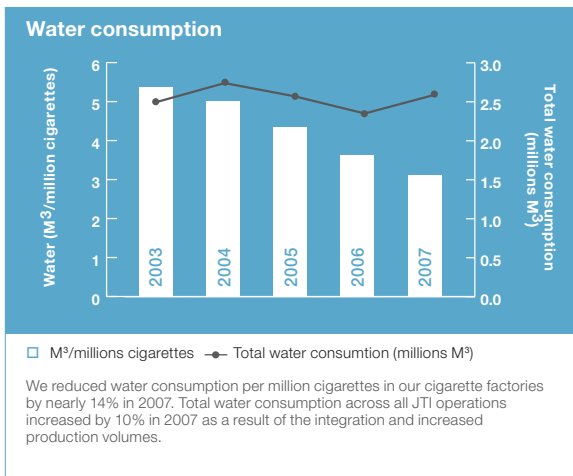
Data from factories are collected monthly and data from markets are collected quarterly. Data are collected via a web-based reporting system, checked and corrected if necessary. In addition, the data have been verified by Lloyd's Register Quality Assurance (see verification statement on page 23).

Health and safety trend data

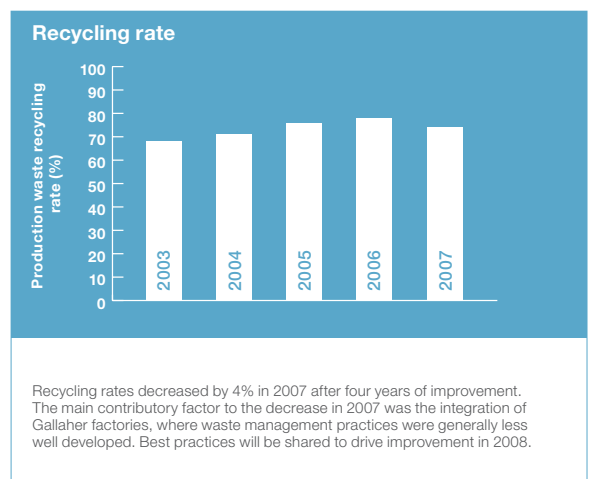


Environmental trend data





EHS Key Performance Indicators	2003	2004	2005	2006	2007
Health and safety data					
Fatalities					
Fatalities (JTI Personnel)	4	1	1	3	0
Fatalities (non-JTI Personnel)	3	3	4	9	0
Number of Lost Time Incidents					
Factories	109	120	123	100	117
Markets	83	82	94	62	74
	26	38	29	38	43
Lost Time Incidents (LTI) Rate	1.09	1.01	1.08	0.85	0.67
Vehicle Accident Frequency (VAF) Rate	16.1	10.6	8.7	6.9	11.5
Factories certified to OHSAS 18001	7%	47%	93%	88%	47%
Environmental data					
CO₂ Emissions (tonnes)					
Intensity (per million cigarettes)	0.695	0.619	0.586	0.522	0.493
JTI Total (thousands)	180	180	184	202	301
Energy consumption (megajoules)					
Intensity (per million cigarettes)	8,913	8,520	8,171	6,997	6,195
JTI Total (billions)	2.35	2.48	2.54	2.64	3.78
Water consumption (cubic meters)					
Intensity (per million cigarettes)	5.38	5.01	4.34	3.62	3.12
JTI Total (millions)	2.49	2.74	2.57	2.35	2.59
Waste generation (tonnes)					
Intensity (per million cigarettes)	0.145	0.131	0.128	0.124	0.126
JTI Total (thousands)	27.6	29.2	31.2	34.7	51.4
Production waste recycling rate					
JTI total	69%	71%	76%	78%	74%
Factories certified to ISO 14001	47%	100%	100%	88%	47%



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