



Inter-Office Correspondence

Date: Thursday, 16 August 2007

To: Regional Presidents

Cc: Pierre de Labouchere
Jean-Luc Perréard
Mark Mulvey

From: Thomas A. McCoy, Paul R. Bourassa

Subject: Smuggling and Contraband

This is to serve as a reminder of our ongoing obligations to comply strictly with JTI's Code of Conduct provisions on the above subject. Specifically, the Code states:

"JTI is not, and will not be involved, in the illegal sale of its products. Furthermore, JTI is committed to do everything possible to prevent its products from ending up on the illegal market.

Evasion of customs duties or other customs requirements can have serious consequences. Helping others evade such duties or requirements can have serious consequences as well.

Under no circumstances may you engage in any activities that evade or help others evade such duties or requirements."

In light of the recent acquisition of the Gallaher group, steps were rapidly taken to ensure that certain practices that could potentially run afoul of JTI's Code of Conduct were addressed. Namely, in the Ukraine, it was decided by Regional and Market management effective June 11, to enforce a national sales quota by distributor. More recently, on August 8, measures were taken in the Polish market to cease the manufacturing and sale of certain products bearing trademarks for which there was little to no demand in the domestic market, which were being exported through certain channels and eventually seized by UK authorities.

We need to ensure strict compliance with JTI's policies and procedures and that each of our markets and GM's understand that they will be held accountable, if deserved, for unauthorized sales, irrespective of who in the wholesale or retail distribution chain is ultimately responsible. This means that any financial penalties that could be assessed will be charged back to the responsible markets (in some markets this could potentially wipe out all

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profitability), and that any personal violation of the Code of Conduct will be dealt with severely which, in certain instances, could result in termination of employment.

You should note that in the UK, regulations allow Customs to impose a penalty of up to £5 Million on a manufacturer if it is deemed not to have implemented sufficient control of its distribution chain. Other countries both within and outside the EU have implemented or are considering similar punitive measures.

JTI's commitment to authorities around the world and to other stakeholders to act swiftly and decisively in stopping actual or potential illegal sales of its products will be acted upon.

If needed, Corporate Security and Corporate Compliance can assist you with revisiting the certification of your customers/distributors in accordance with JTI Know Your Customer (KYC) Programs.

Should there be any doubt or question as to what you and your GM's can and must do in this regard, do not hesitate to contact either one of us.

Best regards,

Thomas A. McCoy

Paul R. Bourassa