
From: Reynolds, David A
Sent: Saturday, April 10, 2010 12:11 AM
To: ryuichi.shimomura@jt.com
Cc: haruhiko.yamada@jt.com; atsushi.kondo@jt.com; kei.matsuzaki@jt.com
Subject: Urgent Brand Integrity Issues of Concern
Importance: High
Sensitivity: Confidential

Dear Shimomura-san,

Please excuse this direct approach, but my loyalty to the company compels me to raise the following issues of grave concern.

During my tenure as Director of the Brand Integrity Program in Asia-Pacific between 2004 and late 2008, I never encountered any difficulties with management when the BI Team identified known or suspected sales of cigarettes outside of authorized channels or any efforts to either cover up such inappropriate sales or continue these after diversions were discovered. During this period I was principally dealing with Koichi Hamada and Shigeyuki Sumida from JTI Asia Duty Free; Yoshifumi Soejima and his team from JT China and Hong Kong; Shiroji Maeda of JTI Taiwan; as well as Yuji Miyake, Kosei Oda, Kei Matsuzaki, and Atsushi Kondo from JT Inc. In all instances the conduct of these gentlemen was most professional and above reproach and they worked very closely with us to find and rapidly and conclusively shut down all channels of potentially illegal sales of our cigarettes.

After I was promoted to run the Global Brand Integrity Operations in December 2008 my team, however, progressively uncovered numerous cases of smuggling and unauthorized sales outside of Asia. Regretfully, we have increasingly encountered both reticence on the part of senior JTI officers in these regions and in Geneva to follow up on our findings and even open hostility towards the Brand Integrity program overall.

In particular, in recent months members of my team have been directed not to investigate several instances of smuggling related to specific JTI distributors - such as IBCS/Issa Audeh - and the possible involvement of JTI employees with known smugglers. We likewise have encountered repeated instances where evidence we have developed on smuggling by distributors simply has not been acted upon in a correct, timely, and forceful manner - such as John Richardson in Israel, Megapolis in the CIS, Pedro Sanatana in Uruguay, and JM Dolphin and DFS Shipstore in Greece, among many others - and in a few cases sensitive information from BI investigations has even been passed back to the smugglers themselves by unknown persons in the company; this has reportedly occurred as recently as two weeks ago.

Possibly the most egregious instance of ongoing smuggling involves shipments of Saint George and More from Russia into the European Union. As initial evidence I attach a

Brand Integrity Investigations Report completed in September last year, which has been complimented since by regular reports detailing the still on going large-scale outflows of these cigarettes from the Russia market. Shipments to unauthorized buyers have reached a massive scale exposing the company to fines potentially of around EUR 30 million. We have repeatedly reported our findings to JTI management including Chief Compliance Officer Jean-Luc Perréard and the General Manager for the Russia Market, Kevin Tomlinson, but have yet to elicit any concerted effort to halt these diversions. Even more of concern, on March 2, 2010, the latter stated that he was not troubled by the diversions given the amount of money the market was generating from sales of these brands.

The obstruction my team has been facing recently culminated with a concerted effort by certain senior JTI officers to break into and steal documents from email accounts used by Brand Integrity, our service providers, and even some of the firm's competitors and law enforcement agencies. I attach a Memorandum of Record from a conversation I had with the Vice President for Corporate Security and Brand Integrity Mark Mulvey on November 3, 2009, where the latter admitted having hired a US company to proceed with hacking operations. Mr. Mulvey subsequently authorized payments to this firm equaling just under US\$300,000. Please also find attached the email of Jean-Luc Perréard of November 13, 2009, recognizing the company's involvement in this criminal activity. Mr Perréard subsequently confirmed on 17 March in front of an audience of BI team members, and including JTI Legal Counsel Wade Wright, that he had seen documents stolen from these email accounts – he actually stated that was “surprised by the amount of information” in the accounts. My team has informally raised this issue with the Cyber Crimes Unit of the US FBI – at least one FBI account may have been broken into - the head of which has acknowledged that "all the elements of a crime exist."

In all these cases, JTI management has not lived up to the "zero-tolerance" policy as outlined in the August 2007 Memorandum issued by Chief Operating Officer Tom McCoy ("*Under no circumstances may you engage in any activities that evade or help others evade such duties or requirements*") and, in those cases that touch on smuggling into or via the European Union, has specifically and repeatedly violated Article 9.1 of the EC-JTI Agreement of December 14, 2007, which calls for the company to proactively report all instances relating to "illegal products." There is substantial evidence that JTI has not been doing so.

I am extremely disturbed about these developments that contrast to my experience within the company in the Asia-Pacific region. I regret that I am compelled to write this email. Of course I remain at your entire disposal to provide you with the files and evidence supporting the facts set out above or to meet with you at your convenience. Please remain assured that my interests are to bolster the company's reputation and moral standing. I also consider that – provided Brand Integrity received the necessary support from senior management in Geneva – we have the means to

address all issues in a satisfactory manner so as to not only avoid any prejudice for the company but also to bolster the company's reputation.

Sincerely yours,

//s//

David A. Reynolds

Vice President

Brand Integrity Global Operations

JT International (Asia Pacific) Limited

Attachments:

1. Brand Integrity Investigations Report on St George Smuggling – 24 Sep 09
2. Email from VBorisov on Continued St George Smuggling – 11 Mar 10
3. Email MFR re MMulvey Confirmation of Hacking – 3 Nov 10
4. Record of December 2010 Payments to SSI (Hacking)
5. Email from JLPerréard Confirming Hacking is Illegal – 13 Nov 10

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