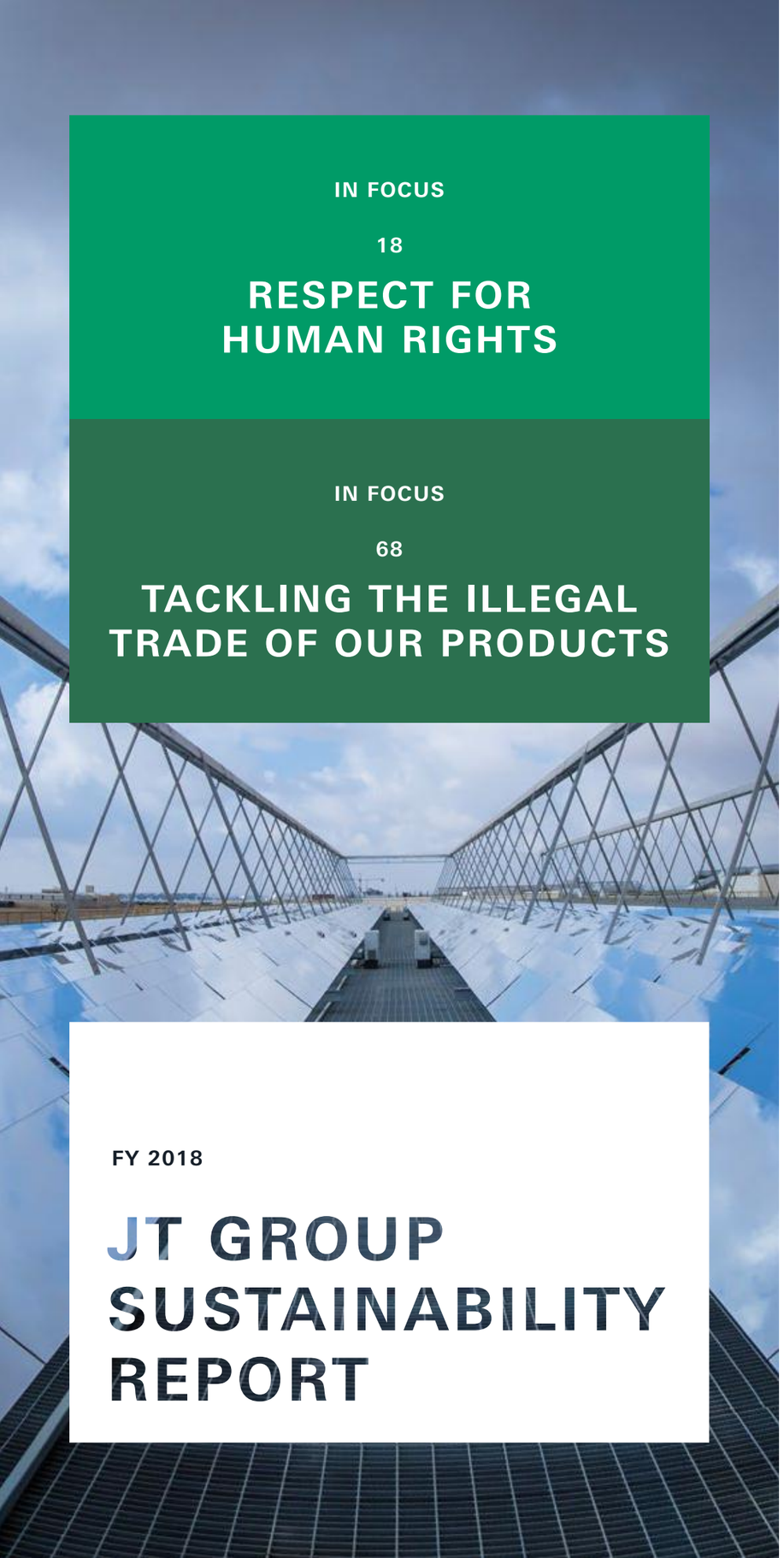


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IN FOCUS

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FY 2018

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FRONT COVER IMAGE: *A view of the rooftop-mounted fresnel collector at our Jordan factory in Amman. Awarded the 'Environmental Stewardship Award' by the Ministry of Environment in Jordan and the World Bank, this is the first tobacco factory in the world to use direct solar steam generation for process heating and cooling. The factory's ultimate ambition is to be 100% carbon neutral.*

SCOPE OF DATA AND INFORMATION PRESENTED IN THIS REPORT

Unless the context indicates otherwise, references in this report to 'we,' 'us,' 'our,' and 'the JT Group' are to Japan Tobacco Inc. and its consolidated subsidiaries. References to 'Torii Pharmaceutical' are to Torii Pharmaceutical Co., Ltd., our pharmaceutical subsidiary. References to 'TableMark' are to TableMark Co., Ltd., our processed food subsidiary that manufactures and sells the ambient and frozen foods and its consolidated subsidiaries.

References to 'Reduced-Risk Products' and/or 'RRP' are to products with the potential to reduce the risks associated with smoking.

We have been guided by GRI Standards in preparation of the report.

We report data for the entire JT Group including subsidiaries, wherever possible.

See our Basis of Reporting document for further details.

In this report we use the following scope notations:

***A** The entire JT Group, including subsidiaries: our international tobacco, Japanese domestic tobacco, pharmaceutical, and processed food businesses

***B** Solely our Japanese domestic tobacco and pharmaceutical businesses: Japan Tobacco Inc. (JT)
(excludes our international tobacco business, processed food business, and subsidiaries of all businesses)

***C** Our Japanese operations, including subsidiaries of Japanese domestic businesses: Japan Tobacco Inc. (JT) and Japanese domestic Group companies (excludes our international tobacco business)

***D** Our Japanese domestic tobacco and pharmaceutical businesses - Japan Tobacco Inc. (JT); and our international tobacco business - Japan Tobacco International (JTI)

***E** Solely our international tobacco business: Japan Tobacco International (JTI)

Any data without annotated scope in this report covers the entire JT Group including subsidiaries: *A.



Message from our CEO

A sustainable society

Global affairs and regulations continued to evolve rapidly in 2018.

Reduced-Risk Products meanwhile have shown strong growth over the last few years and we have witnessed a surge in this new category.

Although the risks surrounding our business have increased, new opportunities have emerged, as the tobacco industry goes through a period of significant transformation.

In the meantime, we have seen major societal and business shifts towards sustainability around the world. Corporations are showing greater awareness for environmental issues triggered by climate change, a greater respect for human rights that extends to a corporation's supply chain, and a sustained uptake in Environmental Social and Governance (ESG) initiatives. Society now expects corporations to be proactive about creating a sustainable and inclusive future.

Sustainability at our Group

Our management principles and our approach to sustainability are governed by our 4S model, under which we strive to fulfill our responsibilities to our valued consumers, shareholders, employees, and the wider society, carefully considering the respective interests of these four key stakeholders, and exceeding their expectations wherever we can. We engage with our stakeholders and work on our sustainability issues to fulfill our responsibility as a member of society. The JT Group prioritizes investments in its business: we invest in our products and services, our production facilities, in innovation, our people, and, at times, through acquisitions. These investments enable our business to create value, which is distributed to our stakeholders in a balanced manner. Our ethos is to grow together, in a viable fashion.

With sustainability at the heart of our management, early 2019 saw a reorganization of our organizational structure. We created a Sustainability Management Division at the JT Group head office in Tokyo, and appointed a dedicated Senior Vice President for Sustainability. This reflected our focus in 2018 as our sustainability strategy was formulated.

We outlined three 'absolute requirements' for sustainability, which apply to the whole Group: Respect for Human Rights, An Improved Social and Environmental Impact and Good Governance and Business Standards. Our core business, tobacco, has already set out its four focus areas, and each remaining business division will establish its own focus areas. Our pharmaceutical division and processed food business are currently defining their own approaches. Both our sustainability strategy and the philosophy of our 4S model is perfectly aligned with the objectives of the United Nations' Sustainable Development Goals (SDGs) which seek to achieve 17 global goals, for the realization of sustainable and inclusive society.

The JT Group's Sustainability Strategy

Let's look at our sustainability strategy in more detail. Our Group strategy is based on three absolute requirements for sustainability: 'Respect for Human Rights', 'An Improved Social and Environmental Impact', and 'Good Governance and Business Standards'.



RESPECT FOR HUMAN RIGHTS continues to be a priority for our Company. We have been building upon an important step forward we made in 2016, when we set out the JT Group Human Rights Policy. A Group-wide e-learning module enabled employees to gain a better understanding of this subject. We then initiated our human rights due diligence process, an ongoing management procedure for assessing human rights impacts, acting on the findings, tracking responses, and communicating our progress. We continue to work hard to embed this process into our organization's Plan-Do-Check-Action (PDCA) cycle.



IMPROVING OUR ENVIRONMENTAL IMPACT is critically important, as we seek to manage our business while simultaneously protecting the environment. The greenhouse gas (GHG) reduction target within our current plan, the 'JT Group Long-Term Environment Plan 2020' was achieved in 2017, three years ahead of target. Beyond 2020, we have set out a new plan, the 'JT Group Environment Plan 2030'. This outlines clear objectives for energy and emissions, natural resources (water and forestry), and waste. We will continue to engage with stakeholders such as CDP and have set and obtained approval for Science Based Targets for reducing our GHG emissions as well as employing scenario analysis. All this is to better understand the impact of climate change on our business and to integrate these findings into our organizational structure.

To serve the needs of society in the areas in which we operate, we consider **IMPROVING OUR SOCIAL IMPACT** to be an integral part of the JT Group's sustainability strategy. We specifically target three areas: reducing inequalities, improving community resilience, and protecting the environment. By offering volunteering opportunities to our employees, we can help make communities more sustainable and inclusive.



GOOD GOVERNANCE AND BUSINESS STANDARDS is a priority for the JT Group management as we seek to continuously improve our framework for corporate governance. To enforce our supervisory function and improve the transparency of our business, in March 2019 we welcomed one additional new external director, and one additional new external auditor and supervisory board member. An advisory panel on nomination and compensation* was also established, comprised mostly of external directors. These initiatives will help us to ensure transparent, fair, timely and effective decision-making.

* *The Advisory Panel on Nomination and Compensation is a voluntary advisory body to the Board of Directors, which was newly established on March 20, 2019 by merging the functions of the existing Meeting for Talent Development and the Compensation Advisory Panel.*

Sustainability within our tobacco business

Our tobacco business has set out four focus areas for its sustainability strategy. These are 'Products and Services', 'People', 'Supply Chain' and 'Regulatory Environment and Illegal Trade'.

Within **'PRODUCTS AND SERVICES'**, we will be a total tobacco company offering consumers an even greater choice of products by focusing on quality, innovation, and reduced-risk potential. Specifically, we will lead in providing the widest range of consumer choice in the Reduced-Risk Products category.

Employees are one of the key stakeholders of our 4S model and investing in **PEOPLE** lies at the heart of what we do. Our efforts in this area have been recognized by a number of external institutions. Our Japanese operations was certified for a third consecutive year as an 'Outstanding Company in Health and Productivity Management 2019 White 500', a program that recognizes large companies that strategically engage in improving employee well-being. We were also recognized as a 'Nadeshiko Brand 2019' for our initiatives in encouraging women's empowerment in the workplace. I am also pleased to announce that our international tobacco business was certified as a Global Top Employer in 53 countries around the world, and a Global Top Employer for the fifth consecutive year.



Sourcing a sustainable supply of quality tobacco leaf at an optimum cost is essential for the sustainability of our business. In 2018, our Agricultural Labor Practice (ALP) program, the core program for managing our leaf **SUPPLY CHAIN**, showed solid progress: 96% of our directly contracted growers were observed against ALP, while 96% of our leaf merchants reported on ALP. Through ARISE (Achieving Reduction of Child Labor in Support of Education), we continued to tackle issues fundamental to eliminating child labor in our leaf supply chain.

The **REGULATORY ENVIRONMENT** surrounding the tobacco industry is becoming increasingly challenging; the way in which we operate in this heavily regulated environment is a key concern to our business. We will ensure that the Company is included in policymaking leading to fair and balanced regulation which meets societal concerns and supports business growth.

ILLEGAL TRADE is another factor that can seriously affect the sustainability of our business. We work hard to combat all kinds of illegal trade and will continue to engage in dialogue with law enforcement agencies to help reduce the presence of illegal tobacco products around the world.

Working towards a sustainable future

Sustainability calls for our management to have a broad long-term perspective, and to ensure the business continues to create value, thus ensuring the sustainability of our business and of society, over the long term. If all corporations make similar efforts, our society can grow and flourish. With the full rollout of our sustainability strategy, the JT Group is moving into a new phase. Our Group will act as one, and together with our stakeholders, we will jointly move towards sustainable growth.

Masamichi Terabatake,
President and Chief Executive Officer, Japan Tobacco Inc.

Our year in brief

REDUCED-RISK PRODUCTS

We expanded our Reduced-Risk Products portfolio to provide consumers with greater choice:

E-Vapor LOGIC COMPACT LAUNCHED IN THE U.K.

T-Vapor PLOOM TECH+ AND PLOOM S LAUNCHED IN JAPAN (JANUARY 2019)

+100 BILLION YEN

We are investing 100 billion Yen in Reduced-Risk Product development between 2018 and 2020.

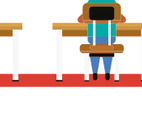


ANTI-ILLICIT TRADE

We provided information to law enforcement that led to:

+39 COUNTERFEIT TOBACCO FACTORIES AND STORAGE LOCATIONS RAIDED

+2.7 BILLION ILLEGAL CIGARETTES SEIZED



ENVIRONMENT

We created the **JT GROUP ENVIRONMENT PLAN 2030**. The scope extends beyond our own operations.

Our GHG emission reduction targets were approved by the Science Based Targets initiative (February 2019).

31% OF ELECTRICITY IN OUR INTERNATIONAL FACTORIES WAS EITHER PURCHASED OR GENERATED FROM RENEWABLE SOURCES.



HUMAN RIGHTS

5 HUMAN RIGHTS IMPACT ASSESSMENTS

We completed 5 Human Rights Impact Assessments in high-risk markets.



AGRICULTURAL LABOR PRACTICES

96% OF OUR DIRECTLY CONTRACTED LEAF GROWERS WERE OBSERVED BY LEAF PRODUCTION TECHNICIANS

96% OF OUR LEAF MERCHANTS REPORTED ON ALP



ARISE

Achieving Reduction of Child Labor In Support of Education

7,123 CHILDREN OFF FARMS AND INTO SCHOOLS THROUGH THE ARISE PROGRAM

HUMAN RESOURCES

Our international tobacco business was certified as a **GLOBAL TOP EMPLOYER** for the 5th consecutive year.

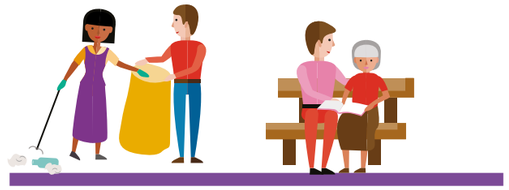
We were certified as Top Employer by the Top Employers Institute in 53 countries around the world.



COMMUNITY INVESTMENT

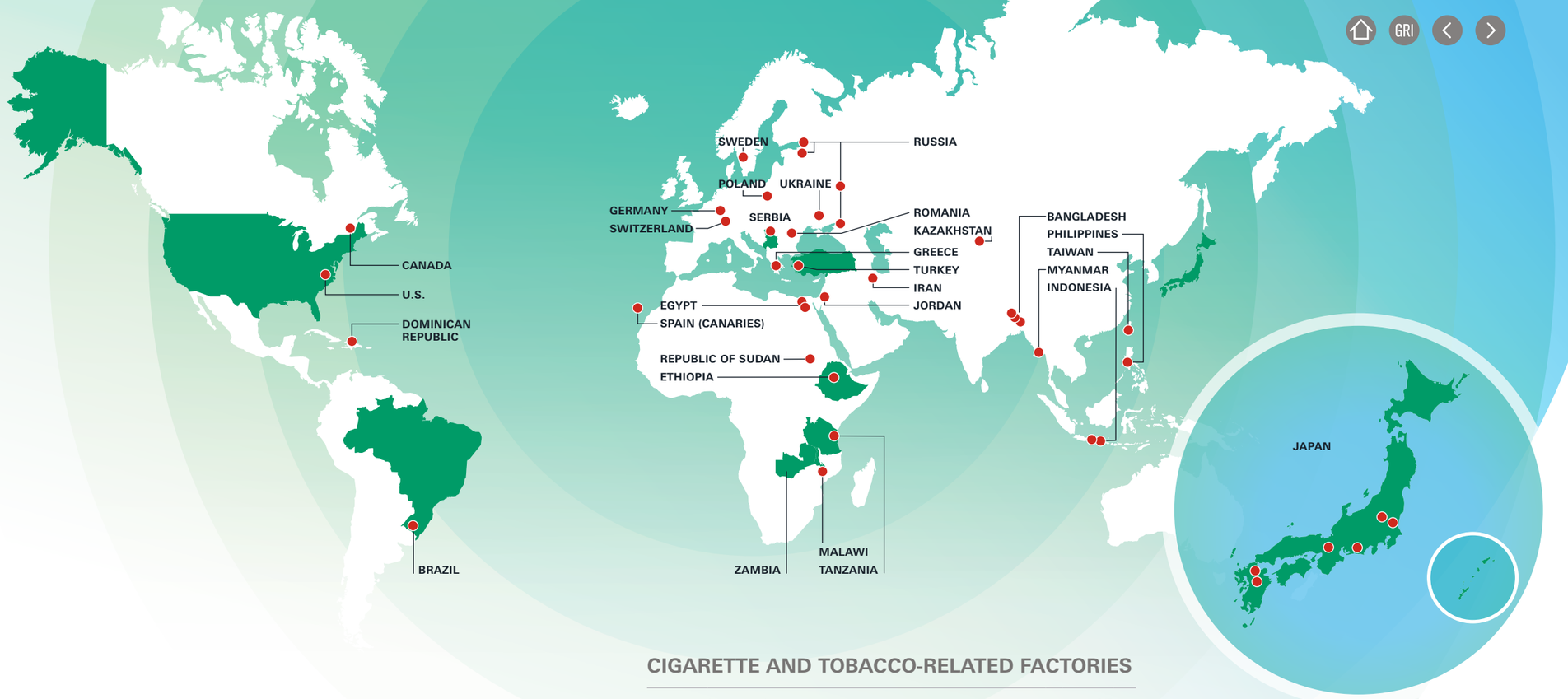
9,986 EMPLOYEES VOLUNTEERED 25,429 HOURS ON COMPANY TIME

4,694 EMPLOYEES SPENT 23,493 HOURS OF THEIR OWN TIME TAKING PART IN VOLUNTEERING ACTIVITIES ORGANIZED BY THE COMPANY



Corporate profile

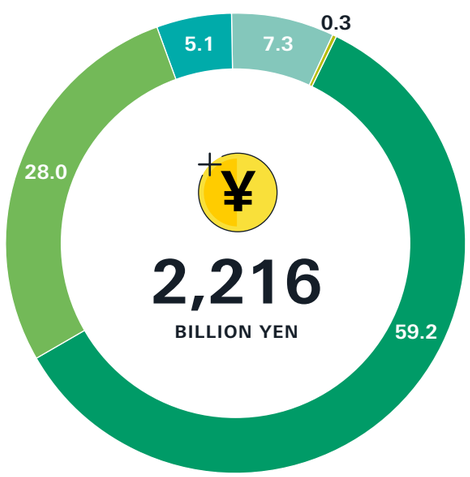
We are one of the world's leading tobacco companies, with offices and factories in more than 70 countries and regions, and products sold in more than 130 countries and regions. Headquartered in Tokyo, Japan Tobacco Inc. (TSE:2914) is listed on the Tokyo Stock Exchange.
We also operate pharmaceutical and processed food businesses.



CIGARETTE AND TOBACCO-RELATED FACTORIES

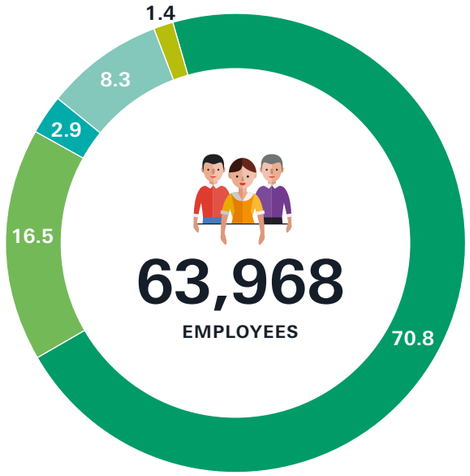
International	35
Japanese domestic	6
TOTAL	**41**
Countries in which we directly source tobacco	9

TOTAL REVENUE IN 2018 (%)



- International tobacco business
- Japanese domestic tobacco business
- Pharmaceutical business
- Processed food business
- Other

NUMBER OF EMPLOYEES IN 2018 (%)



- International tobacco business
- Japanese domestic tobacco business
- Pharmaceutical business
- Processed food business
- Other

Our businesses

INTERNATIONAL TOBACCO

Our international tobacco business is headquartered in Geneva, Switzerland. We manufacture and sell ready-made cigarettes, fine cut, cigars, pipe tobacco, snus and kretek, water pipe tobacco, and Reduced-Risk Products.

Our main markets include France, Italy, Russia, Spain, Taiwan, Turkey, and the U.K.

The portfolio includes leading brands in cigarettes and fine cut, such as Winston, Mevius, Camel, and LD, as well as in Reduced-Risk Products, such as Ploom and Logic.

JAPANESE DOMESTIC TOBACCO

Our Japanese domestic tobacco business is headquartered in Tokyo, Japan, and manufacturing and sales are largely focused on the Japanese market. We are the market leader in Japan, which is one of the largest markets in the world.

Our Japanese portfolio includes key brands such as Winston, Mevius, Seven Stars, and Natural American Spirit as well as Ploom TECH for Reduced-Risk Products.

PHARMACEUTICALS

Our pharmaceutical business focuses on the research, development, production, and sales promotion activities of prescription drugs, based on three therapeutic areas: metabolic diseases, autoimmune/inflammatory and viral infections.

PROCESSED FOOD

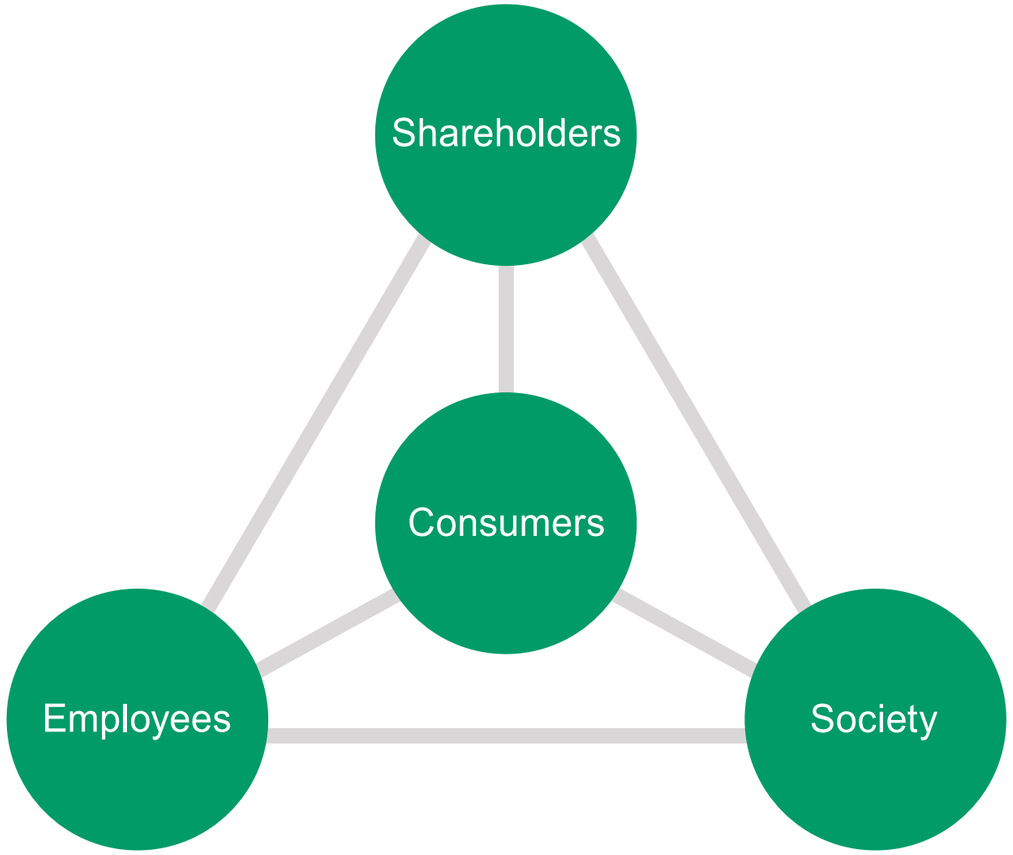
Our processed food business manufactures and sells goods such as frozen noodles, frozen and packed cooked rice, frozen baked bread, pastries, and seasonings.



OUR SUSTAINABILITY STRATEGY

4S model

Our management approach and our approach to sustainability are underpinned by our 4S model. Consumers, shareholders, employees, and society represent the four stakeholder groups (4S) at the heart of everything we do. Our commitment to serving these groups is represented in this model and throughout the report. Based on the principles of the 4S model, we always strive to exceed the expectations of our four stakeholder groups, wherever we can.



We strive to fulfill our responsibilities to our valued consumers, shareholders, employees, and the wider society, carefully considering the respective interests of these four key stakeholder groups, and exceeding their expectations wherever we can.

Our material issues

For our Group to grow and build a sustainable future with our stakeholders, we have selected a list of material issues or key issues with high priorities. This list was compiled for the first time in 2015, by engaging internal and external stakeholders, including employees, suppliers, investors, trade unions, non-governmental organizations (NGOs), and industry organizations. We are committed to carrying out materiality reviews on a regular basis in order to update issues that are important to us.

THE JT GROUP MATERIALITY



Since the first materiality assessment was carried out, we have noted increasing concern about the adverse effects on our environment. We share this concern and have therefore repositioned 'Environment' from Medium-Medium to High-High in the above matrix. We will continue to strive to reduce environmental impact on our planet.

Read more on JT.com.

The foundations of the JT Group sustainability strategy

Our sustainability strategy is based on our Group's materiality assessment and underpinned by our 4S model. It encourages us to look beyond our usual planning cycle period and think about the longevity of our business, the future of our planet, and the society we live in.

The foundations of our sustainability strategy, applying across the Group, are our **'Three absolute requirements for sustainability'**:

Respect for human rights

We are committed to respecting human rights across our global operations and value chains, as expressed in the JT Group Human Rights Policy.





An improved social and environmental impact

We are committed to protecting the environment and making a positive difference wherever we operate.

Good governance and business standards

We are committed to promoting transparent, fair, and timely decision-making that carefully considers the respective interests of consumers, shareholders, employees, and the wider society.



Tobacco business sustainability strategy

We formulated and introduced our tobacco business sustainability strategy in 2017. It illustrates the important choices we have been making for years – and will continue to make – across all of our markets and business functions to drive sustainability throughout the entire organization. We have chosen four focus areas which we consider to be essential for the sustainability of our tobacco business and for our stakeholders.

In 2018, our sustainability strategy evolved further, with eleven specific targets set for each of the four focus areas. These will provide a solid basis for measuring and benchmarking our sustainability performance, and support the sustainability of the JT Group. We will be updating our progress regularly, as we strive to contribute and fulfill our commitments that we have made to our stakeholders and to ourselves. To learn more about our targets, please see page 14.

The four strategic focus areas

PRODUCTS AND SERVICES
We will be a total tobacco company offering consumers an even greater choice of products by focusing on quality, innovation, and reduced-risk potential.



WITH TARGETS SET FOR:
REDUCED-RISK PRODUCTS

SUPPLY CHAIN
We will reduce environmental and social risks, and enable transparent and responsible practices across our supply chain.



WITH TARGETS SET FOR:
GREENHOUSE GAS EMISSIONS
WATER AND WASTE, FORESTRY
AGRICULTURAL LABOR PRACTICES
SUPPLIER SCREENING

PEOPLE
We will be the employer of choice by investing in people.



WITH TARGETS SET FOR:
ZERO INJURIES
COMMUNITY INVESTMENT
EMPLOYER OF CHOICE

REGULATORY ENVIRONMENT AND ILLEGAL TRADE
We will ensure the Company is included in policymaking leading to fair and balanced regulation, and enhance our cooperation with governments to combat illegal trade.



WITH TARGETS SET FOR:
ENGAGEMENT
ILLEGAL TRADE

Committed to the UN Sustainable Development Goals

Our commitment

In order for our Group to achieve sustainable growth, it is essential for our business to contribute to the sustainable development of our society. We maintain ongoing dialogues with our stakeholders and work continuously on a variety of sustainability issues to fulfill our responsibilities.

Our Group supports the United Nations' Sustainable Development Goals (SDGs) and their related targets in the context of its own business and operational environments. Our commercial strategies and business practices support the global goals, and we have developed specific targets and initiatives that contribute to the SDGs' global agenda. We take our responsibility to manage our business sustainability very seriously. Our Group's three businesses – tobacco, processed food, and pharmaceutical – differ by sector, scope, and size, and therefore each one contributes to the SDGs in different ways.

Prioritization process

In 2018, we determined how our approach to sustainable business is aligned with the SDGs. We mapped the activities of our tobacco business against all 17 SDGs and concluded that our tobacco business contributes most significantly to the following nine goals. We intend to undertake the same process for the other two businesses in the Group.



Driving sustainability across our tobacco business

The SDGs provide a shared blueprint for peace and prosperity for people and the planet, now and into the future. The goals recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests. That makes sense to us at the JT Group. We share and support these goals and here are the specific ways in which we believe, we can contribute to achieving some of the goals.

4 STRATEGIC FOCUS AREAS	ASPIRATIONAL GOAL	TARGET*	SDGs
PRODUCTS AND SERVICES	We will be a total tobacco company offering consumers an even greater choice of products by focusing on quality, innovation, and reduced-risk potential.	**REDUCED-RISK PRODUCTS** Reduced-Risk Products (RRP) offer real benefits to consumers and society. Our responsibility as a manufacturer is to continuously develop and launch RRP that meet consumer expectations and to provide information on them. We will lead in providing the widest range of consumer choice in the RRP category.	3 GOOD HEALTH AND WELL-BEING
PEOPLE	We will be the employer of choice by investing in people.	**ZERO INJURIES** In line with our vision of zero workplace injuries, we will reduce injury rates by 25% by 2023 and 50% by 2030. (Baseline year: 2015).	8 DECENT WORK AND ECONOMIC GROWTH
		COMMUNITY INVESTMENT Between 2015 and 2030 we will invest 600 million U.S. dollars to help make communities inclusive and resilient, with our employees contributing 300,000 volunteering hours.	10 REDUCED INEQUALITIES; 11 SUSTAINABLE CITIES AND COMMUNITIES; 15 LIFE ON LAND
		EMPLOYER OF CHOICE We will be a certified employer of choice every year in at least 60 locations by focusing on talent management, rewards, and empowerment.	8 DECENT WORK AND ECONOMIC GROWTH
SUPPLY CHAIN	We will reduce environmental and social risks, and enable transparent and responsible practices across our supply chain.	**GREENHOUSE GAS EMISSIONS** We will reduce greenhouse gas emissions from our own operations by 35% and from our direct leaf supply chain by 40%, between 2015 and 2030.	13 CLIMATE ACTION
		WATER AND WASTE We will reduce water withdrawal by 15% and waste by 20%, in relation to our own operations, between 2015 and 2030.	12 RESPONSIBLE CONSUMPTION AND PRODUCTION
		FORESTRY We will replace all wood from natural forests used in the tobacco curing process of our directly contracted growers with renewable fuel sources by 2030.	12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 15 LIFE ON LAND
		AGRICULTURAL LABOR PRACTICES We will implement our Agricultural Labor Practices (ALP) program in all sourcing countries by 2025.	8 DECENT WORK AND ECONOMIC GROWTH
		SUPPLIER SCREENING We will screen all key suppliers against environmental, social, and governance criteria by 2023.	8 DECENT WORK AND ECONOMIC GROWTH
REGULATORY ENVIRONMENT AND ILLEGAL TRADE	We will ensure the Company is included in policymaking leading to fair and balanced regulation, and enhance our cooperation with governments to combat illegal trade.	**ENGAGEMENT** We will always protect our ability to participate in public policy debate with the aim to achieve balanced regulation that meets societal concern and supports business growth.	16 PEACE, JUSTICE AND STRONG INSTITUTIONS
		ILLEGAL TRADE We will engage in dialogue with law enforcement agencies, with the goal to exchange intelligence regarding illegal tobacco products, in order to support the reduction of illegal tobacco products.	16 PEACE, JUSTICE AND STRONG INSTITUTIONS

17 PARTNERSHIPS FOR THE GOALS

* *The targets are for the JT Group's tobacco business, except for Community Investment which is a Group-wide target.*

OUR WAY OF DOING BUSINESS

ABSOLUTE REQUIREMENTS

RESPECT FOR HUMAN RIGHTS

We operate in parts of the world where human rights are at risk, and are therefore exposed to human rights-related issues, such as child labor, bribery and corruption, workplace discrimination, and inequality.

Our sustainability strategy is driven by three absolute requirements that are at the heart of everything we do. One of these requirements is respecting human rights.

Our Human Rights strategy

The JT Group Human Rights Policy follows the framework provided by the UN Guiding Principles on Business and Human Rights (UNGPs) to monitor, influence, and improve business practices within our own operations and those of our suppliers and partners. This means avoiding infringing the rights of others and addressing the adverse impacts of our global operations. We not only have a responsibility to respect human rights – we also have the ability to advance and promote these rights in all the areas we operate.

Our commitment to human rights is reinforced in both our Codes of Conduct and our Reporting Concerns Mechanism, which ensure that we listen to and act on the grievances of those whose human rights are impacted by our activities. We encourage employees and suppliers to speak up on human rights, without fear of retribution, about any concerns they may have.

Our suppliers and growers throughout the world are also obliged to respect human rights by adopting and maintaining internationally recognized labor standards regarding child labor, rights of workers, and workplace health and safety. They do this in line with our JT Group Responsible Procurement Policy, JT Group Supplier Standards, and Agricultural Labor Practices (ALP). Read more on page 46.

Our strategy is based on three pillars: Inform, Assess, and Improve. Each plays a crucial role in embedding human rights protections into the business and driving continuous improvement. This approach provides a consistent, efficient, and systematic way of conducting ongoing due diligence and allows us to proactively shape a strategic plan regarding human rights.



OUR COMMITMENT TO CONDUCTING HUMAN RIGHTS DUE DILIGENCE

In line with the UN Guiding Principles (UNGPs) on Business and Human Rights, we have made human rights due diligence an essential and integrated part of our business. This enables us to identify and assess actual and potential human rights risks, as stated in our JT Group Human Rights Policy. Conducting human rights due diligence – through Human Rights Impact Assessments – is part of our Company's responsibility to prevent adverse impacts on people and ensure the highest standards of behavior are upheld within our business and value chain.

To achieve this, we are committed to assessing 100% of our high-risk countries by 2025, in our tobacco business.

We recognize respecting human rights as one of our absolute requirements for sustainability.

Whilst we have made progress, respecting human rights is a journey, and our approach and management of human rights issues will evolve and mature.

We still have much more work to do and we will update you on our progress as our human rights initiatives unfold in the coming years.

Chigusa Ogawa,
Senior Vice President, Sustainability Management, JT

2016

SEPTEMBER 2016
The JT Group Human Rights Policy is launched, formalizing our commitment to respecting human rights.

NOVEMBER 2016
A human rights e-learning program is provided for our employees in Japan with a 92% completion rate. (*C)

DECEMBER 2016
A Human Rights Impact Assessment takes place in Japan. (*C)

2017

FEBRUARY 2017
The annual meeting of the Human Rights External Advisory Board takes place. (*E)

SEPTEMBER 2017
An external gap analysis concluded that we have a robust set of policies and procedures to address human rights risks in our international tobacco business.

OCTOBER 2017
Our international tobacco business launches a human rights e-learning program in 25 languages with a 68% completion rate.

2018

FEBRUARY 2018
The annual meeting of the Human Rights External Advisory Board takes place. (*E)

MARCH 2018
A Human Rights Impact Assessment takes place in Tanzania.

APRIL 2018
The Reporting Concerns Mechanism is enhanced for migrant workers in Japan. (*C)

JUNE 2018
We trained 75% of our employees through a human rights e-learning module in our international tobacco business.

SEPTEMBER 2018
A Human Rights Impact Assessment takes place in Mexico and the Dominican Republic.

OCTOBER 2018
Internal guidelines for the hiring and labor management of foreign workers are established in Japan. (*C)

NOVEMBER 2018
A Human Rights Impact Assessment takes place in Myanmar and Malaysia.

Our approach and progress in 2018

INFORM

Our efforts to build awareness of the JT Group Human Rights Policy and provide human rights information to employees start with training, awareness raising, and communication. This is about getting human rights thinking into the culture of the Company and helping employees understand the human rights implications of business decisions.

We train our employees on human rights through an online human rights e-learning module, available in 25 languages. By June 2018, 75% of our employees had completed the module in our international tobacco business. To reach employees without computer access, we now have a dedicated section on respecting human rights integrated into face-to-face training on the Code of Conduct.

In November 2018, we organized an awareness raising session on human rights, which 81 employees (*E) attended. The objective of the session was to engage and educate our staff on the subject through an external voice. In line with our aim to harness external expertise as part of our strategy, we invited BSR's Human Rights Managing Director, Margaret Jungk, to give a speech at the session. Margaret previously directed the business and human rights department at the Danish Institute for Human Rights and was a member of the UN Working Group on Business and Human Rights. Her speech was recorded and shared with the rest of the Company via our intranet.



We also provide printed communication materials to increase employee awareness and strengthen their understanding of human rights. In 2018, we developed an educational booklet on respecting human rights in our businesses in line with the UNGPs and shared this with over 25,000 employees in our Japanese operations (*C). In addition, our Code of Conduct was revised to include updated information on human rights.

ASSESS

In 2018, we completed our pilot year of Human Rights Impact Assessments in five high-risk countries in our international tobacco business. These countries were identified through a risk analysis using publicly available country risk human rights indices.

They covered a mix of geographical regions and the breadth of our supply chain operations, from farm to store. In line with the UNGPs, the Human Rights Impact Assessments focused on the greatest risk to people, both within our own Company and through business relationships with our suppliers.

The Impact Assessments took place in Dominican Republic, Malaysia, Mexico, Myanmar, and Tanzania, demonstrating our willingness to go into countries where serious human rights violations have been reported, and assess the on-the-ground reality.

In our Japanese operations, the Impact Assessments were implemented through self-assessment questionnaires and site visits. We conducted due diligence through self-assessment questionnaires in our processed food business in China and Thailand, which will be followed by site visits and capacity building in 2019.

Our corporate policies are consistent with human rights best practice, as demonstrated by a third-party assessment. Human Rights Impact Assessments enable us to test the effectiveness of these policies on the ground, and make improvements where necessary.

IMPROVE

To address issues identified through Human Rights Impact Assessments and self-assessment questionnaires, we develop action plans. These plans enable us to drive improvements and integrate human rights into our existing management processes, in a consistent manner.

The plans have defined responsibilities, clear timelines for implementation, and key performance indicators to monitor progress.

In 2018, we developed five action plans with the respective countries, each with an agreed timeline. A total of 12 Human Rights Champions were appointed within these countries, as part of a network. The responsibility of this network is to ensure that action plans are managed and implemented by each country and respect for human rights is firmly established in the business.

In our Japan operations, we agreed on action plans for 21 key sites (*C) which have head office functions. In addition to those local efforts, we also enhanced our corporate policy and Reporting Concerns Mechanism towards migrant workers.

Governance and stakeholder engagement

Given the breadth of the JT Group's operations around the world, it was critical to establish an appropriate governance structure. We believe it is important to embed respect for human rights throughout our entire organizational structure. This is driven by our dedicated human rights team, which is responsible for raising awareness and improving engagement internally. Our Business Ethics Committee (*E) also has an important role to play, as it provides overall governance to ensure that rightsholders' concerns are listened to and addressed effectively.

Central to our governance structure was the establishment of a Human Rights Champions network in 2018. This network comprises employees from the countries in which we have conducted Human Rights Impact Assessments, and facilitates the sharing of guidance and best practice on human rights.

To advance the rights of our stakeholders, it is important that we listen to the advice, concerns, and criticisms of people outside the JT Group. Therefore, we have continued to take counsel from our Human Rights External Advisory Board.

To further strengthen our external engagement, we have partnered with Business for Social Responsibility (BSR), Mazars, EY, and KPMG Azusa Sustainability. These organizations provide technical support with our ongoing human rights due diligence approach and overall human rights strategy.

HUMAN RIGHTS EXTERNAL ADVISORY BOARD

Our Human Rights External Advisory Board plays a vital role in providing us with a broad external perspective in the human rights area. Made up of international experts on business and human rights, the Board advises us on all issues that the members consider relevant for the implementation of our human rights strategy. The panel of experts guides us with their expertise and challenges us where they believe we need to improve, helping strengthen our efforts to deliver on our human rights commitments.

Our programs

We have a long and complex supply chain and are exposed to a diverse range of human rights risks. To address these, we have put in place a number of corporate programs and initiatives. Read more about them on the pages listed below.

Code of Conduct
see page 32

Workplace Health & Safety
see page 38

Agricultural Labor Practices (ALP)
see page 46

ARISE
see page 48

Community Investment
see page 24

Diversity & Inclusion
see page 76

HUMAN RIGHTS IMPACT ASSESSMENTS

Our Human Rights Impact Assessments focus on our main operations and value streams. Key activities during the Impact Assessment include visiting and observing farming, processing, manufacturing, and sales and distribution operations. During the assessments, we conduct a series of interviews with employees and workers, in our international tobacco business as well as representatives from suppliers, clients, and partners.

SOME KEY FINDINGS AND HOW WE ARE ADDRESSING THEM



TANZANIA

Awareness of the Your Voice grievance mechanism can be improved to increase its overall effectiveness.

WE HAVE: relaunched the Your Voice communication in May 2018 to reach all employees. We translated our communications and training programs into Kiswahili, the local language. We have actively promoted Your Voice and the Code of Conduct on notice boards, leaflets, via a launch event, and direct communication from the General Manager. In our continuous global effort to encourage employees to speak up, we continue to provide targeted communications for markets in this regard.



JAPAN

The guidelines in some of our Japanese subsidiary companies are not fully aligned to accommodate the rapidly increasing flux of migrant workers in Japan.

WE HAVE: developed a set of Group-wide guidelines on responsible labor management, with the focus on hiring of foreign workers. We made the Reporting Concerns Mechanism more accessible to migrant workers by making it available in Vietnamese and Nepali.



MYANMAR

Contracted workers have written contracts and received pay slips, but this documentation was not communicated in the local language.

WE HAVE: translated all contract worker contracts and pay slips into Burmese. All communication posters regarding the Your Voice grievance mechanism and the 'Your Guide to Making Ethical Decisions' are now available in both English and Burmese.



DOMINICAN REPUBLIC

Transition to two shifts at the factory could lead to potential human rights risks.

WE WILL: conduct a survey amongst employees to understand the potential impact of the shift change on factors outside of work, such as transportation, healthcare, and day care. We will ensure key risk-management activities are in place before moving to two shifts, with controls around transportation, food service, and a safety training program.



MEXICO

Mexico's severe security concerns will continue to be taken into consideration when designing routes and sales objectives across the country. As the third-party sales team expands, workers at JTI distributors need to be properly trained on security and safety.

WE WILL: consider Mexico's security problems in fine-tuning sales routes. We will design an online training platform so that any field sales force member can easily access information. This will enable us to increase security levels and personal safety.



MALAYSIA

Workers at a JTI supplier reported long working hours.

WE WILL: clarify with the supplier the labor laws on working hours, ensure they are not in breach of the law, and increase sharing of best practice on working hours.



Going forward

Our work to promote and respect human rights will evolve and adapt to the changing economic and political context of the countries where we operate. Our approach to human rights due diligence is on-going, as the risks to human rights may change over time. We will continue to act where actions are necessary and focus on our human rights priority areas.

In 2019, we will review the list of high-risk markets in which we have committed to conducting Human Rights Impact Assessments. We will prioritize countries based on a set of risk-based criteria in order to assess our most high-risk countries first. Going forward, we are committed to assessing actual and potential human rights risks in at least six countries each year and will continue to embed respect for human rights within the business.

In our Japanese operations, as a continuing process of Human Rights Impact Assessments, we will make site visits in our processed food business in China and Thailand, and provide capacity building in these respective operations.

AN IMPROVED SOCIAL AND ENVIRONMENTAL IMPACT

Improving our social impact

Community Investment has always been an inherent part of the JT Group's Corporate Sustainability strategy. A cornerstone of our 4S model, which focuses on consumers, shareholders, employees, and the wider society, is our belief that our business can prosper only in stable and open societies. We are therefore committed to making communities where we operate more inclusive and resilient.

These activities also offer volunteering opportunities, enabling employees to engage with our communities, develop new skills, and gain a sense of pride and satisfaction. Find out more about our projects in the 'Investing in People' section on page 74.



An employee volunteering project to protect saplings in Kosuge, Japan

OUR TARGET*
Between 2015 and 2030 we will invest 600 million U.S. dollars to help make communities inclusive and resilient, with our employees contributing 300,000 volunteering hours.

**This is a Group-wide target.*

CONTRIBUTING TO COMMUNITIES

TOTAL VALUE OF INVESTMENTS IN THE COMMUNITY IN 2018*



TOTAL
53 million
U.S. dollars

46,778,935	in cash
5,525,526	in management cost
717,987	in employee volunteering time
85,236	in kind



6,285,671
BENEFICIARIES



315
COMMUNITY INVESTMENT PROGRAMS



25,429
VOLUNTEER HOURS



839
ORGANIZATIONS SUPPORTED

OUR APPROACH

In 2018, we revised our Community Investment Policy which determines a common goal for Community Investment across the JT Group: "To contribute to the development of sustainable societies, by helping to make communities more inclusive". This will allow us to maximize our social impacts and contribute more to our sustainable growth.

We believe that everyone should have the opportunity to participate in society, and that inclusive societies are also better for business. Our policy helps ensure that this philosophy is coherently implemented, both internally and externally, and that all of our programs have a positive impact.

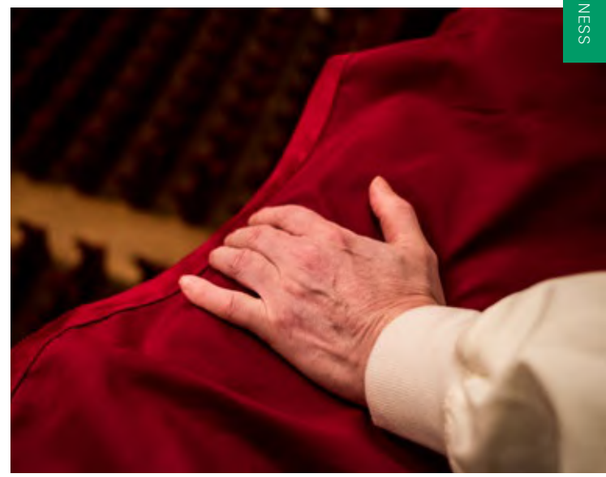
Through long-term partnerships with various stakeholders, we are implementing 315 community programs that contribute to the development of inclusive and sustainable societies across 63 countries. The programs are based on global and local needs, and three specific issues:

1. Reducing inequalities, e.g. helping underprivileged people gain access to food and education.
2. Improving community resilience in disaster-prone areas, e.g. providing access to clean water and/or electricity.
3. Protecting the environment, e.g. replanting trees with the help of our employees in severely deforested areas.

Our work is highly rated by external agencies, including the Dow Jones Sustainability Indices (DJSI), which recognized us as the industry leader in corporate citizenship and philanthropy, with a perfect score of 100.

To measure the social impact of our work, we use the framework provided by the London Benchmarking Group (LBG). According to this benchmark, the JT Group ranks 10th out of 96 companies for total community contributions.

We encourage more accurate reporting and measurement to ensure all of our programs deliver the social impact according to our policy.



Accessibility program, La Scala, Italy



We strive to make a positive difference in everything we do. Our Community Investment program focuses on projects and initiatives that will help make the communities in which we operate more inclusive. This enables everyone to thrive and play an active role in their community.

Suzanne Wise,
Senior Vice President, Corporate Development, JT International

* *We applied average exchange rate in 2018 1 U.S. dollar = 110.44 Yen*

Improving our environmental impact

Environmental issues are of increasing societal concern and have brought many challenges to our society. For instance, today we are facing melting ice caps, rising sea levels, and changing weather patterns, and we all need to address them. As a global organization, we recognize that we have a key role to play in reducing our environmental impacts.

As with most industries, the environment has a direct influence on our business. We also know that our operations impact the environment, through resource usage, emissions, and waste generation, but we strive to minimize this impact. By implementing sustainable business practices, we are able to conserve resources, reduce waste, manage costs, and meet the growing consumer demand for more sustainable products – bringing benefits to both the environment and our business. This approach is explained in the JT Group Environment Policy.

Throughout our whole operation, we direct our environmental efforts towards:

- Minimizing negative impacts on global climate change
- Protecting water resources
- Eliminating and reducing waste
- Promoting recycling and optimizing resource use.

WHAT HAVE WE ACHIEVED SO FAR?

Through our Long-Term Environment Plan 2020, we committed to a 20% reduction in GHG emissions between 2009 and 2020. These GHG emissions relate to both Scope 1 emissions (those for which we are directly responsible) and Scope 2 emissions (those related to energy supplied by third parties).
We achieved the absolute emissions target three years ahead of schedule at the end of 2017. By the end of 2018, we had reduced our absolute emissions by 21.4% and our emissions intensity by 16.1%.

We are on track to achieve the quantitative goals and commitments outlined in the 2020 Plan.

WHAT ARE THE NEXT STEPS?

In 2019, we launched the JT Group Environment Plan 2030, which sets our new objectives and targets. Please see opposite.



Solar electricity generation in our Batangas factory in the Philippines

THE JT GROUP ENVIRONMENT MANAGEMENT

In our more complex operations, we align our approach to environmental management with internationally recognized standards – ISO 14001 and ISO 50001*. In our smaller and less complex operations in Japan (*B), we have implemented our own ‘JT Green System’, which promotes a simple and consistent approach to environmental management.

ISO 14001, which was revised in 2015, encourages businesses to think more broadly about environmental issues – not only those associated with their direct operations, but throughout their entire value chains. We have successfully aligned our environmental management systems with the revised standard. A revised ISO 50001 standard was issued in 2018 and we are in the process of broadening our approach to energy management according to the new framework. We are also working to streamline and better integrate our environmental and energy management systems with other business considerations, such as quality, occupational health and safety, and business continuity.

To objectively review our approach to environmental management and our overall performance, we use external disclosures and ratings agencies, such as CDP and the Dow Jones Sustainability Indices (DJSI). We are proud to report that in 2018 we achieved leadership status for CDP Climate Change and management status for CDP Water Security. We also greatly improved our rating in DJSI’s environmental dimension, and achieved the maximum score in Environmental Reporting.

* *ISO 14001 and ISO 50001 are the internationally recognized standards for environmental management systems and energy management systems, respectively. These standards do not prescribe absolute performance requirements. Rather, they provide us with a framework to help build effective management systems that deliver continual improvement in environmental and energy performance.*

THE JT GROUP ENVIRONMENT PLAN 2030

To create the JT Group Environment Plan 2030, we firstly carried out a review of global environment trends to understand which topics matter most to our business and stakeholders. We then identified the key environmental risks and opportunities associated with those topics in order to define the focus areas for the plan, namely “Energy and Emissions”, “Natural Resources”, and “Waste”. Our 2030 plan reflects changes in our business, societal expectations, and growing scientific understanding of the environment.

It also goes further than our current plan by addressing a broader range of issues and considering not only our operations, but also key elements of our value chain. It contains longer-term objectives for energy and emissions, along with quantified targets by 2030. We will track performance and progress towards our objectives and targets and we will revisit the plan periodically to ensure that it remains relevant to our business and stakeholders.

OUR OBJECTIVES AND TARGETS FOR 2030*

ENERGY AND EMISSIONS

Energy

Transition our operations to net zero carbon energy supply.

TARGETS

We will double the proportion of renewable electricity that we use to 25% by 2030 and 100% by 2050.

Emissions

Reduce our greenhouse gas emissions to support the Paris Agreement on global climate change with the aim to achieve net zero carbon emissions from our operations.

TARGETS

We will reduce greenhouse gas emissions from our own operations by 32%.

We will reduce emissions associated with our purchased goods and services by 23%. This will be achieved through a 40% reduction from our direct leaf supply chain and reductions in our non-tobacco materials, such as packaging.

WASTE

Waste

Further reduce the environmental impacts of waste associated with our processes and products.

TARGETS

We will reduce waste associated with our tobacco business by 20%.

By 2020, we will have targets and action plans relating to the appropriate use and responsible disposal of materials, including plastics, used in our products and packaging.

NATURAL RESOURCES

Water

Support global water stewardship by reducing our water withdrawal and by encouraging water risk management in our supply chain.

TARGETS

We will reduce water withdrawal associated with our tobacco business by 15%.

To better understand water risk and use in our supply chain, by 2022, we will implement a water risk management process in our manufacturing supply chain.

Forestry

Ensure a sustainable wood supply for our product supply chains and further contribute to forest conservation and rehabilitation.

TARGETS

To further focus our efforts on sustainable forest management, by 2020, we will have assessed the drivers for deforestation and forest degradation in communities where we source tobacco and developed action plans for improved wood resource use, forest conservation, and forest rehabilitation.

We will replace all wood from natural forests used in the tobacco curing process of our directly contracted growers with renewable fuel sources.

* *Baseline year for all targets is 2015. Target year is 2030 unless stated otherwise. The overall plan is to be reviewed every 5 years.*

MAKING PROGRESS IN ENERGY AND GHG EMISSION REDUCTION

Climate change is the biggest environmental challenge facing society and our business.

It will have serious implications for the supply chain of our materials, as our products are mainly agricultural-based.

We are committed to tackle this issue and we will be reducing our GHG emissions to support the Paris Agreement on global climate change, with the longer-term aim of achieving net zero carbon emissions from our operations.

SETTING A SCIENCE BASED TARGET

We have set a Science Based Target (SBT) to ensure that we fulfil our commitment to reduce GHG emissions and our contribution to climate change.

We have committed to reduce GHG emissions from our own operations by 32% across the Group (2015 to 2030). Our target was validated by the Science Based Targets initiative (SBTi) in February 2019.

In pursuing this target, we will double the proportion of renewable electricity that we use to 25% by 2030, in support of our goal of reaching 100% by 2050.

In our direct operations, the renewable electricity target will be achieved through on-site generation and sourcing of third-party renewable energy.

Our Renewable Energy Task Team has carried out a factory-by-factory feasibility review of opportunities associated with solar, hydro, wind, and biomass power. Where feasible, and where it makes business sense, we have included these opportunities in our business planning and in our feasibility study for the 2030 Science Based Target. The team has also reviewed options relating to zero or low-carbon energy tariffs and green energy certificates. In addition, our locations are encouraged to consider fuel and emissions efficiency, and alternative vehicles when selecting fleet vehicles.

We are well on the way to achieving our 2030 renewable electricity target. By the end of 2018, 31% of electricity in our international factories was either purchased*1 or generated*2 from renewable sources.

Through our Energy Opportunities Scheme, our factories have identified over 150 no- or low-investment projects. These avoid over 7,600 tons of GHG emissions and represent a cost saving of over 2 million U.S. dollars, with an average payback of 8 months.

For programs and initiatives specifically related to our tobacco business, please see page 52-53.

As part of the JT Group Environment Plan 2030, we are committed to reducing emissions associated with our purchased goods and services by 23% (2015-2030). We aim to achieve this through a 40% reduction in emissions from our direct leaf supply chain and reductions in non-tobacco materials such as packaging. As such, we will continue to improve our existing curing barn projects and expand to more locations (read more on page 51). We will reduce the amount of wood used for curing, while at the same time ensuring that the wood we use comes from renewable sources in Zambia and Tanzania, for instance. In addition, we aim to reduce leaf-related emissions by further optimizing the use of crop inputs, such as fertilizers and crop protection agents, wherever possible. We will also be working with suppliers to reduce the amount of packaging associated with our non-tobacco materials.

REDUCING OUR ENVIRONMENTAL IMPACTS IN SCOPE 3 EMISSIONS

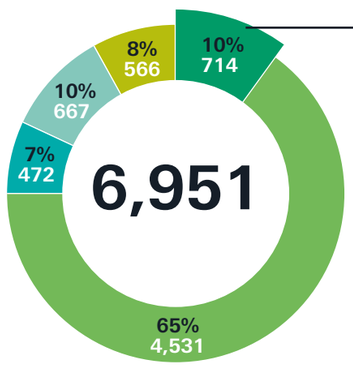
Beyond our own operations we take responsibility to positively influence the environmental impacts of our value chain by working in partnership with our suppliers. Most Scope 3 emissions for our business are associated with the goods and services that we purchase and in particular with tobacco leaf, our main raw material.





GHG EMISSIONS IN OUR VALUE CHAIN IN 2018

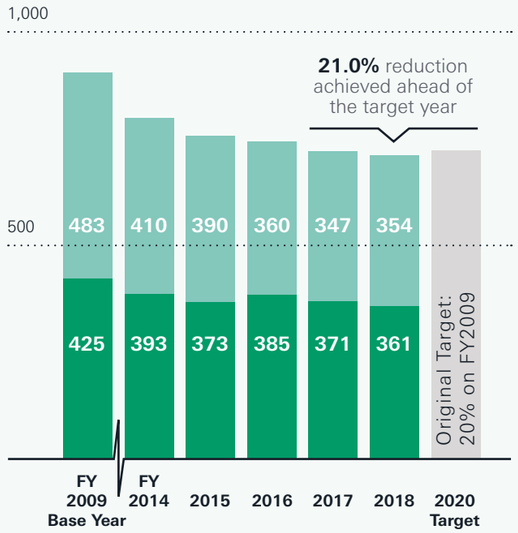
CO_2e thousand tons



	Combined Scope 1 and 2 GHG Emissions
SCOPE 3	Purchased goods and services
SCOPE 3	Capital goods
SCOPE 3	Transportation and distribution
SCOPE 3	Others

COMBINED SCOPE 1 AND 2 GHG EMISSIONS

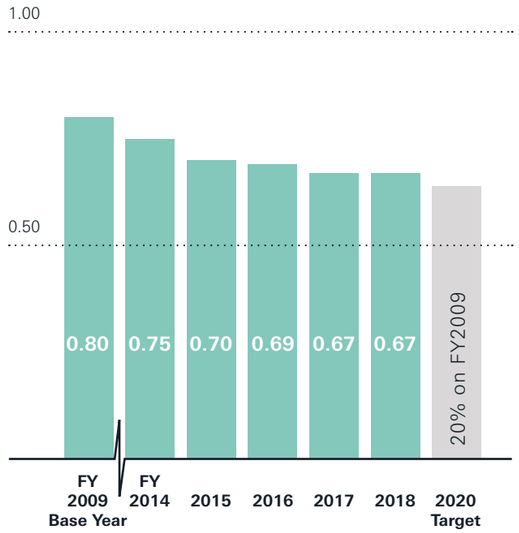
CO_2e thousand tons



	Scope 1
	Scope 2

GHG EMISSIONS INTENSITY FOR THE TOBACCO BUSINESS

CO_2e tons/million cigarettes equivalent



*1 We purchase electricity from renewable sources in Canada, Germany, Poland, Romania, Sweden, and the Philippines.

*2 We generate electricity on-site from renewable sources in Jordan, Nigeria, The Netherlands, The Philippines, and Turkey.

WATER

Societal demand for water is increasing globally and water-related issues such as availability, quality, flooding, drought, or regulatory changes can have a major impact on society and our business.

Our tobacco and food manufacturing activities all use water. However, our main operation, the tobacco business, is not water-intensive and the water that is required for tobacco crops comes predominantly from rainfall.

As part of our ongoing program to address water-related risks to our business and further promote effective water management, by the end of 2018 we had completed water risk assessments at 60 of our 80 factories (75%).

OUR 2030 GOALS

In the JT Group Environment Plan 2030, we commit to supporting global water stewardship by reducing our water use and encouraging water risk management in our supply chain. We have set a target to reduce our tobacco business-associated water withdrawal by 15% by 2030 vs 2015. This target was calculated taking into account site level water intensities and regional predictions for future water stress. We plan to achieve the target by using less freshwater for factory site irrigation, reducing water use in our processes and improving leak control, using more recycled water, and improving cleaning practices.

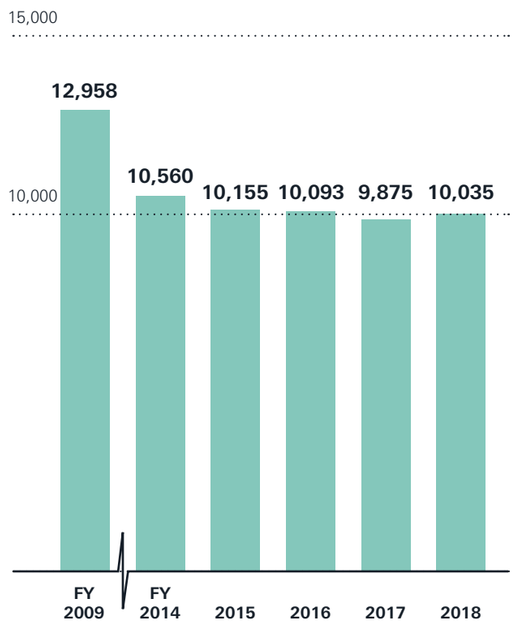
Read about current best practices in our tobacco business on page 52-53.

WATER RISK IN OUR SUPPLY CHAIN

Many of our raw materials require water in their production and water is an important resource for many of our suppliers. To better understand water usage and water-related risk in our supply chain across the Group, by 2022 we plan to implement a water risk management process.

WATER WITHDRAWAL

Thousand m^3





FORESTRY

Ensuring a sustainable wood supply and further contributing to forest conservation and rehabilitation are key objectives set out in the JT Group Environment Plan 2030.

We already have a number of programs and initiatives in relation to sustainable forestry and wood. Through our 'live barns' initiative in Malawi, we are reducing the number of trees that are cut down to build curing barns, by constructing the barns out of living trees.

In addition to our current programs and to further focus our efforts on sustainable forest management, we will have assessed the drivers for deforestation and forest degradation in communities where we source tobacco and we will have action plans for improved wood resource use, forest conservation, and forest rehabilitation by 2020.

Within the JT Group Environment Plan 2030, we have a target to replace all wood from natural forests in the tobacco curing process of our directly contracted growers with renewable fuel sources by 2030. For more examples and targets in our tobacco business, please see page 50 (Promoting forestry at small-scale farms).





To address pressing environmental issues, it is essential for us to collaborate across the Group.

By working towards the same goal, we have learned a great deal from each other and delivered solid results.

In order to achieve the targets of the JT Group Environment Plan 2030, we will continue to work together as one team.

Peter Mitchell,
EHS Director, Environment, Global EHS, Corporate Sustainability, JT International

Yusuke Takaki,
Manager, Environment, Sustainability Management, JT

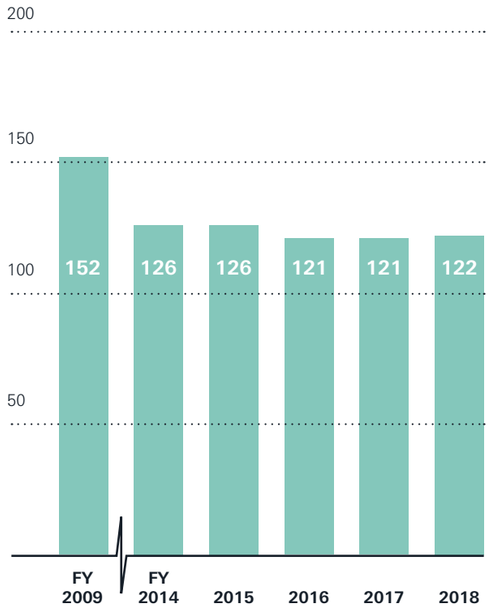
WASTE

From a societal and stakeholder perspective, waste, and particularly plastic waste is of increasing concern. From a business perspective, all waste has a direct cost (handling and disposal) and an indirect cost (resource and processing costs etc.).

Waste management is a key component of our Environment Plan. Across the Company we apply a 'Reduce, Reuse, Recycle' approach. We also set targets for waste reduction as we believe that reducing waste helps to conserve resources, which in turn helps to minimize our environmental impact and cut business costs.

WASTE GENERATION

Thousand tons



LONGER-TERM GOALS

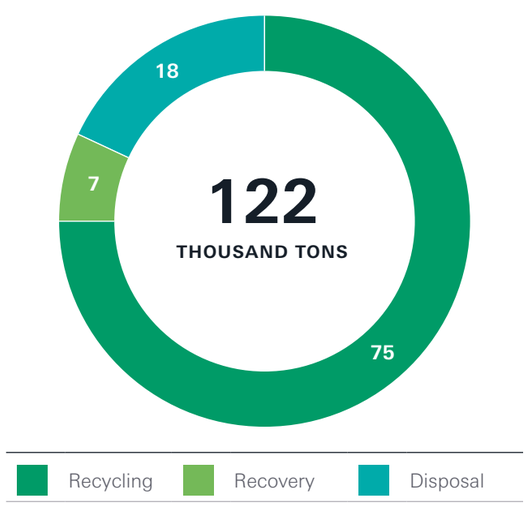
In our Environment Plan 2030, we commit to further reducing the environmental impact of waste associated with our processes and products.

By 2030, we will reduce waste associated with our tobacco business by 20% vs 2015. We will do this by improving resource efficiency and rolling out innovative solutions across different sites.

Moreover, by 2020, we will have targets and action plans relating to the appropriate use and responsible disposal of materials, including plastics used in our products and packaging.

Read about how we reduce waste in manufacturing on page 53.

BREAKDOWN OF WASTE GENERATED IN 2018 (%)



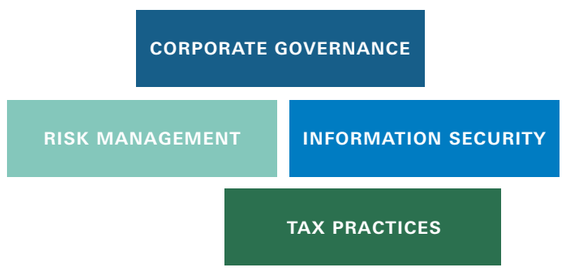
GOOD GOVERNANCE AND BUSINESS STANDARDS

Conducting business in a responsible way is a top priority for us. Our corporate governance is rooted in our adherence to the 4S model and our commitment to our stakeholders. We have built a robust system of governance to support this commitment, to ensure transparent, fair, timely, and effective decision-making. This means not only complying with local laws and regulations, but also proactively seeking to exceed expectations and hold ourselves to higher standards.

Our framework of governance allows us to enhance corporate value and achieve sustainable growth in the medium to long term. This approach is outlined in the JT Corporate Governance Policy, which was revised in December 2018.

Our annual Corporate Governance Report shows our progress, as well as insights into our governance framework and board structure.

For more details about JT's corporate governance, including tax practices, risk management, and information security, see www.jt.com/sustainability/way_of_business.



Our business ethics

Our JT Group Codes of Conduct form the foundation of our business ethics. Reflecting our commitment to the 4S model, they outline our responsibilities towards our consumers, our shareholders, our employees, and the wider society. Our Reporting Concerns Mechanism allows employees and business partners to report concerns in a confidential manner. We take a zero-tolerance approach to bribery, corruption, and other financial crime, and we actively manage risks related to these areas.

LIVING OUR CODES OF CONDUCT

Our Codes of Conduct allow us to conduct business ethically and be a responsible corporate citizen. We ensure that they are implemented effectively throughout the entire business by running various training courses for employees.

Our employees also sign an acknowledgment form to show their commitment to following our Codes of Conduct.

Our international tobacco business and Torii Pharmaceutical have developed a version of the Codes of Conduct to reflect the needs of their operations.

We review and update our Codes of Conduct continuously to improve our standards, and the latest revision took place in 2018. In our Japanese operations (including the subsidiaries of our processed food division in China, Thailand, and the U.S.), the revised Code now includes new sections such as Sensible Conduct as a Member of Society, Prohibition of Discrimination, and Maintain and Promote Health. In our international tobacco business, we digitalized the Code into an accessible, easy-to-read document, including a decision-making guide to assist employees in making the right choices. It is now available in 36 languages, and we provide printed booklets for those with limited internet access.

We continued to provide training on the Codes of Conduct to our employees online and face-to-face in 2018. In our Japanese operations, 99.4% of employees completed the online courses (*C). In our international tobacco business, we launched a Code of Conduct video that included messages from our executives to employees. 2019 will see the global launch of a new interactive training video in 25 languages to enhance understanding of the Code. For employees without computer access, we have adopted a Train-the-Trainer approach. So far we have trained 91 local trainers, who provide face-to-face training in local languages to 15,777 employees, including those from the newly acquired entities in the Philippines and Indonesia. The same approach applies to trainings on Anti-Bribery and Corruption, including Anti-illicit Trade and Conflicts of Interest.

As part of our efforts to improve our workplace environment and better understand compliance in the workplace, we distribute a compliance survey. In our Japanese operations, the survey outcomes are reported to each executive officer and to each department. The relevant departments then introduce measures in their annual compliance action plans to address any issues raised, using quantitative targets to evaluate the effectiveness of these measures. In 2018, 97.6% of employees completed the survey.

THE ROLE OF THE COMPLIANCE SURVEY IN OUR JAPANESE OPERATIONS' ACTION PLAN



In our Japanese operations, the latest survey results showed that preventing long working hours and harassment* remained top priorities in 2018. As a result, we shared recommendations and tips with our employees on how to prevent long working hours, and provided online training and seminars on harassment prevention. We will continue to monitor progress and make every effort to improve the situation in these two key areas.

In our international tobacco business, the Employee Engagement Survey covers compliance questions. It is distributed every three years, and the last one was completed in 2018. The results showed that, compared to the previous survey, line managers are now understanding and enforcing the Code of Conduct more effectively.



* *Includes sexual harassment and bullying*

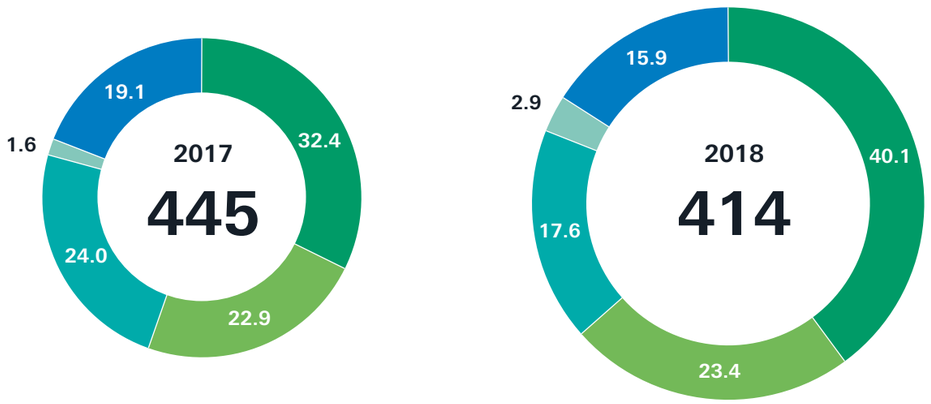
REPORTING CONCERNS

We offer multiple communication channels for employees, customers, and business partners to confidentially raise concerns about potential violations of our Codes of Conduct or policies. We review all concerns raised, launch investigations as needed, and take appropriate corrective actions. Employees are informed about our Reporting Concerns Mechanism through various channels including the Group intranet. In 2018, our Japanese operations made the Mechanism available in four additional languages (English, Chinese, Vietnamese, and Nepalese) to meet the needs of our diverse workforce.

Any concerns are then dealt with by specially trained contact persons. Contact persons follow a mandatory face-to-face training course. In our international tobacco business, there is a Reporting Concerns Mechanism called Your Voice, which is available in 16 languages. Newly appointed contact persons receive face-to-face training and a manual detailing their role.

In 2018, we received 414 reports across the JT Group, covering issues such as labor practices and discrimination. In the case of proven violations of our Codes of Conduct, we took appropriate action in the form of dismissal, verbal or written warnings, financial penalties, or other measures.

BREAKDOWN OF REPORTED CASES (%)



- Cases related to labor practices (excluding human rights)
- Cases related to corruption
- Cases related to human rights
- Cases related to anti-competitive behavior
- Cases related to fraud and misuse of Company assets
- Other

There were no cases related to anti-competitive behavior for 2017 or 2018.

GIFTS, HOSPITALITY, AND ENTERTAINMENT

Our internal policies and procedures help to prevent bribery and to ensure an appropriate level of exchange of gifts, hospitality, and entertainment, which must be transparent and reasonable, and must respect local regulations. We therefore require all employees in our Japanese operations to seek approval for anything they receive or wish to offer. To ensure that compliance is well-embedded within the organization, we conduct regular training and run communications campaigns across the Group.

In our international tobacco business, all exchanges with non-governmental third parties above 250 U.S. dollars must be approved. For government and public officials, all requests, regardless of the amount, have to be approved. The number of gifts, hospitality, and entertainment requests sent for approval in 2018 was 603, vs 740 in 2017.

ANTI-COMPETITIVE BEHAVIOR

Our Codes of Conduct underpin the JT Group's strong commitment to fair competition. Our commercial strategy and actions must be determined independently of our competitors. Our international tobacco business has a policy and guidelines in place, designed to ensure that business operations are conducted fairly and in compliance with competition laws, wherever we do business. Our employees are trained accordingly.





ANTI-BRIBERY AND CORRUPTION

The JT Group has a zero-tolerance approach to corruption and bribery, and all executives and employees must respect and comply with our anti-bribery and corruption policy.

In our Japanese operations, we run an e-learning course on anti-bribery and corruption once every two years. 2,179 employees took this course in 2017. In 2018, we prepared for the next e-learning course, which will take place in 2019.

In our international tobacco business, since 2016, 18,468 employees have taken our online course on anti-bribery and corruption, which included 1,546 new employees in 2018. The course has enabled us to engage more closely with our employees on the topic. Employees without computer access complete face-to-face training as part of the general Code of Conduct training provided locally (read more on page 32).

PREVENTING FINANCIAL CRIME

Financial crime is a global trillion-dollar issue that is of great concern to governments and businesses. Moreover, it can harm our society.

The JT Group does not tolerate any form of financial crime. In our international tobacco business, we abide by the EU Cooperation Agreement obligations, and take into account the U.K. Criminal Finances Act 2017. We perform policy controls and provide program training, and we publish employee communications on the subject. In 2018, we updated our existing Anti-Money Laundering policy to include other elements of financial crime.

The global policy sets out principles and guidelines to prevent employees from being involved in any form of financial crime, including money laundering, tax evasion, and facilitating tax evasion.

Our people

JT Group Human Resources Management Philosophy

In order to contribute to the company's sustainable growth, and with the recognition that highly skilled, talented, and diverse people are the foundation of its success, JT Group management proactively takes steps to secure long-term employee engagement and satisfaction.



LEARNING AND SHARING BUSINESS SKILLS

Unlocking and maximizing our employees' potential is a vital element of our sustainable growth agenda. Today's business environment is disruptive and uncertain, and it requires all of our employees to acquire advanced skills. We have implemented initiatives globally and locally to help our people flourish professionally.

To develop the global capabilities of our employees and to train our future business leaders, we provide various talent partnership programs for employees with different backgrounds to learn and network together. One of the programs provides specialist leadership training courses for future business leaders, selected globally from across our operations.



In 2018, we organized the Exchange Academy for 25 employees from our domestic and international tobacco business around the world as part of this talent partnership program. They participated in a two-week joint training program, with one week in Japan and one week in Switzerland. During the program, the participants worked in teams in order to analyze and formulate the JT Group strategy for sustainable growth. Each team then gave a presentation and made a recommendation to senior executives within our Group.

We provide comprehensive business training programs for employees of all levels. Fundamental business courses in presenting, writing, or time management are available to those in junior positions, while more advanced programs such as task execution, negotiation skills, or leadership are aimed at middle-management and senior positions. These courses are available to employees across our organization, offering an opportunity to meet and exchange ideas with colleagues from different teams. In 2018, in our Japanese operations 2,039 employees completed these courses. To attract the best talent, we will continue to offer good career development and training opportunities.

Moreover, we empower employees to hold regular performance and career discussions throughout the year, to ensure that we leverage the full potential of our employees and boost their development and career progression. In 2018, 68.7% of our employees participated in the performance review for the year 2017.

Our high internal hire rate which was 94.2% in 2018, is proof of our commitment to employee development and sustainable business practices.

RESPECTING DIVERSITY IN THE WORKPLACE

We believe a diverse workplace brings a rich mix of viewpoints and perspectives that can inspire new ideas, find solutions to complex issues, and drive our business forward. For us, 'diversity' means all the ways in which current and potential employees may differ from one another, such as age, gender, ethnicity, religion, disability, sexual orientation, education, and national origin.

In 2018, JT was included as a Gold status in the PRIDE Index for the third consecutive year in recognition of our commitment to inclusive policies for the LGBT community. In 2019, JT has been named a "Nadeshiko Brand" company for the second year running, in recognition of exceptional work in promoting the success of women in the workplace.

We are also looking to create a more gender-balanced environment across the Group. In JT, we aim to have a minimum of 10% female representation within management by 2023. In 2018, the ratio was 5.7% which is approximately 4 times higher than when the target was set in 2013, when the figure was 1.4%. In our international tobacco business, the ratio of female to male directors was 28.4% in 2018, and we are aiming to reach 30% by 2020.

Recognizing that different people have different working styles and needs, we encourage flexible hours and remote working throughout the Company.

We promote a workplace environment that allows all employees to fulfil their potential, and this includes working parents. In recognition of this, JT was certified as a childcare-supporting company by the Japanese Ministry of Health, Labor and Welfare in 2018.





ENGAGING WITH EMPLOYEES

Our human resources programs have been developed to motivate and empower our employees to address new business challenges.

To evaluate the effectiveness of our programs and the level of engagement of our employees, we carry out an Employee Engagement Survey every year in our Japanese operations, and every three years in our international tobacco business. The feedback we receive from employees helps us to understand our strengths, the progress we have made, and the areas where we need to keep improving.

Importantly, our people also help us understand what we need to do differently to maintain our reputation as a top employer.

In 2018, the overall survey response rate was 99% in JT and 93% in our international tobacco business.

The survey includes a 'Sustainable Engagement' category, which measures employees' job satisfaction and long-term commitment to the business. In JT, the total favorable score for this category was 82%, which is 12 points ahead of the average score for Japanese companies. In our international business, 89% of employees gave a positive response, placing the Company one point above the Global High-Performing Companies Norm.

The JT Group health and safety strategy

Health and safety in the workplace is extremely important to us, not only for our employees' well-being but also for the sustainable growth of our business. We align our health and safety standards with OHSAS 18001 and always meet or exceed legal requirements. When our standards are stricter than local laws, we require our local offices to comply with our standards. The scope of our standards extends beyond our employees, covering contractors and visitors to our operations as well. Well-being programs often include family members of employees.





TOWARDS A BETTER WORKPLACE

We care deeply about employee health and well-being, and preventing work-related disease. Our international tobacco business conducts general occupational hygiene and ergonomic assessments. In 2018, we started collecting data across the Group to better understand our employees' risk of occupational health issues. All reported cases are investigated by local managers to identify the causes. If they are attributed to the work or workplace, we take appropriate measures immediately to protect employees' health and prevent recurrences.

In our Japanese operations, we focus on both the psychological and physical well-being of our employees. Programs for stress management are in place, and we work to raise awareness about a healthier lifestyle. As a result, JT was named a 'White 500' company for the third consecutive year. This award is presented by Japan's Ministry of Economy, Trade and Industry. It recognizes large enterprises that are making outstanding progress towards better well-being and proactivity among their employees.

WORKPLACE HEALTH AND SAFETY DATA*1

		2014	2015	2016	2017	**2018**	TARGET
NUMBER OF FATALITIES*2	Employees	2	1	2	0	2	0
	Contractors	3*E	1*E	1	2	1	0
NUMBER OF LOST-TIME INCIDENTS (LTIs)	Employees	113	154	186	186	183	n/a
	Contractors	12*E	17*E	8	13	11	n/a
EMPLOYEE LTI RATE (NUMBER OF LTIs PER 200,000 HOURS WORKED)		0.32	0.36	0.42	0.37	0.26	n/a
% OF CIGARETTE AND TOBACCO-RELATED FACTORIES CERTIFIED TO OHSAS 18001 (*D)		81.0%	78.9%	77.8%	74.4%	76.9%	100%
NUMBER OF VEHICLE ACCIDENTS		1,341*E	1,108*E	1,294*D	1,457*D	1,418*D	n/a
VEHICLE ACCIDENT FREQUENCY RATE (ACCIDENTS PER MILLION KILOMETERS)		5.9*E	4.8*E	4.4*D	5.2*D	3.5*D	n/a

*1 *The scope of reporting for contractor fatalities and LTIs, as well as vehicle accident data, expanded in 2016 compared to previous years. Further details on the scope of data can be found in the Basis of Reporting document.*

*2 *Excludes third-party fatalities.*

THREE PILLARS OF SAFETY

Our safety programs are based on three fundamental pillars: safe workplaces, safety competence, and a Group-wide culture where the safety of our people always comes first. The level of risk varies from location to location, but the highest risks across the JT Group are driving vehicles, riding motorcycles (fleet safety), and working with machinery, as well as slips, trips, and falls.

To mitigate these risks and prevent injuries, we conduct risk assessments throughout the whole supply chain. This helps us to identify hazards, implement appropriate measures, and ensure that our approach helps us to meet our targets. We also focus on raising awareness among employees and thoroughly embedding our safety culture in day-to-day work.

Regrettably, we had to report three fatalities among our workers and five among third parties in our workplaces in 2018. Although we have been running driver safety programs for many years, most of the cases involved vehicle accidents. To eliminate such risks, we continue to develop and improve our programs.

In the unfortunate event of a fatality, we work hard to support the affected families as much as we can. We also try to learn from the incident and develop informed and targeted measures to help reduce the likelihood of recurrence.





OUR TOBACCO BUSINESS

Our core business is tobacco, which generates nearly 90% of our consolidated revenue. Our conventional tobacco products are manufactured in over 30 factories around the world and are distributed in more than 130 countries. In addition to conventional tobacco, we have a Reduced-Risk Product portfolio which includes e-cigarettes and tobacco vapor products.

In this section, we will cover our approach to sustainability across our tobacco business.

Having established the foundations of our sustainability strategy in 2017, in 2018 we identified 11 targets under 4 focus areas which will help us measure our progress. As the business environment and expectations from society change, we will be improving and adding to these targets over time.

TOBACCO BUSINESS SUSTAINABILITY GOALS

Supply chain

We will reduce environmental and social risks, and enable transparent and responsible practices across our supply chain.

Regulatory environment and illegal trade

We will ensure the Company is included in policymaking leading to fair and balanced regulation, and enhance our cooperation with governments to combat illegal trade.

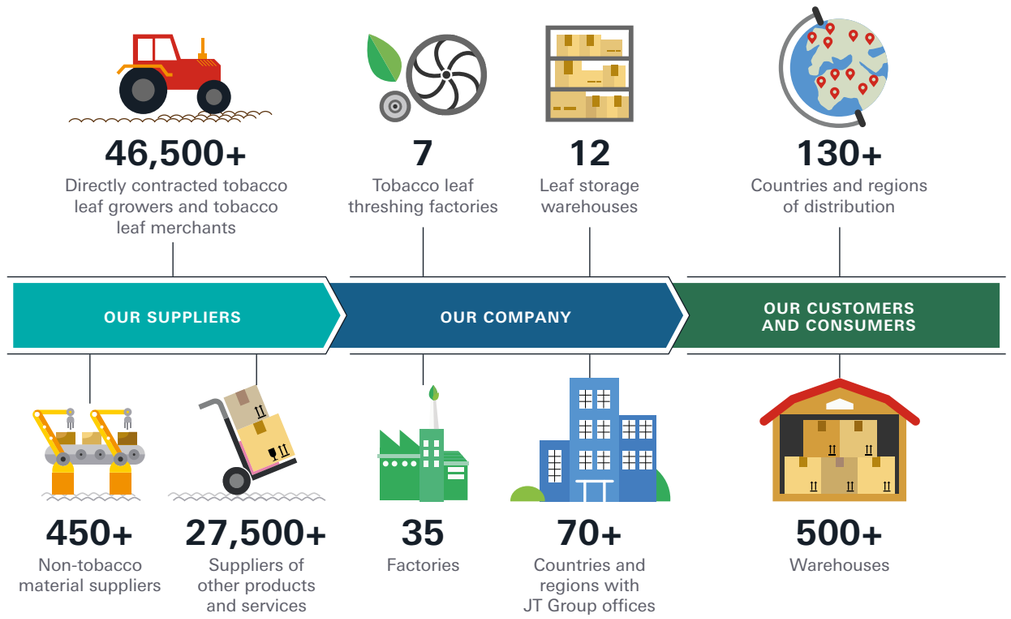
Products and services

We will be a total tobacco company offering consumers an even greater choice of products by focusing on quality, innovation and reduced-risk potential.

People

We will be the employer of choice by investing in people.

OUR TOBACCO BUSINESS VALUE CHAIN





Building sustainable supply chains

Maintaining a well-managed supply chain is a priority for our business. All the stakeholders in our supply chain are equally important and essential to build a sustainable business. We work closely with them to reduce negative social and environmental impacts, based on a shared vision.

Our factories produce ready-made cigarettes, other tobacco products, and some of our Reduced-Risk Products. We purchase approximately half of our tobacco leaf from directly contracted growers, and the other half from tobacco leaf merchants. We don't own any farms, and we don't employ any growers directly.

In order to ensure the highest levels of sustainability and integrity across the supply chain, all of our suppliers are required to comply with our JT Group Supplier Standards. We select suppliers based on quality, service, and cost. This is reflected in our JT Group Responsible Procurement Policy.

Our contracted tobacco leaf growers and merchants are also subject to the JT Group Principles in Leaf Tobacco Production and our Agricultural Labor Practices (ALP) program.



Non-tobacco materials, other products, and services

Non-tobacco materials include packaging, filters, and cigarette-related materials. We also have a number of suppliers for factory machinery and logistics, including freight. We manage the sourcing of most of these centrally. Other products and services, which flow through our supply chain, include marketing-related services, facility management, IT, and other professional services, which are sourced globally, regionally, and locally.

We develop strong partnerships with our key suppliers in order to achieve mutual long-term success. Our strategic relationships are built on shared values and objectives, which allows us to find sustainable solutions together, ensure a stable supply in a dynamic environment, and be able to adapt to innovative technologies.

For example, we worked with a number of suppliers of pulp-based products to reduce our paper and board related waste. We achieved this by optimizing our product specifications, saving approximately 1,700 tons of waste per year.



SUPPLIER SCREENING

We aim to achieve high standards of integrity across our business operations and supply chain. We can only achieve this through close cooperation with our suppliers.

In our international tobacco business, prior to entering into a commercial relationship, our key suppliers*1 undergo a screening process*2 which includes onboarding and qualification. This process allows us to understand potential risks related to compliance, human rights, environment, and health and safety.



OUR TARGET: SUPPLIER SCREENING
We will screen all key suppliers against environmental, social, and governance criteria by 2023.

If there are any risks identified, we offer support and collaboration on how to mitigate these risks and make necessary improvements.

Since 2017, we have screened 61% of the key suppliers in our international tobacco business. As our supplier screening target shows, we are committed to achieving 100% by 2023.

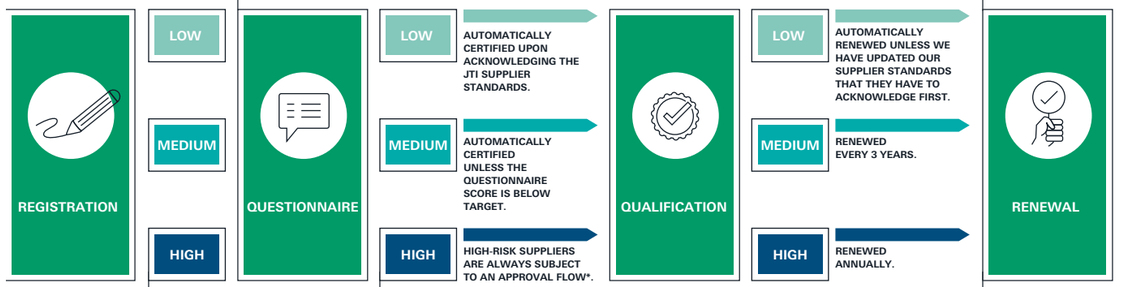
For details on how we manage our suppliers in the Japanese market, please visit our website www.jt.com/sustainability/our_business/tobacco/value_chain

THE SUPPLIER SCREENING PROCESS (*E)

The supplier is invited to register their information during the onboarding process.

Upon the calculation, the certification questionnaire is automatically triggered and sent to the supplier.

Our suppliers are continuously assessed.



Upon registration, the risk is automatically calculated by the application.

***ESCALATION:**
Our evaluation committee assesses the case. If the Committee decides to certify the high-risk supplier, the supplier is given a year to make improvements and showcase them in the next renewal phase.

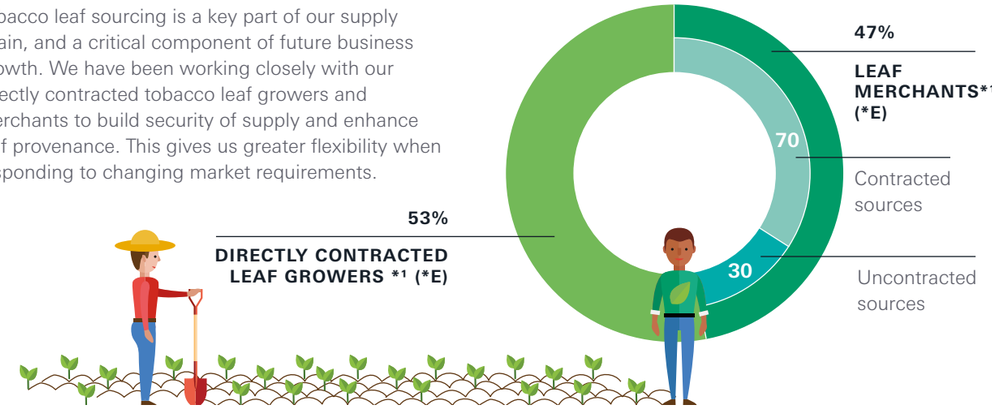
If the supplier's risk increases, certification with the higher risk questionnaire will be sent immediately.

**1 Key suppliers are defined as suppliers with a planned annual spend greater than 500,000 U.S. dollars, suppliers who either purchase or handle Japan Tobacco International tobacco products, leaf merchants, suppliers representing Japan Tobacco International before government, and contract manufacturing, and licensees.*

**2 Formally known as Supplier Lifecycle Management.*

Tobacco leaf sourcing

Tobacco leaf sourcing is a key part of our supply chain, and a critical component of future business growth. We have been working closely with our directly contracted tobacco leaf growers and merchants to build security of supply and enhance leaf provenance. This gives us greater flexibility when responding to changing market requirements.



In 2018, we contracted 46,500 tobacco leaf growers directly in Brazil, Ethiopia, Japan, Malawi, Serbia, Tanzania, Turkey, the U.S., and Zambia. The number of growers we work with will increase by approximately 65% in 2019, as a result of our acquisition of United Dhaka Tobacco Company Limited in Bangladesh in 2018.

Contracting leaf growers directly allows us to monitor cultivation and labor practices more effectively. We currently employ 373 Leaf Production Technicians in our international tobacco business*2, who each supports on average 89 directly contracted growers. They visit every farm between seven and nine times during the course of the cropping cycle to ensure the growers understand how to implement best practices. We encourage open dialogue, which allows continuous improvement on the farms. In our Japanese operations, our 126 Leaf Production Technicians are each assigned an average of 40 directly contracted growers to observe through site visits and questionnaire surveys.

SUSTAINABLE AGRICULTURE

As well as securing the long-term supply of quality tobacco leaf for our business, we also want to create shared value. We do this by providing services that increase grower productivity, while at the same time always trying to improve our social and environmental impact. This results in higher yields and better quality, which in turn drives greater profitability.

Grower return is based on more than price alone. By enabling growers to become more productive and efficient in the way they grow, harvest, and cure tobacco leaf, we ultimately help them to use resources wisely and responsibly, and increase profits. For example, we help to cut costs by using fertilizers and agrochemicals more efficiently. This can lead to cost reductions of up to 20%.

All of our leaf suppliers are expected to follow Good Agricultural Practices (GAP) as set out by the Cooperation Centre for Scientific Research Relative to Tobacco (CORESTA). The concept of GAP is to produce a quality crop while protecting, sustaining, or enhancing the environment with regard to soil, water, air, animal, and plant life (see www.coresta.org).

In addition to GAP, the majority of our directly contracted growers are also required to comply with our Minimum Agronomic Standards (MAS). These growers are contracted to grow tobacco under our stewardship. In return, they receive both credit for prescribed crop inputs as well as dedicated extension service provision from one of our Leaf Production Technicians. This support includes advice and recommendations throughout the entire crop cycle.

Contracted large-scale commercial growers – notably in the U.S. – don't require dedicated extensive service provision from us. This is why not all of our directly contracted growers are required to comply with MAS.

These farming practices are not limited to tobacco. We encourage growers to use seasonal crop rotation i.e. growing other crops such as groundnuts or maize on the same land in alternate seasons. This provides extra income, improved food security, and soil conservation.

We are always looking to improve our understanding of tobacco farming. Our investment in research and development involves partnering with leading international academic institutions in the development of innovative new ways of producing tobacco. See page 50 for more details.

**1 Percentage rates are based on planned volume.*

**2 This number excludes Bangladesh as it was recently acquired and Ethiopia as it operates on a different model.*

AGRICUTURAL LABOR PRACTICES

Our Agricultural Labor Practices (ALP) are based on the International Labor Organization's conventions and recommendations. The program consists of three pillars: tackling child labor, respect for the rights of workers, and ensuring workplace health and safety.

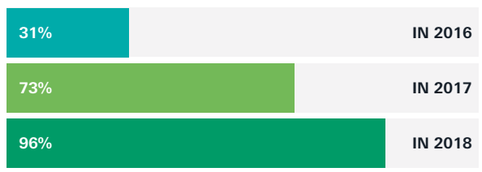
Whether we source tobacco directly or through tobacco leaf merchants, all of our suppliers have a contractual obligation to implement our Agricultural Labor Practices (ALP). ALP drives a continual cycle of improvement and dialogue, a concept deeply rooted in our business. By speaking to growers about their experiences and the issues they face, we can constantly make improvements on the ground and anticipate future challenges. Read more on ALP in our booklet published on jti.com.

We previously made a commitment to implement ALP in all sourcing countries by 2019. We are pleased to share that in 2018, we observed 96% of our directly contracted growers and 96% of our tobacco leaf merchants reported against ALP.

OUR PROGRESS AGAINST THE TARGET



Of our directly contracted growers were observed against ALP



Of our leaf merchants reported against ALP

We were able to achieve almost 100% coverage in a relatively short period of time due to a successful pilot program in our international tobacco business that ran between 2013 and 2016. Our learning shaped our current approach and enabled effective implementation with both our directly contracted growers and tobacco leaf merchants.

We have now broadened the target to include new acquisitions in countries such as Bangladesh and Ethiopia.

CASE STUDY

Our activities in Japan

JT FARM

In order to share effective tobacco cultivation practices with growers, in 2018 we established the 'JT Farm' in Japan. The farm functions as a development center, where we try out new techniques and methods before introducing them to growers.

ENHANCED CURING AND BALING

We are implementing a new curing process for burley tobacco, which can reduce working hours by 15%. This method also helps to prevent the contamination of non-tobacco related materials during green leaf baling.





96%

OF OUR DIRECTLY CONTRACTED GROWERS WERE OBSERVED AGAINST ALP

OUR TARGET: AGRICULTURAL LABOR PRACTICES

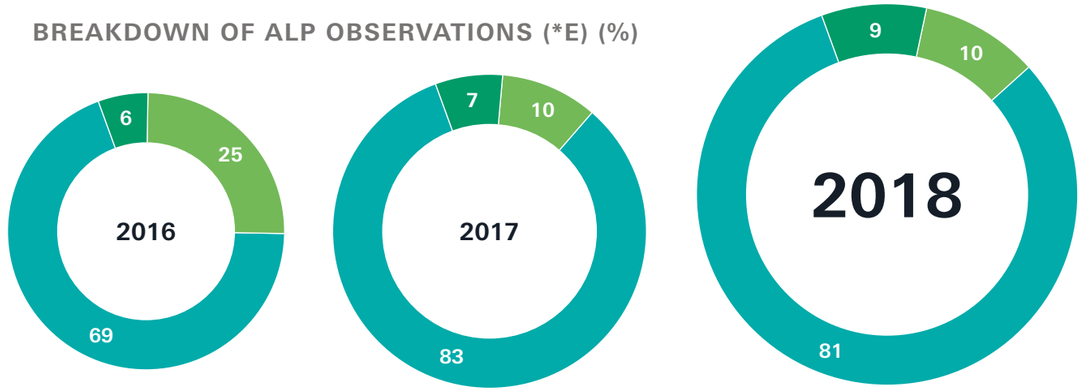
We will implement our Agricultural Labor Practices (ALP) program in all sourcing countries by 2025.



ALP IMPLEMENTATION IN JAPAN

We have a long-standing relationship with growers in Japan. Following a 2017 pilot study, the ALP program was fully implemented in 2018. We carried out farm visits and questionnaire surveys to address labor issues on tobacco farms. Based on our findings and observations, we will continue to make improvements.

BREAKDOWN OF ALP OBSERVATIONS (*E) (%)



Of the program's three pillars, the rights of workers is the most challenging to observe. We have therefore spent a considerable amount of time training our own Leaf Production Technicians and raising awareness among our leaf merchants, which has led to a steady increase in observations in this area over the last few years.* This enables us and our leaf merchants to better identify and prioritize ALP improvement measures.

Rights of workers | Child labor | Workplace health & safety

* *Combined data, observations of directly contracted growers and leaf merchants.*

ENGAGEMENT IN 2018

Working in collaboration with internal and external stakeholders has been key to the progress and success of the ALP program.

Our relationships with directly contracted growers have continued to produce tangible results due to face-to-face training and regular farm visits. Through a series of global and local meetings in 2018, we spoke to merchants about the strategic direction of the program. This helped to identify additional areas of interest, such as special training on the ground, and a need for innovative mechanisms to manage labor risks. We also engaged with government agencies in the countries where we operate, in order to address fair and safe labor conditions at a local level.

Our international tobacco business is an active member of the Sustainable Tobacco Program (STP). This industry-wide platform enables businesses to share best practices on labor standards, safe workplaces, and sustainable tobacco agriculture. Throughout 2018, we exchanged ideas with other STP members to further develop and improve the program.

In 2018, we became part of the Guidance for Responsible Agricultural Supply Chains pilot project. This initiative is run by the Organization for Economic Co-operation and Development in conjunction with the Food and Agriculture Organization of the United Nations. By participating in this project, we have been able to share our own experiences, broaden our understanding, and benchmark against others.

CASE STUDY

Grower Clubs in Zambia

In Zambia, we have an established network of approximately 465 Grower Clubs. Each Club is formed of 10 to 20 growers and led by a Chairman.

The aim of the Clubs is to bring growers closer together and create more effective dialogue. The Clubs allow continuous communication and engagement on a variety of topics such as Farmer Finance, Agricultural Labor Practices, Minimum Agronomic Standards, and other best practices.

In 2018, we trained over 452 Chairmen, in partnership with the government and the banking sector. As a result, all of our contracted growers in Zambia, for instance, now have bank accounts.



ARISE

Our flagship program, ARISE – Achieving Reduction of Child Labor in Support of Education – has been committed to tackling child labor in our tobacco growing communities since 2011.

In 2018, ARISE placed 7,123 children into formal education, building on the impact of previous years. The program is forging real sustainable change by implementing robust solutions to prevent child labor. For more details on the program, see ariseprogram.org.

In preparation for the next phase of the program starting in 2019, the ARISE team carried out a Social Return on Investment assessment of the program in 2018. The aim was to better understand the value of our investments, from the perspective of our beneficiaries. The findings helped us to complete a comprehensive review of all the program's activities, showing their impact on both the beneficiaries and our business.

The review identified a number of activities that are particularly valuable in creating a positive impact. These include, for instance, income generating activities at a household level.

The assessment has affirmed the great value ARISE has brought to the communities where we operate over the last eight years. The findings will also enable ARISE to become a more scalable and leaner program in future.

Although the ARISE program is formally monitored and evaluated, it currently lacks a system to monitor the progression of children withdrawn from child labor over time. The program has incorporated this learning into the design of the next phase, by digitizing our approach to child labor monitoring.

"We work collaboratively with growers, communities, business leaders, and governments to create solutions that address the root causes of child labor whilst always keeping the child's right to quality education at the heart of what we do. Year on year, we help more children into formal education and create new opportunities for them and their families.

Elaine McKay,
Social Programs Director, JT International

This year has also seen a reshaping of the ARISE program and the contractual framework supporting it. From 2019 onwards, we will continue to work with our contractual partner Winrock International (a US based internationally renowned NGO) to deliver the program. Although the International Labour Organization (ILO) will no longer be a contractual partner, we welcome the ILO's commitment to continue engaging with the program on the ground.

In the next phase of ARISE, we are committed to scaling up the ARISE program together with Winrock, and during 2019, we will embark on new and innovative partnerships that will allow us to digitize our approach to child labor monitoring in our directly contracted sourcing origins, where ARISE is currently active.



OUR CONTRIBUTION TO PREVENTING CHILD LABOR

		2016	2017	2018
COMMUNITY MEMBERS EDUCATED IN CHILD LABOR ELIMINATION (*E)	Brazil	34,640	31,991	**23,848**
	Malawi	11,820	10,028	**12,132**
	Zambia	1,384	8,166	**99,658**
	Tanzania	879	5,060	**55,160**
CHILDREN OFF FARMS AND INTO SCHOOLS (*E)	Brazil	766	3,185	**1,893**
	Malawi	6,414	7,063	**3,087**
	Zambia	2,562	4,167	**1,546**
	Tanzania	0	680	**597**



In 2018, we focused on raising awareness about child labor in the communities where we operate, through radio programs and local events. Therefore, our numbers of community members educated in child labor elimination have increased significantly in Zambia and Tanzania, in particular. An educated community will also enable us to increase the number of children taken off farms and into schools in the coming years.

GROWER SUPPORT PROGRAMS

Our Grower Support Programs are investments that address social needs in our tobacco growing communities.

ACHIEVEMENTS THIS YEAR (*E)

90 water systems installed in Malawi, Tanzania, and Zambia	**2,000** solar panels provided to growers in Malawi	**489** children benefited from access to quality education through school construction in Tanzania	**800** adults received literacy training in Zambia	**2,500** growers benefited from improved healthcare facilities in Malawi, Tanzania, and Zambia

Promoting forestry on small-scale farms

OUR APPROACH

Responsibly managing the use of natural resources within our operations supports the long-term viability of our business, and helps protect the environment. That's why we have embedded forestry considerations into internal management processes and strategic decision-making throughout the organization.

We have been working closely with our growers to improve tobacco yield and quality. Reducing intensity in use of soil, water, and wood generates increased returns for growers and a reduction in environmental impact – all of which makes our business more sustainable.

In countries where tobacco production depends on wood for the curing process, we believe it is our responsibility to ensure this resource is managed and used efficiently while also contributing to environmental conservation.

OUR TARGET: FORESTRY

We will replace all wood from natural forests used in the tobacco curing process of our directly contracted growers with renewable fuel sources by 2030.

AGRONOMY DEVELOPMENT AND EXTENSION TRAINING

We have model tobacco farms in Brazil and Zambia, also known as Agronomy Development and Extension Training (ADET) centers. This is where we carry out applied agricultural and environment related research and development related to soil management, mechanization, production cost efficiencies, and cultural practices.

These innovative centers enable us to study, test, innovate, and calibrate our ideas, before taking them to growers as recommended best practices. The ultimate goal is to ensure tobacco farming remains viable and profitable for our tobacco growers, while respecting and complying with the relevant environmental requirements and regulations.

In our ADET centers, we focus on forestry research to improve wood production and efficiency in tobacco curing, as well as on forest conservation and rehabilitation. We identify the forestry challenges along with applicable solutions to minimize our impact on the environment at small-scale farm level.

Since 2013, we have been organizing ADETs days, to which growers from around the country are invited to participate. Last year, more than 1,100 growers attended the day, the theme being "Preparing the soil for a new future". The growers learnt about technological innovation in tobacco production, as well as in soil and environment conservation.

Another fundamental part of these model farms is capacity building. There is a robust and continuous cycle of training and engagement of our Leaf Production Technicians, who pass on their knowledge of best agricultural practices and innovation to the growers. Read more on page 45.

"For me, as a researcher, JTI's commitment to the real quest for sustainability has been very motivating. Our partnership forms a sound foundation for developing energy sustainability strategies for small-scale tobacco growers. This in turn helps to generate income, reduce GHG emissions, and increase the productivity of planted forests, securing a sustainable supply of wood for tobacco production.

Professor Dr. Jorge A. Farias,
Federal University of Santa Maria, Brazil

OUR MINIMUM FORESTRY STANDARDS

Through our ADET centers, we have developed our Minimum Forestry Standards – a set of forestry specifications and guidelines that our growers must follow. We have established these standards in all the countries where our growers use wood for tobacco curing, either as a source of curing fuel or for live barn structures: Brazil (2012) and Malawi, Tanzania, and Zambia (2014). As a result, growers in those countries are able to establish and manage better quality woodlots. This approach brings us closer to achieving sustainability in wood supply. It also reduces our environmental impact by helping to avoid deforestation and improve the conservation prospects for natural woodland.

MATOPE BARNS

An innovative development of the ADET centers are Matope (mud) barns, a more fuel-efficient type of curing barn.

Using Matope barns can lower wood consumption by 75% and reduce carbon emissions by 12%. At the same time, cured leaf yields are 17% higher, while the quality of leaf also improves and grower returns rise by approximately 400 U.S. dollars per hectare. Growers in Zambia installed over 1,300 Matope barn units in 2018.

This is an important development, as the emissions associated with curing tobacco leaf represent the largest single source of Scope 3 emissions for our business. Read about how we reduce emissions in our own operations on the next page.



CASE STUDY

Contributing to forest rehabilitation in Brazil

JTI has partnered with the Wildlife Research and Environmental Education Society to restore over 300 hectares of permanent protection areas in Brazil with funding from the National Bank for Socio-Economic Development. These areas include land owned by tobacco growers and part of the Irati National Forest.

The restoration work started in 2018. In Irati National Forest, 35 hectares of pine trees were replaced by native species to help restore the natural landscape. The project also involved the training of 33 local college students in ecological restoration.

We defined priority areas in strategic river basins, based on factors such as soil, rain, and proximity to other projects, to create green corridors (strips of land with sufficient habitat to support wildlife) connecting different regions. One of the first sites we selected was the Taquaral river basin in Parana State. We introduced the project through a series of mobilization meetings, attended by 200 local growers.

The partnership provides growers with technical assistance and support, before and after the restoration work begins. We are committed to protecting and restoring natural forests, and supporting local communities.



Reducing our environmental impact in manufacturing

Sustainability is deeply embedded within our manufacturing operations. At our factories around the world, we work to minimize our environmental impact by focusing on energy efficiency, GHG emission reduction, water efficiency, and waste reduction.

In recent years, we have made a concerted effort towards increasing the proportion of our energy that comes from renewable sources, and this has been reflected in our expenditure. Since 2016, we have invested nearly 13 million U.S. dollars in renewable energy.

We are further reducing water usage and improving recycling, enhancing our management of wastewater, and addressing water-related risks to our operations.

In terms of waste, our focus is on improving yield, reducing waste disposal, and decreasing secondary packaging.

Read about our approach to environmental management on page 26.

SWEDEN
RUSSIA
TURKEY
IRAN
EGYPT
JORDAN
JAPAN
PHILIPPINES

OUR TARGET: GREENHOUSE GAS EMISSIONS
We will reduce greenhouse gas emissions from our own operations by 35% and from our direct leaf supply chain by 40%, between 2015 and 2030.

OUR TARGET: WATER AND WASTE
We will reduce water withdrawal by 15% and waste by 20%, in relation to our own operations, between 2015 and 2030.

1

GHG EMISSIONS EFFORTS IN JAPAN

JT is certified as an Eco Rail mark company by the Ministry of Land, Infrastructure, Transport, and Tourism in Japan. This group of companies is reducing GHG emissions through techniques such as modal shift – changing from trucking to container transportation via rail and sea – and improving truck-loading ratios.

The JT Kansai factory received two awards from Kyoto City and Kyoto Prefecture government for its excellent emission reduction initiatives. The factory is proactively tackling the reduction of GHG emissions through initiatives such as high efficiency freezer installation and eco-friendly compressor use.

2

HARNESSING RENEWABLE ENERGY

GREEN ENERGY VARGARDA, SWEDEN

The program minimizes CO_2 emissions and energy consumption at the factory by combining green energy alternatives with a range of cost-effective energy-saving projects. The factory is connected to a nearby bio-steam facility, which heats the factory by burning CO_2 neutral woodchips. The factory also uses a steam-to-hot-water conversion system to heat the offices, helping it to achieve a remarkable 67% reduction in CO_2 emissions.

To further reduce energy consumption, the team also plans to rebuild the ventilation system, improve the heating and cooling system, install a better control system, and improve insulation.

SOLAR STEAM GENERATION AMMAN, JORDAN

Awarded the "Environmental Stewardship Award" by the Ministry of Environment in Jordan and the World Bank, this is the first tobacco factory in the world to use direct solar steam generation.

A rooftop-mounted collector, steam storage, and a steam-driven absorption chiller provide the site with energy and building heating and cooling. The system covers 85% of the plant's annual steam consumption, and helps reduce its CO_2 emissions by 12% or 500 tons a year.

The factory's ultimate ambition is to be 100% carbon neutral.

SOLAR ELECTRICITY GENERATION BATANGAS, PHILIPPINES

In the largest self-consumption rooftop solar system in South-East Asia, 17,040 solar panels convert the sun's energy into usable electricity. The use of solar energy helps prevent approximately 4,000 tons of GHG emissions a year.

3

WATER

We continue to identify ways to reduce water usage in our factories.

- Better irrigation processes and timing in **Jordan** and **Iran** have reduced water demand for irrigation by around 40% (around 19,000 m^3 annually).
- Thanks to improved technology, our **Turkey** factory is now able to reuse the majority of the wastewater from its water filtration process.
- Our factory in **Egypt** reduced water consumption by over 30% through improved container washing, a mixer project upgrade, and boiler feed water reuse.
- By reusing recovered water (condensate) for its manufacturing process, our Yelets factory in **Russia** reduced water consumption by 5% (26,400 m^3 per year).

WASTE

Many of our factories reuse large tobacco packing cases and wooden pallets. This reduces the amount of waste generated.

Our factory in **Iran** has boosted its recycling rate from 48% to 93% by changing its waste management method for tobacco dust and acetate tow. Tobacco dust is used now as agricultural organic fertilizer, and the acetate tow as the raw material for a specific type of packaging production.

Our Environment Program for Markets, which will be launched in 2019, aims to help our office and warehouse locations to raise awareness of our environmental impact, and to develop programs to reduce this impact by sharing guidance and best practices.

Exceeding expectations with products and services

As alternatives to traditional combustible products, e-cigarettes (E-Vapor) and tobacco vapor products (T-Vapor) are gaining popularity with consumers around the world. Our industry is changing, but our commitment to consumer choice remains.

We are always listening and reacting to the changing tastes of adult smokers and vapers around the world. We develop, test, and bring to market new and innovative forms of Reduced-Risk Products that have the potential to reduce the risks associated with smoking and offer real benefits to consumers, society, and our business.

Between 2018-2020, we are investing 100 billion Yen in Reduced-Risk Products, to further develop our supply chain and expand our research and development capabilities.

OUR COMMITMENT

We will be a total tobacco company, offering consumers an even greater choice of products by focusing on quality, innovation, and reduced risk potential.



OUR TARGET

We will lead in providing the widest range of consumer choice in the Reduced-Risk Product category.

Recent third-party* reports from the U.K. and the U.S. on the relative safety of e-cigarettes state that, based on available evidence, the current generation of e-cigarettes are less harmful than smoking.

We welcome further studies into the effects of long-term use of e-cigarettes.

Evidence so far shows that e-cigarettes are safer than smoking.

Cancer Research U.K., 2017



Science is at the very heart of our Reduced-Risk Products business. Through JT Science, we aim to widen our audience, addressing people's natural inquisitiveness about science in a clear, concise, and easy to navigate manner.

Ian Jones PhD,
Principal Scientist Vice President, R&D, JT International

JT SCIENCE: AN ONLINE RESOURCE FOR ALL

JT Science is a valuable online resource for both scientists and non-scientists alike. Our mission is to inform, educate, and collaborate with all those interested in learning about the science behind Reduced-Risk Products – from consumers to scientists and the regulatory community. With JT Science, we strive for an open, balanced, and fair platform where factual scientific data and assessments are shared in a transparent way. The results of our studies that scientifically evaluate our Reduced-Risk Products are publicly available on www.jt-science.com.

* *- E-cigarettes, Seventh Report of Session 2017–19. House of Commons Science and Technology Committee. 2018. HC 505*
- Evidence review of e-cigarettes and heated tobacco products 2018. Public Health England. 2018
- American Cancer Society Position Statement on Electronic Cigarettes, February 15, 2018

A consumer-centric approach

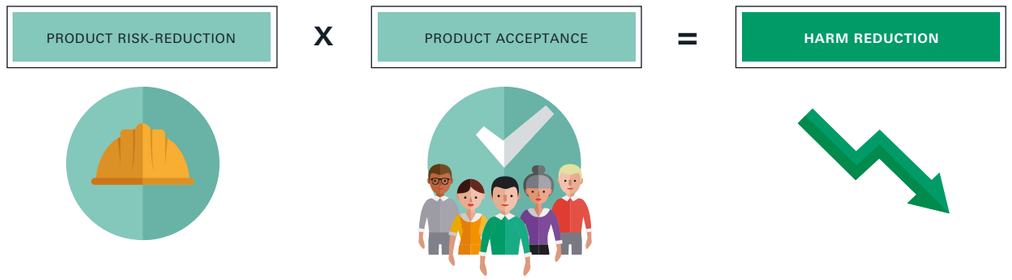
For products to have the potential to reduce the risks associated with smoking, consumers must first understand and appreciate their value. We therefore take a consumer-centric approach towards research and development, and focus on four major factors that motivate consumers to consider Reduced-Risk Products:

- The potential for a product to reduce the risks associated with smoking
- Affordability and value for money
- Social considerations – seeking products with low smell, so as not to disturb others
- The convenience of being able to use a product in a wide variety of locations and occasions.

This approach to our Reduced-Risk Product research and development is reflected in the Harm Reduction Equation, and helps us to concentrate on exceeding the expectations of all of our key stakeholders: consumers, shareholders, employees, and the wider society.

The success of any harm reduction intervention is dependent on two factors: its potential to reduce the risks associated with a particular activity and the number of people who adopt the intervention. After all, while non-combusted tobacco products and e-cigarettes drastically reduce the exposure to known harmful constituents in tobacco, and therefore have the potential to lower the health risks of smoking, their potential value is lost when consumers do not accept these alternative propositions.

HARM REDUCTION EQUATION



OUR CONSUMER-CENTRIC STRATEGY BENEFITS FOUR KEY STAKEHOLDERS



Disclaimer: This section is intended only to explain the business operations of the JT Group, not to promote sales of tobacco or nicotine delivery products or encourage smoking among consumers

Empowering consumer choice

We are committed to providing adult consumers with a relevant and diverse product offering, and to communicating the benefits and reduced-risk potential of each product so that consumers can make an informed choice.

At the end of 2018, our Reduced-Risk Product portfolio was present in 13 countries with a choice of tobacco vapor products (T-Vapor) and e-cigarettes (E-Vapor).

WHAT IS T-VAPOR?

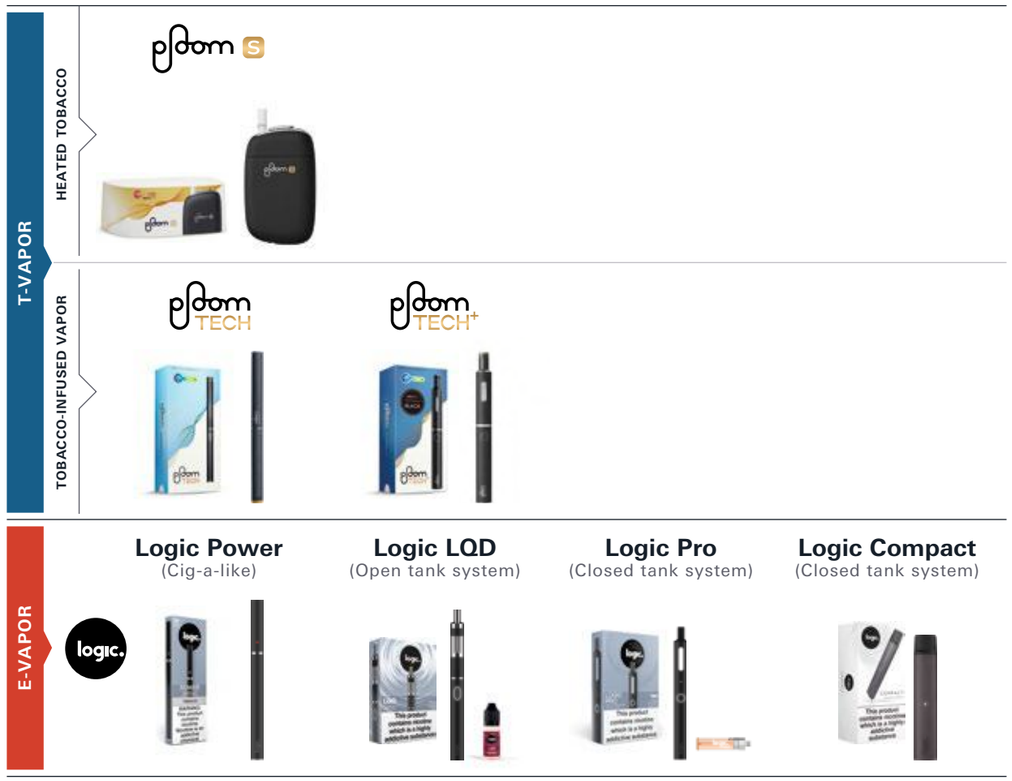
T-Vapor products contain tobacco that is heated (though not burnt) to create an inhalable vapor. Consumers particularly enjoy the wider social freedoms that they bring compared to conventional products. Our T-Vapor category currently consists of Heated Tobacco and Tobacco-Infused Vapor products:

- Heated Tobacco delivers the satisfaction of a tobacco experience;
- Tobacco-Infused Vapor addresses consumer needs of social consideration and convenience, whilst continuing to deliver a true tobacco taste experience.

WHAT IS E-VAPOR?

Also known as electronic cigarettes, E-Vapor products heat a liquid that usually contains nicotine, but no tobacco. They create an inhalable vapour by electrical heating of a liquid (known as an e-liquid) contained within the device or a replaceable cartridge. Consumers are particularly drawn to the wide range of different devices and flavors available. They offer optimum levels of social consideration, convenience, and affordability.

OUR PRODUCT PORTFOLIO (as of January 2019)





Reduced-Risk Products Supply chain

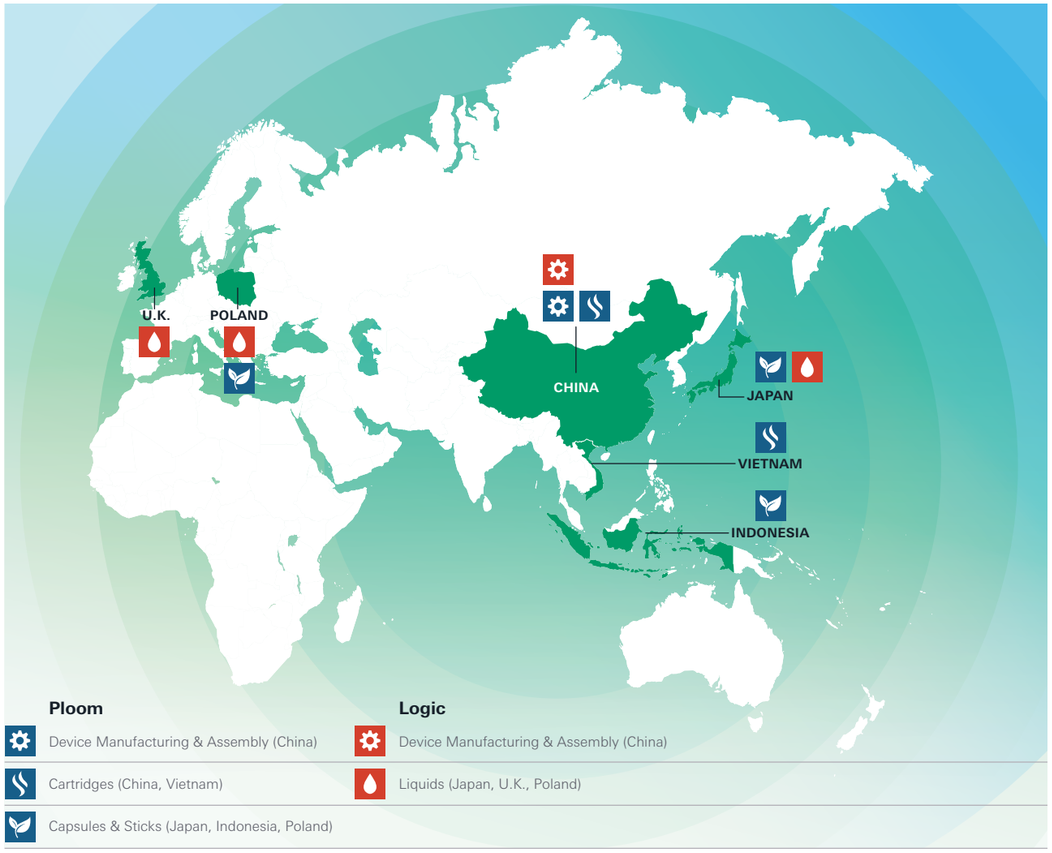
We have established a dedicated supply chain for our Reduced-Risk Products, building strong supplier partnerships that support business expansion and meet the demands of our increasingly sophisticated portfolio. In addition to our in-house production capabilities, we source from manufacturers across Asia and Europe. Out of seven supplier factories, five factories are ISO 14001 certified.

In 2018, we opened a new e-liquids production facility in Gostkow, Poland as an extension of our existing European Flavor House. Most of our e-liquids that contain nicotine, and tobacco capsules, are now produced in-house.

Our portfolio in Reduced-Risk Products is true to our philosophy of providing consumers with choice and quality. We are proud of our wide range of products, both in e-cigarettes and tobacco vapor.

Daniel Torras,
Senior Vice President, Reduced-Risk Products, JT International

OUR REDUCED-RISK PRODUCTS SUPPLY CHAIN



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T-Vapor Brand Focus: Ploom TECH

Ploom TECH is our Tobacco-Infused Vapor proposition that offers consumers a clear taste, with less smell and high usability. The product is currently available in four markets.

Ploom TECH has been specially developed for consumers who enjoy tobacco but want to do so in a more considerate and convenient way.

Our scientific assessments to date reinforce the risk-reduction potential of Ploom TECH. The data*1 show that compared with smoking, Ploom TECH offers a more than 99% reduction in the key constituents of emissions that have been linked to health concerns.*2

The data*3 also shows that Ploom TECH use has minimal impact on indoor air quality, which explains why an increasing number of restaurants in Japan have allowed the exclusive use of Ploom TECH (see below).

Overview of the assessments can be found on our website: www.jti.co.jp/investors/library/presentation/2018_London/pdf/20180605_4.pdf

As of March 2019 in Japan, we offer premium tobacco capsules in ten flavors from the JT Group's leading tobacco brands, Mevius and Pianissimo following the launch of a new white Ploom TECH device.

HOW WE ASSESS THE REDUCED-RISK POTENTIAL OF PLOOM TECH

When it comes to the assessment of reduced-risk potential, we take a tiered approach by:

- Characterizing the key constituents of the emissions
- Examining exposure and uptake of emissions, i.e. what is absorbed into the body
- Investigating the effect (the impact of this uptake on the body)
- Looking at the impact on the surrounding environment (indoor air quality studies)



A BETTER UNDERSTANDING OF JAPANESE CONSUMERS

Growth in the T-Vapor category has been mainly driven by Japan, which in 2017 accounted for over 90% of global T-Vapor sales by volume. By increasing our share in the Tobacco Vapor category, we will strengthen our position as the leading tobacco company in Japan.

In order to maximize product acceptance, in accordance with the principle of the Harm Reduction Equation (see page 55), we have carried out numerous studies in Japan to identify consumer motivations and needs. In one study of over 3,000 consumers, we learned that Japanese consumers are motivated primarily by externally-driven needs, such as social consideration and convenience.

They want an alternative to cigarettes that does not disturb others with the smell of smoke, and is easy to use in a wider range of settings.

A subsequent study of over 4,300 Japanese consumers demonstrates that Ploom TECH delivers on these needs better than competing products, and was rated significantly higher in terms of having no smoke smell – a hugely important consideration in Japanese culture. With regards to convenience, consumers rated Ploom TECH considerably higher than the competition in terms of ease of use, low maintenance, and long battery life.



PLOOM TECH ATTRIBUTES



CASE STUDY

"No Smoking, Ploom TECH only" in over 3,700 restaurants

As part of our commitment towards accommodating the desires of both smokers and non-smokers, we continue to provide businesses with information on Ploom TECH to help them satisfy their customer needs and decide whether to allow the use of Ploom TECH on their premises.

As of February 2019, many businesses across Japan, including over 3,700 restaurants, have chosen a policy of "No Smoking, Ploom TECH only." This is the result of the unique ability of Ploom TECH to deliver on the no smoke-smell promise.

Following this success, similar efforts are underway to support companies across Japan in introducing "No Smoking, Ploom TECH Only" rooms in their workplaces. We are also building partnerships with car rental companies to benefit Ploom TECH customers.

We feel that this step towards a society that is more inclusive of those who choose to enjoy tobacco will lead to a greater understanding of the benefits of vaping products. The increased adoption and acceptance of Ploom TECH will benefit users and society as a whole, as well as Japanese businesses that wish to accommodate the needs of their customers.

*1 *Chemical analysis and in vitro toxicological evaluation of aerosol from a novel tobacco vapor product: A comparison with cigarette smoke. Takahashi et al. Regulatory Toxicology and Pharmacology. 2018. 92:94-103*

*2 *It does not imply that the health risk associated with the use of the product is relatively small compared with that of cigarettes. It compares the amounts of nine constituents, the WHO recommend to reduce as a priority, which are contained in one puff of cigarette smoke and one puff of a tobacco vapor of Ploom TECH. Standard test cigarette (3R4F) was selected as the test cigarette product.*

*3 *Indoor air quality (IAQ) evaluation of a Novel Tobacco Vapor (NTV) product. Regulatory Toxicology and Pharmacology. 2018. 92:278-294.*

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BUILDING ON THE SUCCESS OF THE PLOOM BRAND

We are committed to continually improve our product offering. In line with this, we have developed two innovative new products in 2018, launched in January 2019 through the dedicated online store and Ploom shops in Japan. Our national expansion plans are on track and we will achieve full national coverage by the end of 2019. Thanks to their different heating temperatures, the new products offer consumers different experiences.

Ploom TECH+ (Plus)

This new tobacco-infused, low-temperature heating product leverages the unique features of Ploom TECH, such as less smell and high usability. It allows consumers to enjoy a powerful rich tobacco vapor, while producing less than 1% of the odor*1 and providing a reduction of over 99%*2 in the levels of measured potentially harmful constituents compared to cigarette smoke.

Ploom S

We have entered the Heated Tobacco category with Ploom S, a high-temperature heating product that offers a superior tobacco taste. Compared to cigarettes, it produces less than 5% of the odor*1 and provides a reduction of over 90%*2 in the levels of measured potentially harmful constituents.

The launch of these products will be boosted by the strong support of the JT Group in Japan, with both devices co-branded with Mevius, the country's #1 cigarette brand and benefitting from our leading in-market salesforce capabilities – a critical advantage. Please see page 56 to learn how these new products fit into our Reduced-Risk Product portfolio.





RECYCLING SCHEMES FOR PLOOM TECH

We encourage consumers to dispose of empty capsules and cartridges from their devices in a responsible manner.

In Japan, we introduced a recycling program where recycling boxes were sent out to 246,771 people so that they could return their empties for recycling conveniently and free of charge.

The program was a significant extension of a similar pilot conducted in 2017, where 16,000 recycling boxes were distributed.

The 2018 program was a success, with 1,375,487 empty capsules and 329,394 empty cartridges returned for recycling.

Following positive feedback from consumers, we will continue to investigate a more holistic approach to recycling and waste management.

In addition, we sent recycling boxes to shops selling Ploom TECH, thus providing consumers with the option to return the items in person.

We have already begun a similar program in Switzerland and hope to roll out further programs across our Ploom TECH markets in 2019.



Results of the research based on the three-point comparative odor intensity indication method by six people who have passed the olfactory test. Cigarette smoke and Ploom TECH+ and Ploom S tobacco vapor, which contains constituents derived from tobacco leaves, were diluted with odorless air in the bags, and the odor of each bag was statistically quantified as the "dilution factor of just no odor".

It does not imply that the health risk associated with the use of the product is relatively small compared with that of cigarettes. It compares the amounts of nine constituents, the WHO recommend to reduce as a priority, which are contained in one puff of cigarette smoke and one puff of a tobacco vapor of Ploom TECH+ and Ploom S. Standard test cigarette (3R4F) was selected as the test cigarette product.

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E-Vapor Brand Focus: Logic

With 4 E-Vapor devices and 15 rich flavors, products under the Logic brand ensure consumers can enjoy a superior and flavorsome vaping experience. Logic products are currently sold in 11 countries and we aim to expand this to 20 markets by the end of 2020. All products are developed in line with strict international quality standards*.

Launched in the U.K. in 2018, Logic Compact is the latest device in our lineup. By providing high levels of convenience in terms of both portability and ease of use, we expect that this new device will help us to deliver the benefits of vaping products to an even wider audience of adult smokers and vapers.





* *Global standards: IEC 60335-1, IEC 60950-1. – EU standards: EN 55014-1, EN 55014-2, EN 60335-1, EN 60950-1, EN 62133, Directive 2006/66/EC on Batteries and Accumulators, Regulations (EC) No. 1907/2006. – US standards: FCC, CFR 47 Part 15 Subpart B (Federal Communications Commission. Code of Federal Regulations, Volume 47, Part 15, Subpart B), Electromagnetic compatibility, UL 1642 Standard for Lithium Batteries (CEC).*

RESPONSIBLE RECYCLING AND DISPOSAL SCHEMES FOR LOGIC

We take our responsibility for the environment very seriously and provide consumers with advice and support to help them conveniently and safely recycle or dispose of Logic products at the end of their useful life. This is tailored to local requirements, and more details can be found on Logic websites.

HOW WE MANAGE LOGIC WASTE



DIRECTLY WITH CONSUMERS

In the U.K. and Germany, we provide consumers with a convenient way to return any old Logic tip, battery, or charger to us for safe disposal.

logicvapes.co.uk/econo-weee



THROUGH OUR PARTNERS

In the U.S. and France, we partner with waste management specialists who help consumers to easily and safely recycle or dispose of device components.

logicvapes.us/social-responsibility

LATEST REGULATORY DEVELOPMENTS ON E-CIGARETTES IN 2018

It is in the public interest for regulation to be evidence-based, proportionate, and effective. We support the principles of Better Regulation (see page 65), which argue for measures that preserve consumer choice and market freedom. Regulation of Reduced-Risk Products is fast-moving and we monitor developments closely. The following are just a few examples of some key regulatory developments around the world in 2018.

Canada

An important recent development in North American regulation is the legalization in Canada of e-cigarettes containing nicotine.

The new Tobacco and Vaping Products Act establishes more liberal provisions regulating the commercialization and promotion of e-cigarettes.

In 2019, it is expected that provisions for manufacturers to make reduced-risk claims will be included in the Act.

Switzerland

On April 24, 2018, the Federal Administrative Court ruled that the 2015 ban on retail of nicotine liquids for e-cigarettes was illegal.

This ruling is based on the "Cassis-de-Dijon" principle, whereby all goods permitted for retail in the EU, should also be allowed to be sold in Switzerland.

U.K.

On August 17, 2018, the U.K. House of Commons' Science and Technology Select Committee published its report on e-cigarettes and novel tobacco products to widespread media coverage. The report is highly supportive of liberalizing the regulation of e-cigarettes due to clear evidence that they are substantially less harmful than conventional cigarettes.

Disclaimer: This section is intended only to explain the business operations of the JT Group, not to promote sales of tobacco or nicotine delivery products or encourage smoking among consumers

Optimizing the regulatory environment

Championing better regulation for informed choice

We value and support the freedom for adults to make informed choices, and we play our part by ensuring all consumers understand the associated risks when deciding to smoke or not. That is why we are as transparent about our positions on smoking and health as possible. It is also why, no matter what we do, we adhere to the five core principles that define our attitude to smoking (see opposite page). We also work in a highly regulated operating environment, and monitor developments and prepare for changes in regulation well in advance. This is done in line with our tobacco principles, so that we go above and beyond our obligations.

OUR COMMITMENT
We will ensure the Company is included in policymaking leading to fair and balanced regulation and enhance our cooperation with governments to combat illegal trade.

OUR TARGET
We will always protect our ability to participate in public policy debate with the aim to achieve balanced regulation that meets societal concern and supports business growth.



Our views on specific regulatory topics can be read online: www.jti.com/about-us/our-business/our-views-on-regulation.

- PLAIN PACKAGING
- E-CIGARETTES
- PRODUCT DISPLAY BANS
- ATTRACTIVENESS
- STAKEHOLDER PARTICIPATION IN REGULATORY PROCESSES
- INGREDIENTS

OUR TOBACCO PRINCIPLES

1. **OPENNESS ABOUT THE RISKS OF SMOKING**
Smoking is a cause of serious diseases, and everyone should be appropriately informed about the health risks of smoking.

2. **TRANSPARENCY ABOUT OUR PRODUCTS**
Smokers want to know what it is they are smoking, and we provide information about the ingredients we use.

3. **REDUCED-RISK PRODUCTS**
We believe products that do not involve combustion and do not produce tobacco smoke are products with the potential to reduce the risks associated with smoking. We are committed to developing and bringing to market Reduced-Risk Products that meet consumer expectations. We will help adult consumers to make informed choices by providing factual information acquired through scientific assessment about the products they may wish to use.

4. **YOUTH SMOKING PREVENTION**
Minors should not smoke and should not be able to obtain tobacco products. This belief is central to our Code of Conduct, marketing practices, and the way we do business.

5. **ACCOMMODATION BETWEEN SMOKERS AND NON-SMOKERS**
Many people have concerns about exposure to environmental tobacco smoke. We advocate tailored, practical, and effective solutions, that separate smokers and non-smokers while accommodating the legitimate interests of both. Further to this, we are committed to developing and bringing to market Reduced-Risk Products that also have the potential to reduce the impact of smoking to others.

SUPPORTING 'BETTER REGULATION'

Smoking carries risks to health, and appropriate and proportionate regulation of the tobacco sector is both necessary and right. To meet public policy goals, whilst respecting the rights of all stakeholders, it is important that regulation is evidence-based, practical, enforceable, and competitively neutral.

To help lawmakers develop Better Regulation, the OECD has endorsed the internationally-recognized 'Guiding Principles for Regulatory Quality and Performance', which we support. These can be summarized as:

- Coherence
- Openness
- Proportionality
- Participation
- Effectiveness
- Accountability

A key aspect of Better Regulation is a transparent legislative process, one that involves all interested and affected parties.

With regulation affecting our products and our industry, we exercise our right to make our views known, by engaging openly and transparently with government stakeholders (including regulators), non-governmental organizations, and all other relevant stakeholders. We seek to ensure that the regulatory environment encourages innovation, business growth, and freedom of consumer choice so that we may better serve the needs of consumers, society, and our business.

We engage openly in regulatory process at all stages, and take part in public consultations by providing arguments supported by evidence and alternative solutions.

We support public discussions on the topics of good governance, Better Regulation, and transparency. We demonstrate our commitment to Reduced-Risk Products and provide tangible solutions to societal issues.

OUR VIEWS ON REDUCED-RISK PRODUCT REGULATION

The tobacco industry is undergoing a transformation as Reduced-Risk Products gain popularity in many countries. We believe that these products offer real benefits to consumers and society (see page 56), and that consumers should be free to choose them.

Governments and regulators should avoid restrictive regulation that suppresses innovation and prevents adult consumers from selecting these products.

We are committed to working with regulatory authorities, public health bodies, and the scientific community, to create the best possible frameworks for these products to reach their full potential, and a level playing field for all manufacturers.

REGULATORY DEVELOPMENTS IN 2018

We continue to follow the evolution of the WHO Framework Convention on Tobacco Control (FCTC). The Protocol to Eliminate Illicit Trade in Tobacco Products (the Protocol) came into force on 25 September 2018, and October saw the eighth session of the FCTC Conference of the Parties (COP8), as well as the first session of the Meeting of the Parties to the Protocol (MOP1).

No new recommendations or decisions were taken that directly impact the JT Group and its products at COP8 and MOP1. Although we continue to be denied a voice at such events, which we believe is wrong, we will persist in closely monitoring the evolution of the FCTC and the Protocol, and share our views with decision makers wherever possible.



ENGAGING WITH OUR STAKEHOLDERS

Whilst we are prevented from attending events such as COP8 or MOP1, we do attend other industry events such as the Global Tobacco and Nicotine Forum (GTNF), where we are able to engage with a wide variety of stakeholders and make our voice heard.

We attended GTNF 2018 in London, a key international conference where commentators gathered to discuss the future of the tobacco and nicotine industry. The forum attracted over 315 participants from academia and public health authorities as well as the tobacco industry. A lively debate reflected the mixed audience and discussions focused heavily on the inconsistent regulation of Reduced-Risk Products.



SPOTLIGHT: BRANDING BAN

The ability to build and use a brand is essential for businesses to thrive and economies to prosper. Distinctive branded packaging is vital for competition, and enables consumers to identify, obtain information about, and choose their preferred brands of tobacco products easily and without confusion. However, branding bans are imposed on the tobacco sector in certain parts of the world, and these are not based on, or consistent with, a credible and scientifically rigorous understanding of the behavior of smokers. These types of restrictions are also being considered for other consumer products. Since the implementation of the plain packaging policy in Australia in 2012, followed by France, the U.K., Ireland, New Zealand, and Norway, no studies have shown convincing evidence that it reduces the number of people choosing to smoke.

Consequently, we believe these bans fail to achieve stated public policy objectives and are, in fact, excessive and misguided.

Expert Reports on the impact of these plan packaging bans can be read here: www.jti.com/about-us/our-business/key-regulatory-submissions

What's more, plain packaging has serious negative consequences for society and consumers. It makes counterfeit products easier to produce, distribute, and sell. This encourages criminality and impacts government tax revenues. Consumers and retailers struggle to tell the difference between brands, which damages competition and affects business. It also infringes our rights to property, expression, and trade, without proper justification.

In 2018, the WTO Panel on Plain Packaging ruled in favor of Australia. The decision is a major step backwards for the protection of intellectual property rights internationally. It sets a precedent that could encourage governments to ban branding on other products without providing any reliable evidence of benefits to the public interest. The Panel decision has been appealed by the Dominican Republic and Honduras and the dispute is now before the WTO Appellate Body, which will deliver a final outcome.



Disclaimer: This section is intended only to explain the business operations of the JT Group, not to promote sales of tobacco or nicotine delivery products or encourage smoking among consumers

IN FOCUS

TACKLING THE ILLEGAL TRADE OF OUR PRODUCTS

Experts estimate that over 10% of all cigarettes sold globally (excluding China) are illicit, with approximately 45 billion U.S. dollars in global tax revenue lost each year. This illegal trade fuels human trafficking, organized crime, and terror groups; and undermines legitimate tobacco businesses. It also causes harm to consumers, as uncontrolled products circumvent regulations and quality controls.

Tackling illegal trade is a top priority for us, and our Anti-Illicit Trade team is recognized as the industry leader in combating this problem.

> *JTI makes an important impact on illicit trade which is good for seizures and it's a good position regarding intelligence sharing. JTI is in the lead.*
>
> Margarete Hoffman,
> *Head of Policy, Directorate D, OLAF*

OUR COMMITMENT

We will ensure the Company is included in policymaking leading to fair and balanced regulation and enhance our cooperation with governments to combat illegal trade.

OUR TARGET

We will engage in dialogue with law enforcement agencies, with the goal to exchange intelligence regarding illegal tobacco products, in order to support the reduction of illegal tobacco products.



KEY WINS IN 2018

WE ADVISED 1,329 LAW ENFORCEMENT OFFICERS ON COUNTERFEIT RECOGNITION

With the goal of reducing the supply of illegal products

OVER 2.7 BILLION ILLEGAL CIGARETTES SEIZED

Thanks to intelligence reports provided by our team to law enforcement

32% DECREASE IN SEIZURES OF OUR GENUINE PRODUCTS

Resulting from our efforts to ensure the security of our supply chain

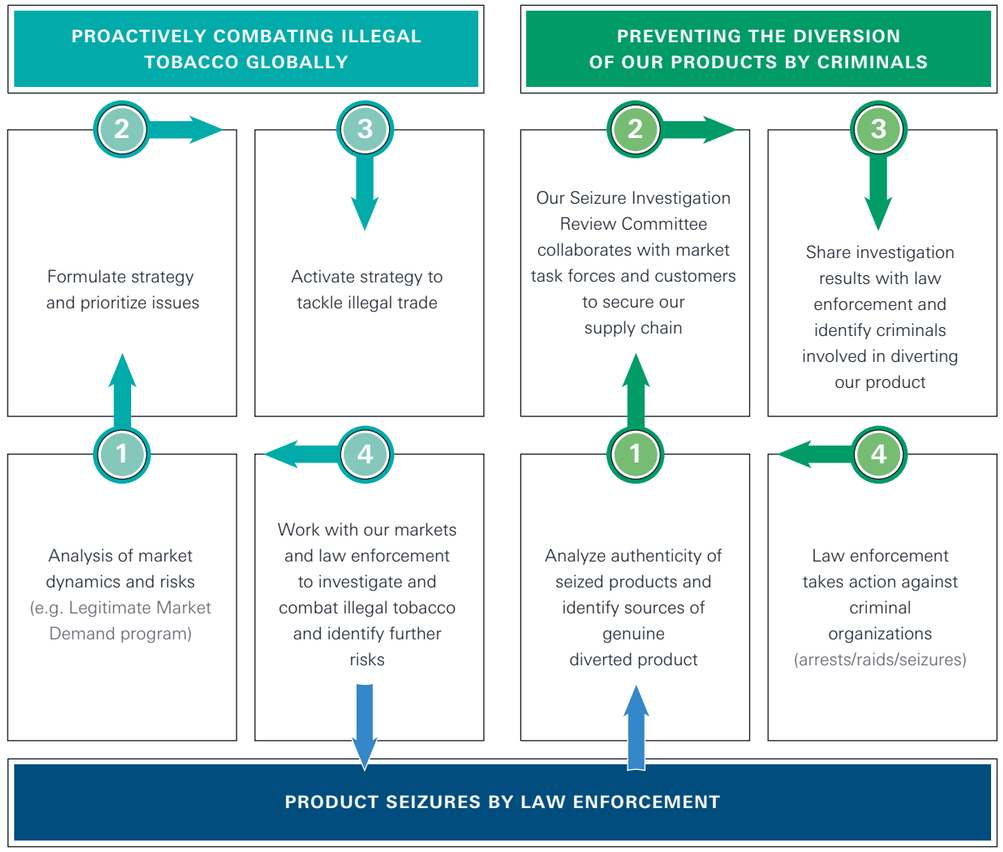
Our approach

Our global Anti-Illicit Trade team investigates the illegal tobacco trade and protects consumers and society, as well as our business, from criminal elements. It is made up of dedicated professionals with many years of public service in law enforcement, regulatory bodies, and governments. A key part of our business, the team works with our markets to secure our supply chain, and assist law enforcement to remove illegal tobacco from the marketplace. It maintains a robust dialogue with governments and law enforcement agencies on the threat of illegal tobacco through public-private partnerships. Our Anti-Illicit Trade team also supports other areas of our business with research on illegal tobacco and raises awareness of the problem among our business partners, consumers, and society in general. The team protects the JT Group's business and reputation, supporting our long-term, sustainable future.

Increasingly, we are examining ways to tackle illegal trade across our entire value chain. This is resulting in a more transparent and collaborative relationship with suppliers of items such as tobacco leaf and cigarette filters. We have regular meetings with these suppliers and manufacturers to try to help them prevent their products from falling into the hands of criminal networks. Our Anti-Illicit Trade team also supports our compliance and purchasing departments by carrying out due diligence checks to ensure we are entering into contracts with trustworthy suppliers, and by helping these departments to implement JTI's policies and procedures.

We continue to closely monitor the way in which organized crime groups use shipping routes and we are working with various law enforcement agencies across the world, such as the World Customs Organization, Interpol, and Europol, to help them track containers suspected to be transporting illegal goods.

THE JTI APPROACH TO TACKLING ILLEGAL TRADE







CASE STUDY

Making a positive impact in the Philippines

In 2017, the JT Group acquired assets of Mighty Corporation, the second largest tobacco company in the Philippines. The country faced challenges with regards to illegal trade, notably in relation to locally made counterfeit packs, imported counterfeit products from China, packs of local brands with reused tax stamps, and illicit whites* with no tax stamps at all.

For our acquisition to make a positive impact to the business, we set up several tailor-made anti-illicit trade projects in late 2017. Working together with JTI Philippines and various government agencies, our Anti-Illicit Trade team successfully established processes for reporting illegal activity to law enforcement, who in turn took the necessary action against illegal trade.

Through this new system, in 2018 we were able to pass on information about illegal factories, storage areas, and even large retail markets where illegal sales were taking place. The results have been very positive, with the latest available figures suggesting that illegal trade dropped by around 50% from September 2017 to the end of 2018.

- 110 million illegal cigarettes seized in 2018
- Including 60 million counterfeit JTI cigarettes – an increase of 400% vs 2017
- Over 25 machines used in the production of illegal cigarettes removed from factories (this is crucial to reducing the counterfeiters' future production capabilities)

Our Anti-Illicit Trade team continues to work with law enforcement to tackle illegal tobacco.

* *'Illicit whites' refer to tobacco products manufactured legitimately but without any product flow control measures afterwards, and smuggled and sold in another market.*

Supporting business performance through anti-illicit trade programs

Our global anti-illicit trade programs create the opportunity for public-private partnerships to combat highly organized criminality. They are also designed to support our business performance by fulfilling all legal requirements, securing our supply chain, safeguarding and creating opportunities for volume and profit growth, while protecting our company's reputation.

We measure their effectiveness against the below KPIs:

- Number of seizures based on information we share with law enforcement
- The level of illicit trade in our top markets through analysis of empty pack surveys, and the reduction we help achieve
- Implementation of our compliance programs
- Strengthening partnerships with law enforcement agencies, especially through training.



STRATEGY, INITIATIVES, AND PERFORMANCE

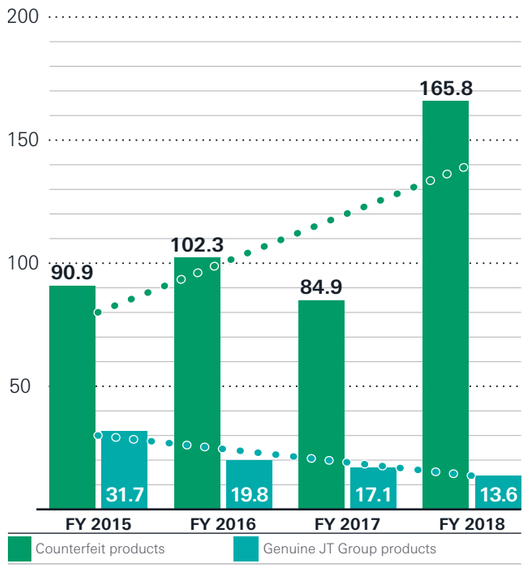
KEY STRATEGIES	KEY INITIATIVES	2018 PERFORMANCE
1 **PROTECT OUR BUSINESS THROUGH ANTI-ILLICIT TRADE OPERATIONS** Focus on priority regions and markets Combat counterfeit and illicit whites	Anti-illicit trade task forces set up in priority markets	In 2018, new task forces were set up in our Russia, Ukraine, and Belarus priority markets. In 2018, our intelligence led to the seizure of over 2.7 billion cigarettes (or equivalent in tobacco)
2 **ENSURE ANTI-ILLICIT TRADE COMPLIANCE** Fulfil legal obligations Legitimate Market Demand analyses and seizure investigations	Efficient and effective responses to information requests by law enforcement agencies	We responded to over 500 law enforcement information requests in 2018, and are fully compliant with all of our legal obligations
3 **STRENGTHEN OUR PARTNERSHIP WITH CUSTOMERS, GOVERNMENT, AND LAW ENFORCEMENT** Knowledge sharing with law enforcement Implement anti-illicit trade awareness programs	Advise law enforcement on counterfeit recognition Global media campaigns to educate consumers on the impact of illegal trade	In 2018, we advised 1,329 law enforcement officers on counterfeit recognition

Protecting our business

In 2018 our Anti-Illicit Trade team provided 1,328 intelligence reports to law enforcement agencies, leading to the seizure of more than 2.7 billion illegal cigarettes. Based on our information, law enforcement raided more than 39 counterfeit tobacco factories and storage locations.

As a direct result of our work to tackle illegal trade, and based on seizure statistics, notified seizures of counterfeit products in the EU have increased by 82% over the past four years. During the same period, notified seizures of our own genuine products in the EU have decreased by 57%, thanks to our markets' efforts in securing our supply chain, with the support of the Anti-Illicit Trade team. This has been acknowledged by both the EU and the U.K.'s HM Revenue and Customs, which recognized JTI as an industry leader in the fight against illicit trade.

EU SEIZURES OF TOBACCO PRODUCTS RESULTING FROM JT GROUP EFFORTS TO TACKLE ILLEGAL TRADE (IN MILLION STICKS)



Ensuring anti-illicit trade compliance

LEGITIMATE MARKET DEMAND PROGRAM

Companies worldwide seek to understand the demand for their products in their markets but there is a clear distinction between market demand, and "Legitimate" Market Demand (LMD).

JTI must comply with the European Union Cooperation Agreement signed in 2007. This means supplying tobacco products only in volumes that correspond with the legitimate demand of the intended market of retail sale.

With a commitment to doing the right thing, in the right way, our Anti-Illicit Trade Research team has developed a global methodology to assist JTI's markets with a consistent and accurate approach to annual LMD calculations. Our markets perform the LMD exercise in conjunction with their annual plan. This creates a proactive supply chain control mechanism to make sure that the planned sales volumes are in line with LMD.

The components and parameters of the LMD estimation vary depending on each market's unique characteristics and JTI's product portfolio in that market, but the global methodology provides a logical and defendable standard.

One common factor among these varying calculations is that our demand estimations comply with all laws and regulations.

TRACK AND TRACE

Our Track and Trace program has been an important element of our compliance policy for more than a decade. It helps our global efforts to support law enforcement agencies and has been developed with many of the biggest technology companies across the world, as part of our obligations within the EU Cooperation Agreement.

A highly technical and complex process, our Track and Trace program requires markings on all individual and aggregated levels of products. It helps us to track the movements of the products along the supply chain and supports our supply chain analysis. As a result, when seizures are brought to our attention, we can identify the source of diversion of the seized products and implement preventative measures.

In 2019, some JTI markets will be implementing a mandatory Track and Trace system. Among those countries will be the 28 Member States of the European Union, as per the European Tobacco Products Directive (TPD2). According to this directive, products must be tracked to the last economic operator before the first retail outlet in all Member States.

We are currently preparing for the important changes that the new EU Directive entails and are working with key stakeholders in order to comply in the most effective way, while ensuring our EU markets will not be disrupted.

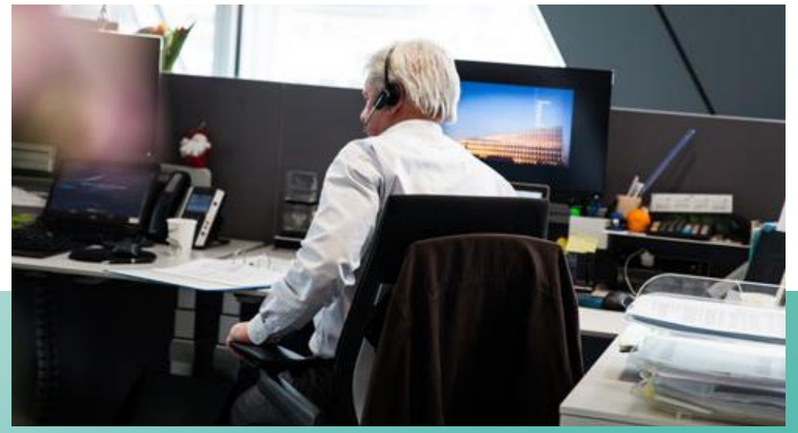
A GLOBAL RESPONSE TO ILLICIT TRADE

The Protocol to Eliminate Illicit Trade in Tobacco Products is the first protocol to the WHO Framework Convention on Tobacco Control (FCTC). It entered into force on September 25, 2018 and has so far been ratified by 48 Parties.

This international treaty aims to eliminate all forms of illicit trade of tobacco products, through several provisions that are binding on its Parties. We support the Protocol, as it provides a global response to the global problem of illicit trade.

One of the main requirements is that the Parties must implement a Track and Trace regime by 2023 (for cigarettes) and by 2028 (for all other tobacco products). In order for this regime to be effective, we support the implementation of an architecture based on "open standards" and interoperability for every actor in the supply chain, whilst taking into account existing systems such as the new EU-wide Track and Trace system.

We also firmly believe that the fight against illicit trade can only be effective if governments develop ways to address products that are not covered by the Protocol, such as counterfeits or illicit whites.



CASE STUDY

Taking the fight to the digital world

The illegal tobacco trade was once largely confined to street corners or under the counter, but the digital age has given rise to a new era, with social media exposing more consumers than ever to the risks of illegal tobacco.

Our project to tackle illegal online trade expanded across Western Europe in 2018. It yielded excellent results, disrupting sales through the takedown of links and social media posts that advertise JTI products illegally.

In 2018, we took down:

- Over 5,960 posts
- Over 65,300 items

These results represent 710,433 U.S. dollars worth of potential product losses to the JT Group, a decrease of approximately 14% over 2017. We believe that this decrease is due to a change in tactics by criminals, who are increasingly selling products in secretive private groups on social media. Our efforts continue to evolve to meet the changing patterns of this crime.

In addition to successfully taking down these illegal advertisements, we continue to collaborate with law enforcement agencies, providing evidence that leads to prosecutions. In October 2018 for example, a JTI Private Prosecution led to a conviction in the U.K. of an individual who pleaded guilty to six offences relating to illegal sales on Facebook.

Drawing upon this continued success, similar projects have now launched in the Americas and Eastern Europe regions.

For more information on how we tackle the illegal tobacco trade online, see www.jti.com/our-views/new-era-illegal-trade

Investing in people

Our approach

Our sustainability journey is dependent on the skills and spirit of our people working together with the communities in which we operate. We are pleased to be an employer of choice, and our positive workplace culture and environment help us to attract and retain talented individuals. We will continue developing the skills and capabilities of our talented employees and take further steps to create a diverse and inclusive culture where everyone can feel comfortable and be themselves.

We provide a safe and healthy environment for our employees as we believe our people have the right to a secure workplace.

To make societies cohesive and inclusive, we invest in the communities in which we operate, and in the people who live there. Through our community investment programs, we create positive impacts and give our employees the chance to volunteer in their local communities and enhance their skills. In order to assess how effective our management approach is in our tobacco business, we have set targets for 'Talent Development', 'Workplace Safety', and 'Community Investment', and we will be setting a target for 'Diversity and Inclusion'.

OUR COMMITMENT
We will be the employer of choice by investing in people.

OUR TARGET
We will be a certified employer of choice every year in at least 60 locations by focusing on talent management, rewards, and empowerment.

In line with our vision of zero workplace injuries, we will reduce injury rates by 25% by 2023 and 50% by 2030. (Baseline year: 2015).

"As the global authority on recognizing excellence in people practices, we are delighted to support your ambition to continuously improve the HR policies that affect more than 45,000 employees worldwide. Over the years, we have seen great progress with regards to best-in-class Talent practices throughout the organization. This is proven by the consistent presence of JTI in the top regional ratings, and the Company's certification as a Global Top Employer since 2015.

David Plink,
CEO – Top Employers Institute

APPLYING OUR POLICIES AROUND THE WORLD

As part of our drive to expand the business geographically, we have made acquisitions in new markets. In 2017, we acquired tobacco manufacturers in Indonesia and the Philippines, and in 2018 we acquired additional tobacco companies in Russia and Bangladesh. These acquisitions considerably increased the size of our workforce.
We endeavor to introduce our HR and Health and Safety policies to our new employees as soon as we can, and make sure that these are endorsed across the Group.

Please refer to the GRI index at the back of this Report for detailed information about our workforce composition.

Talent development

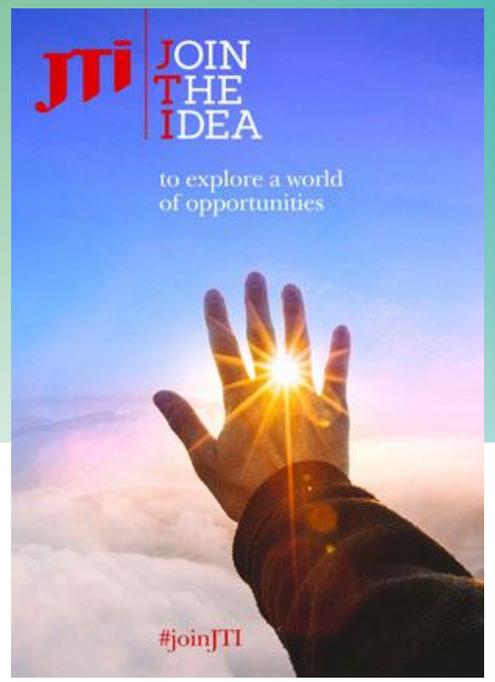
A fast-changing world continues to bring new challenges to our Talent Management team. The skills our company will need in the future could be very different to those we have within our business today. Employees are fundamental to generating returns and securing the long-term success of our business. We aim to ensure that we attract the best candidates to work for our business, retain our top talent, and offer current and future employees professional and personal development opportunities in the best possible working environment. With this in mind, in 2018 we rolled out a new global learning platform featuring various face-to-face and digital courses, including leadership and language learning. These courses are available to 20,000 employees who can choose programs according to their interests.
We explain our initiatives as a Group on page 36.

CASE STUDY

Spreading the word

The tobacco industry is undergoing a major transformation, and we want to make people aware of the new opportunities that our company offers. In recognition of our need for a stronger employer brand, we launched the 'Join the Idea' HR campaign in 2018 with the aim of making our company more visible and attracting the right internal and external talent. Our 'Join the Idea' campaign was hugely successful, and after its launch, the JTI Facebook page gained five times more followers than before.

Thanks to this campaign, we have significantly raised the profile of our brand, which is already rated as a first-class employer in 53 markets. Our intention is that by focusing on talent management, rewards, and empowerment, we will be recognized as a certified employer of choice every year, in at least 60 locations.





Diversity and inclusion

We strongly believe that diversity in the workplace leads to competitive advantage. Greater diversity of thought and experience leads to enhanced innovation and creativity. In addition, we are convinced that our people prosper in a workplace where differences are valued. In some respects, we are already highly diverse – our workforce includes over 100 nationalities in more than 120 countries. However, in order to further strengthen our organization, we wish to increase diversity in other areas and within senior management across our Group.



“The fair treatment of all employees is a key element of our focus on diversity and inclusion. I am delighted to announce that we obtained Gender Pay Equity certification in our Geneva office, led by the EQUAL SALARY Foundation. We still have more to do in our focus areas, but we are determined to harness the richness of our talent, ideas, backgrounds, perspectives and skills, to create business value.

Howard Parks,
Senior Vice President, Human Resources & Chief Compliance Officer, JT International



At this stage, we are still developing targets for global diversity and inclusion programs. In our international tobacco business we have engaged external advisors and spoken to employees across the business to assess the strengths and weaknesses within our organization.

The 17 members of the Executive Committee of our international tobacco business are fully committed to making the organization more diverse and inclusive, and they each have a personal mentor to help improve their understanding and engagement. We have also created a diversity and inclusion framework to drive change and appointed a thought leader in Diversity and Inclusion to lead our efforts in this area.

Read more about our HR philosophy and initiatives across the Group on page 36.



Workplace safety

We strive to achieve zero injuries and make safety a priority so that all of our employees return home unharmed by their work activities.

In our tobacco business, the highest safety risk relates to driving vehicles and riding motorcycles.

We proactively identify the risk profile of our fleets in the countries in which we operate. This allows us to target and tailor our training programs to local conditions and to ensure our drivers and motorcycle riders adopt best practices.

CASE STUDY

Reducing incidents by 50% through our Motorcycle Safety program

Driving is a critically important area of safety for us, as it can lead to serious injuries and even fatalities. In countries where safety standards and awareness are lower, and ingrained driver behavior is less risk-averse, the danger from driving is higher. To address this issue, in 2016 we launched a motorcycle risk management program in countries where employees drive motorcycles daily, such as Zambia, Malawi, and Tanzania. We are now planning to implement this program in our newly acquired operations in markets such as Indonesia and Ethiopia.

The motorcycle program is designed to reduce risks by teaching the technique of ‘defensive driving’ to reduce accidents, and focusing on the proper maintenance and inspection of vehicles. It emphasizes the need to wear proper protective equipment, such as helmets, gloves, and high-visibility jackets. Moreover, thanks to the Train-the-Trainer sessions, we now have 38 specialized motorcycle trainers who can provide training in their countries.

The program has had a significant impact on safety performance. In 2018, the number of motorcycle-related injuries in the countries where we implemented the programs was reduced by 50% compared to 2016 and 2017.



Making a positive contribution to societies

As a responsible business, we wish to create a positive social impact in our local communities. Our local programs are designed to make our communities more inclusive and resilient, while also providing volunteering opportunities for our employees to engage with local communities and develop a variety of soft skills. We will continue to make efforts to meet our target to help make communities more inclusive and resilient.
We explain our approach on page 24.

OUR COMMITMENT
We will be the employer of choice by investing in people.

OUR TARGET*

Between 2015 and 2030 we will invest 600 million U.S. dollars to help make communities inclusive and resilient, with our employees contributing 300,000 volunteering hours.

**This is a Group-wide target.*

CASE STUDY

Building sustainability through resilience and relief

The JTI Foundation is a charity specializing in Disaster Management. The JT Group contributes 2 million U.S. dollars* every year, and all funds go towards disaster relief, disaster recovery, and building resilience in disaster-prone environments. Communities become truly sustainable when they are not only able to respond to disasters and undertake reconstruction work, but also when they are resilient to disasters.

In July 2018, a devastating earthquake struck the Indonesian island of Lombok. Many of Lombok's citizens were left in urgent need of shelter, sanitation, food, and water. Through our partners, GEA and Shelterbox, the JTI Foundation provided disaster relief. Just a few days after the initial quake, humanitarian relief (blankets and food) was delivered to 3,200 people and emergency shelters were distributed to 600 displaced families.



CASE STUDY

Bringing water and hope to rural Egypt

In Egypt, more than 35% of the population lives below the poverty line, and in rural areas, many people do not have regular access to clean water. This situation contributes to a cycle of poverty, as ill-health and the need to access water diverts residents' time and resources away from work and business.

Recognizing that water poverty is part of a wider problem, we partnered with Resala, one of the country's largest NGOs. With the help and supervision of Egyptian municipalities and the Egyptian Water Company, we built the infrastructure required to deliver piped clean water to eight villages. Local employees participated in the project as volunteers, and approximately 300 houses have now received clean piped water, benefitting around 1,800 people.

Our staff were involved in the project selection, decision-making, and overseeing the legal aspects of the work. Volunteering created a sense of belonging in what is a relatively new market for the Company. For the inhabitants of the villages, the project brought not only clean water but also hope. Until we reached out to them with water, most people there felt neglected by society. The success of the project is not only seen in the clean water flowing through the new pipes, but also in the improved health and productivity in the communities we reached.





When two massive earthquakes struck Mexico in September 2017, many families were left without a home. Together with our partner, Habitat for Humanity International and its Mexico National Organization, the JTI Foundation provided matching funding for 140 low-income families with new, safer houses or home improvements. We also offered training to better prepare the community for possible future disasters.

Although disaster-affected areas can be reconstructed, resilience is key to ensuring the well-being of people and communities. In the Philippines, the JTI Foundation partners with Build Change to increase families' physical, economic, and social resilience to natural disasters. In particular, we have worked to build resilience among the informal settlement communities located in the city of Makati – these are built on unstable, disaster-prone flood plains in the region of Metro Manila. Our project ensures the long-term sustainability of communities here. We helped retrofit 90 poorly built houses, trained 90 local builders and homeowners, and have also helped by offering innovative financing mechanisms securing affordable funding for 450 local slum dwellers.



* *The amount in U.S. dollars was calculated using average exchange rate (1 U.S. dollar = 0.98 CHF).*



OUR PHARMACEUTICAL BUSINESS

In our pharmaceutical business, we aim to deliver innovative drugs to patients safely, securely, and in the shortest time possible. As this business has a direct impact on human health and life, we not only strictly comply with all laws, regulations, and industry codes, but are also guided by a strong sense of ethics and responsibility. This is particularly the case in areas such as clinical trials and promoting drugs, as well as animal testing and managing chemical substances.

While JT focuses on R&D, our pharmaceutical subsidiary, Torii Pharmaceutical, produces and promotes drugs in Japan. Outside Japan, we do not have a sales function, but we do license drugs to other pharmaceutical manufacturers.

In 2018, we started to develop a sustainability strategy for our pharmaceutical business.

OUR PHARMACEUTICAL BUSINESS VALUE CHAIN *



* *This diagram represents the value chain of products manufactured and/or developed by JT, and sold and promoted by Torii Pharmaceutical.*

Educating employees

We strictly adhere to specific processes to ensure that our pharmaceutical business activities are always carried out in a responsible and appropriate way. We provide e-learning to help employees understand the importance of drug safety and quality assurance. In 2018, all of the approximately 800 employees in our pharmaceutical business completed the course.

Employees based at JT's Central Pharmaceutical Research Institute regularly attend educational programs in areas such as ethics, animal testing, managing chemical substances, and environmental management. This helps keep their skills and knowledge up to date.

Ensuring ethical integrity

Our research activities are carried out in an ethical manner and comply with all relevant laws, regulations, and industry standards.

We have established in-house regulations on animal testing, based on government legislation. Our Institutional Animal Care and Use Committee ensures that we follow the '3R' concept: Replacing laboratory animals with other research materials where possible; Reducing the number of animals used; and Refining tests so that animals do not suffer unnecessary pain and distress. We carry out periodic in-house inspections and assessments to ensure that we comply with regulations. Our animal-testing practices are certified by the Japan Health Sciences Foundation, an external authority.

When utilizing human tissue samples, our Ethical Review Committee, which follows the relevant Japanese guidelines and consists of both internal and external members, examines the ethical justification and scientific validity of the research.

Our chemical management system covers every aspect of the chemical handling process, from the moment we take delivery of the chemicals, through to their storage, use, and eventual disposal. It also provides employees with vital information, such as how much remains of the chemical, and the most up-to-date safety data sheet for each substance. Employees are regularly made aware of chemical safety risks. Torii Pharmaceutical separates chemicals into categories requiring different levels of management, and has specific rules and procedures according to the characteristics and safety risks of each category of chemicals.

We publish quarterly clinical development status updates on our website.

In 2018, we spent 37 billion Yen on R&D.



Quality assurance of pharmaceutical products

We have developed our own guidelines on how to conduct annual inspections to ensure that our production methods fully comply with government recommendations. Since 2017, for our own factory and half of our contracted factories, we have been carrying out annual inspections that fully adhere to these guidelines, and there were no discrepancies in the annual inspections in 2017. In 2018, we started following our own annual inspection guidelines for the rest of our contracted factories as well.



Responsible promotion of drugs

Torii Pharmaceutical has its own code of practice on the ethical promotion of prescription drugs, based on the code of practice of the Japanese Pharmaceutical Manufacturers Association (JPMA). Medical Representatives (MRs) of Torii Pharmaceutical provide and gather information on drugs to/from healthcare professionals, and run monthly training programs to ensure adherence to this code. Through internal communications, we provide relevant and detailed information to our MRs to keep them up to date with the latest promotional guidelines. We also conduct training sessions, which include case studies of violations that have occurred in Japan and important points to consider when providing lectures for medical personnel.



Transparency of contributions

In order to develop more effective drugs, we build partnerships with research institutes, universities, and medical institutions. When we make financial contributions to our partners, we strive to ensure transparency by disclosing these payments on our website.



OUR PROCESSED FOOD BUSINESS



Our processed food business is dedicated to delivering safe, high-quality food products to consumers. We are also mindful of the environmental impacts of our products and operations, and we make continuous improvements to these wherever possible.

In 2018, we started to develop a sustainability strategy for our processed food business.

OUR PROCESSED FOOD BUSINESS VALUE CHAIN *1



*1 *This diagram represents the value chain of products for frozen and ambient foods.*

*2 *We do not deal directly with raw material producers – such as growers – who provide raw materials to the trading firms or to the contracted factories that supply us.*

Delivering safe, high-quality products

We have a rigorous quality and process control system based on four areas: food safety, food defense, food quality, and food communication. This system, which also applies to our suppliers, aims to guarantee safety throughout our entire processed food business, from buying raw materials to manufacturing and distribution.

We regularly review our procedures to ensure that our products are produced and delivered in the safest possible way.



Food safety standards

Our processed food business has 31 factories producing a variety of food products, from frozen foods to bakery goods and seasonings. 23 of these factories are located in Japan, and eight are located in China, the U.S., and Thailand. Our products are sold primarily in the Japanese market. All of our factories (frozen foods, bakery, and seasonings) were certified to the global food safety standard FSSC22000 in September 2018. FSSC22000 is recognized by the Global Food Safety Initiative, the food industry's global body for promoting food safety management.

All the factories that are contracted to manufacture frozen food products on our behalf have been certified to the food safety standard, ISO 22000 or FSSC 22000, as an assurance of food safety.

In 2018, one of our factories received an award for excellence in food hygiene from the Ministry of Health, Labor, and Welfare in Japan. This award is given to individuals and facilities for remarkable achievements in promoting food safety and sanitation.

We also call upon three independent advisors, who have helped to develop our approach to food safety since 2008. In 2018, these advisors visited our factories, sharing useful advice and giving talks to our employees on industry topics such as food safety, or the laws and regulations relating to the Food Sanitation Act. These events provided employees with a greater awareness of new developments and hot topics in the field of quality control.

There were no voluntary recalls of our food products in 2018.



Food defense practices

'Food defense' is about protecting our manufacturing processes and products from intentional contamination. We apply robust food defense guidelines across the supply chain, both in our own factories and our contracted factories, which are referred to during our annual audits. Recent initiatives to strengthen our defense mechanisms against deliberate contamination include increasing our use of factory cameras and enhancing the way we manage chemical substances. These measures also help to detect and prevent any incidences of intentional contamination.

Enhancing food quality

Food quality control is an essential element of our daily operations. Along with quality improvement efforts on factory floors, we ensure that all of our employees receive training through customized e-learning materials.

We also listen to our consumers and their suggestions for improving product quality. We swiftly share consumer feedback on our products with our factories and operations so that further improvements can be made. Our internal Quality Improvement Committee enables us to effectively respond to their recommendations. The Committee is made up of representatives from different divisions, including Product Development, Manufacturing, Sales, Quality Control, and our Consumer Call Center. Our consumer complaints management system is compliant with ISO 10002, the international standard for customer satisfaction and complaints handling. To enhance the quality of our correspondence with consumers, we introduced a voice transcription system at our Consumer Call Center. This system transcribes and records correspondence with our consumers on behalf of our operators. As a result, our operators are able to focus more on communicating with our consumers and providing excellent customer service.

Food communication

We are always willing to provide details about our food products. We respond to consumers' requests for information and can disclose the precise factory where food products were made or the country of origin of the main ingredients. Furthermore, in order to ensure food safety, we have introduced a system that records information about our products at every stage of the process, from the raw materials and production right through to processing, distribution, and product sales. This means we can retrace our product to any point, if necessary.

We also have toll-free numbers on our product labels for consumers to call for extra information.

We invite consumers and shareholders to our Uonuma Mizunosato frozen udon (noodles) and packed cooked rice factory, where we explain our food safety approach by showing them our manufacturing process.

In 2018, we updated our website to make it easier for customers to find important information such as food safety management or the customer inquiry form.

Reducing our environmental impacts

As part of our efforts to reduce environmental impacts within our operations, one of the companies within the JT Group, Thai Foods International, is building a biomass co-generation system for its Thai factory, where it manufactures seasonings. The system, due to be completed in 2019, will use rice husks as an alternative fuel source. The factory currently uses electricity supplied by a local company; once the system is operational it is expected that purchased electricity usage and the resultant Scope 2*1 greenhouse gas (GHG) emissions could be significantly reduced (by 7,000 tons of CO2e*2 annually). This project, which has been adopted by the Joint Crediting Mechanism of the Ministry of Environment in Japan, will not only help us to reduce energy costs but also contribute to GHG reduction in Thailand. In addition, in 2018 we developed a compact tray for some of our packed cooked rice that uses approximately 10% less plastic while holding the same amount of rice.



*1 *Scope 2 GHG emissions are those greenhouse gas emissions relating to the consumption of purchased energy, such as electricity, steam, or other energy sources.*

*2 *CO2e stands for 'carbon dioxide equivalent' of GHG emissions, a standard unit for measuring carbon dioxide footprints.*

ABOUT THIS REPORT

We report annually on our sustainability activities and performance, and have been publishing environmental or Corporate Social Responsibility (CSR) reports since 1998. Our last report, the JT Group Sustainability Report FY2017, was published in June 2018.

REFERENCED GUIDELINES

We have compiled the FY2018 report with reference to the principles of the Global Reporting Initiative (GRI) Sustainability Reporting Standards. We defined the content of this document using a materiality assessment that covered the entire JT Group.

Our GRI Standard Content Index shows the list of Universal Standard Disclosures for which we have provided related information, either in this report or in other public documents such as our Annual Report. The identification of Specific Standard Disclosures is based on materiality assessments for the entire JT Group.

NOTES ON DATA

Data in this report covers January to December 2018, unless otherwise stated. In 2014, the JT Group moved its reporting period to the calendar year ending December 31. Until March 2014 the fiscal year for our Japanese domestic operations began on April 1 and ended on March 31. Historical data indicated with 'FY' covers those periods.

Although we report the overall JT Group figures wherever possible, in some areas this has not been possible. In such instances we have made it clear to which part of the business the data applies.

Please see our website for information about the data reporting hierarchy.
www.jt.com/sustainability/report/index.html

We have shown how we calculate and consolidate compliance, human resources (HR), health and safety, environment, and community investment data in our separate Basis of Reporting document, which we will continue to update in the future. The Japanese Yen exchange rates against the U.S. dollar used in this report are the same as those used in our consolidated financial reporting.

EXTERNAL VERIFICATION AND ASSURANCE

This report is not externally assured, although some of the information within it has been externally verified. This includes environmental data and occupational health and safety performance data.

The environmental data includes Group-wide Scope 1 and 2 GHG data, and some Scope 3 GHG data, as we state on our website. Furthermore, energy consumption, water withdrawal, wastewater discharged, and waste generation (including each of the sub-categories, i.e. waste recycled, incinerated with/without heat recovery, and landfilled), have been externally assured.

In terms of occupational health and safety performance data, only the data relating to our international tobacco business is externally verified.

In the future we will consider expanding the scope of assurance of our non-financial data and the contents of this report.

CHANGES IN STRUCTURE, SIZE, OR OWNERSHIP

In August 2018, we completed the acquisition of the fourth largest tobacco company in Russia, Donskoy Tabak.

In November 2018, we completed the acquisition of the Akij Group's tobacco business in Bangladesh.

OTHER PUBLICATIONS

Websites

JAPAN TOBACCO INC. (global site): www.jt.com

Japan Tobacco International (international tobacco business): www.jti.com

Torii Pharmaceutical Co., Ltd. (pharmaceutical subsidiary): www.torii.co.jp/en

TableMark Co., Ltd. (processed food subsidiary): www.tablemark.co.jp/english/index.html

Publications

JT Annual Report: www.jt.com/investors/results/annual_report/index.html

AWARDS AND RECOGNITION

MEMBER OF Dow Jones Sustainability Indices In Collaboration with RobecoSAM

We are a member of the Dow Jones Sustainability Asia Pacific Index.
www.sustainability-indices.com

FTSE Blossom Japan

In 2018, we were selected as a constituent of the FTSE Blossom Japan Index, which is designed to measure the performance of Japanese companies that demonstrate strong sustainability practices.
www.ftse.com/products/indices/blossom-japan

CDP DISCLOSURE INSIGHT ACTION

In 2018, we achieved Leadership status for climate change and Management status for water with CDP, a globally recognized platform for environmental disclosure.
www.cdp.net

In 2019, our approach to climate change was showcased as an example of best practice. CDP Stories of Change

SCIENCE BASED TARGETS DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

In 2019, we have set a long-term GHG emission reduction target in line with the Paris Agreement, which was approved as an SBT by the Science Based Targets initiative.
www.jt.com/media/news/2019/pdf/20190227_E01.pdf

work with Pride Gold 2018 / work with Pride Best Practice 2018

In 2018, JT achieved the highest ranking Gold status for the third consecutive year in the PRIDE Index Report of Japanese employers, which highlights the most LGBT-friendly companies. JT also received the 'Best Practice' award for the second consecutive year.

プラチナくるみん

In 2018, JT was awarded the 'Platinum Kurumin' certification for creating a supportive workplace for employees with children.

top EMPLOYER GLOBAL 2019 / 2019 健康経営優良法人 Health and productivity ホワイト500

In 2018, our international tobacco business was certified as Global Top Employer, and JT was selected as a 'White 500' company for the third consecutive year.
Read more on pages 5 and 39.

NADESHIKO BRAND 2019

In 2018, JT was selected as a "Nadeshiko Brand" that encourages women's success in the workplace.
Read more on page 37.

In January 2019, our international tobacco business became the first Geneva-based multinational headquarters to be certified as an equal salary employer by the EQUAL-SALARY foundation.

CONTACTS AND FEEDBACK

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For more information or to send us your feedback on this report, please email

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GRI STANDARD CONTENT INDEX



We have compiled the FY2018 Report according to the principles of the Global Reporting Initiative (GRI) Sustainability Reporting Standards.
We defined the content of this document using a materiality assessment that covered the entire JT Group.

The Index below includes the location of and additional information pertaining to the Universal Standard Disclosures and the Specific Standard Disclosures. Further information on the calculation methodology and scoping is available in a separate Basis of Reporting document, notably for the business divisions of Compliance, Human Resources (HR), Workplace Health and Safety, Environment, and Community Investment. Some of the data within the Report has been externally verified.

Universal Standard Disclosures

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94. Strategy
99. Ethics and Integrity
99. Governance
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97. Reporting Practice

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112. Human Rights Assessment
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113. Supplier Social Assessment
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114. Marketing and Labeling
115. Socioeconomic Compliance

Universal Standard Disclosures

#	DESCRIPTION	LOCATION OF DISCLOSURE, ADDITIONAL COMMENTS
Organizational Profile		
102-1	Name of organization	Japan Tobacco Inc.
102-2	Activities, brands, products, and services	Location Corporate profile With the Reduced-Risk Product category still in its infancy, regulatory approach varies greatly from country to country. Depending on the jurisdiction and product characteristics, there may be no restrictions, outright bans, or any number of regulatory variants. There are countries in which: › sales of E-Vapor and/or T-Vapor are banned completely; › E-Vapor without nicotine is permitted, but E-Vapor with nicotine is effectively banned as a pharmaceutical license is required (e.g. Japan); or › the same regulations apply to both cigarettes and T-Vapor.
102-3	Location of headquarters	Location About this report
102-4	Location of operation	Location Corporate profile
102-5	Ownership and legal form	Location Annual Report FY2018: The History of JT and Shareholder Information
102-6	Markets served	Location **i. Geographic locations where products and services are offered:** Corporate profile **ii. Sectors served:** Corporate profile **iii. Types of customers and beneficiaries:** Our tobacco business value chain Our pharmaceutical business value chain Our processed food business value chain

#	DESCRIPTION	LOCATION OF DISCLOSURE, ADDITIONAL COMMENTS
102-7	Scale of organization	Location **i. Total number of employees:** Annual Report FY2018: Fact sheet (supplementary document) **ii. Total number of operations:** Annual Report FY2018: Consolidated Financial Statement **iii. Net sales (for private sector organizations) or net revenues (for public sector organizations):** Our tobacco business value chain Our pharmaceutical business value chain Our processed food business value chain **iv. Total capitalization (for private sector organizations) broken down in terms of debt and equity:** Annual Report FY2018: Consolidated Five-Year Summary or Consolidated Financial Statement **v. Quantity of products or services provided:** Annual Report FY2018: Review of Operations
102-8	Information on employees and other workers	Location Corporate profile Basis of Reporting **EMPLOYEES BY TYPE OF CONTRACT AND GENDER AS OF THE END OF 2018** TYPE OF CONTRACT / MALE / FEMALE / TOTAL Permanent (full- and part-time) 33,479 10,719 44,198 Temporary full-time 3,774 1,765 5,539 Temporary part-time (*C) n/a n/a 5,039 Temporary part-time (*E) 35 91 126 Supervised workers (*C) n/a n/a 1,563 **EMPLOYEES PER REGION AND GENDER AS OF THE END OF 2018** TYPE OF CONTRACT / MALE / FEMALE / TOTAL Japan 13,135 3,556 16,691 South and West Europe 1,676 1,142 2,818 North and Central Europe 3,961 1,881 5,842 CIS+* 5,206 2,088 7,294 Other 13,275 3,817 17,092 * *Commonwealth of Independent States*
102-9	Supply chain	Location **Description of the organization's supply chain, including its main elements as they relate to the organization's activities, primary brands, products, and services.** Corporate profile – Our businesses Our tobacco business value chain Building sustainable supply chains Our pharmaceutical business value chain Our processed food business value chain

#	DESCRIPTION	LOCATION OF DISCLOSURE, ADDITIONAL COMMENTS
102-10	Significant changes to the organization and its supply chain	Location **i. Changes in the location of, or changes in, operations, including facility openings, closings, and expansions:** About this report **ii. Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organizations);** About this report Annual Report FY2018: Shareholder Information **iii. Changes in the location of suppliers, the structure of the supply chain, or relationships with suppliers, including selection and termination.** Corporate profile (for countries in which we directly source tobacco leaf) Our tobacco business › Our tobacco business value chain › Building sustainable supply chains › Exceeding expectations with products and services (Reduced-Risk Products Supply Chain) Our pharmaceutical business value chain Our processed food business value chain JT Global website: Our tobacco business value chain: https://www.jt.com/sustainability/our_business/tobacco/value_chain/
102-11	Precautionary principle or approach	Location **Whether and how the organization applies the Precautionary Principle or approach.** The JT Group Environment Policy reflects how we have addressed the precautionary principle: JT Global website: https://www.jt.com/sustainability/people_planet_society/planet/enviroment/
102-12	External initiatives	Location **A list of externally-developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes, or endorses.** JT Global website: https://www.jt.com/sustainability/way_of_business/stakeholder_engagement/
102-13	Membership of associations	Location **A list of the main memberships of industry or other associations, and national or international advocacy organizations.** JT Global website: https://www.jt.com/sustainability/way_of_business/stakeholder_engagement/

Strategy

102-14	Statement from senior decision-maker	Location **A statement from the most senior decision-maker of the organization (such as CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and its strategy for addressing sustainability.** CEO Statement
102-15	Key impacts, risks, and opportunities	Location Annual Report FY2018: › Our Approach to Sustainability › Business Plan 2019 › Business Plan 2019 — Role & objectives of each business. › Risk Factors Sustainability Report FY2018: › 4S model › Our sustainability strategy › Sustainable Development Goals

#	DESCRIPTION	LOCATION OF DISCLOSURE, ADDITIONAL COMMENTS
Ethics and Integrity		
102-16	Values, principles, standards, and norms of behavior	Location Our sustainability strategy Good governance and business standards
102-17	Mechanisms for advice and concerns about ethics	Location Good governance and business standards
Governance		
102-18	Governance structure	Location **i. Governance structure of the organization, including committees of the highest governance body.** **ii. Committees responsible for decision-making on economic, environmental, and social topics.** › Annual Report FY2018: Corporate Governance › JT Global website: https://www.jt.com/about/corporate_governance/ https://www.jt.com/sustainability/way_of_business/governance_compliance/
102-19	Delegating authority	Location **Process for delegating authority for economic, environmental, and social topics from the highest governance body to senior executives and other employees.** Annual Report FY2018: Corporate Governance, Executive Officer System
102-20	Executive-level responsibility for economic, environmental, and social topics	Location **i. Whether the organization has appointed an executive-level position or positions with responsibility for economic, environmental, and social topics.** **ii. Whether post holders report directly to the highest governance body.** Annual Report FY2018: › Corporate Governance, Executive Officer System › The Board of Directors, The Audit & Supervisory Board, Executive Officer System › Members of the JTI Executive Committee

#	DESCRIPTION	LOCATION OF DISCLOSURE, ADDITIONAL COMMENTS
102-21	Consulting stakeholders on economic, environmental, and social topics	Location **i. Processes for consultation between stakeholders and the highest governance body on economic, environmental, and social topics.** **ii. If consultation is delegated, describe to whom it is delegated and how the resulting feedback is provided to the highest governance body.** JT Global website: JT Group Materiality: https://www.jt.com/sustainability/way_of_business/materiality_strategy/ JT Global website: Stakeholder engagement: https://www.jt.com/sustainability/way_of_business/stakeholder_engagement/ Sustainability Report FY2018: Our initiatives for stakeholder engagement are described throughout the report. For example, our engagement with: › our suppliers such as directly contracted growers, third-party suppliers of tobacco leaf or other suppliers as well as government agencies, NGOs and industry organizations (see 'Building sustainable supply chains'); › our consumers or retailers (see 'Exceeding expectations with products and services'); › law enforcement partners in tackling illegal trade (see 'Tackling the Illegal trade'); local communities (see 'Improving our social impact'); › our employees (see 'Our Tobacco Business, Investing in People', 'Our people', or 'The JT Group Health and Safety Strategy') › our Human Rights External Advisory Board and other partners (see 'Human Rights'). Annual Report FY2018: Investor Relations Activities
102-22	Composition of the highest governance body and its committees	Location **Composition of the highest governance body and its committees by:** **i. Executive or non-executive** **ii. Independence** **iii. Tenure on the governance body** **iv. Number of each individual's other significant positions and commitments, and the** **v. Nature of the commitments** **vi. Gender** **vii. Membership of under-represented social groups** **viii. Competencies relating to economic, environmental, and social topics** **ix. Stakeholder representation** Annual Report FY2018: Corporate Governance › Decision-making, Business Execution, Supervison › Internal Control System & Risk Management System

Stakeholder Engagement

102-40	List of stakeholder groups	Location JT Global website: Stakeholder engagement: https://www.jt.com/sustainability/way_of_business/stakeholder_engagement/ Sustainability Report FY2018: Our initiatives for stakeholder engagement are described throughout the report. See explanation for 102-21 for more details. Annual Report FY2018: Investor Relations activities
102-41	Collective bargaining agreements	Location Basis of Reporting 59 companies have a union in our Group, and 91.4% (*C) of eligible employees are covered by collective bargaining agreements. Due to legal requirements in certain countries, we can't know whether employees are unionized, and thus cannot provide the information regarding employees in our international tobacco business.

#	DESCRIPTION	LOCATION OF DISCLOSURE, ADDITIONAL COMMENTS
102-42	Identifying and selecting stakeholders	Location **The basis for identifying and selecting stakeholders with whom to engage.** › JT Global website: Stakeholder engagement: https://www.jt.com/sustainability/way_of_business/stakeholder_engagement/ › Sustainability Report FY2018: Our initiatives for stakeholder engagement are described throughout the report. See explanation for 102-21 for more details. › Annual Report FY2018: Investor Relations Activities
102-43	Approach to stakeholder engagement	Location **The organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process.** › JT Global website: Stakeholder engagement: https://www.jt.com/sustainability/way_of_business/stakeholder_engagement/ › Sustainability Report FY2018: Our initiatives for stakeholder engagement are described throughout the report. See explanation for 102-21 for more details. › Annual Report FY2018: Investor Relations Activities
102-44	Key topics and concerns raised	Location **The organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process.** › JT Global website: Stakeholder engagement: https://www.jt.com/sustainability/way_of_business/stakeholder_engagement/ › Annual Report FY2018: Our initiatives for stakeholder engagement are described throughout the report. See explanation for 102-21 for more details. › Annual Report FY2018: Investor Relations Activities

Reporting Practice

102-45	Entities included in the consolidated financial statements	Location JT Annual Securities Report FY2018: https://www.jti.co.jp/investors/others/12g3_2/index.html
102-46	Defining report content and topic boundaries	Location **i. An explanation of the process for defining the report content and the topic boundaries.** **ii. An explanation of how the organization has implemented the Reporting Principles for defining report content.** JT Global website: JT Group Materiality: https://www.jt.com/sustainability/way_of_business/materiality_strategy/ Our sustainability strategy Scope of data and information presented in this report
102-47	List of material topics	Location **A list of the material topics identified in the process for defining report content.** JT Global website: JT Group Materiality: https://www.jt.com/sustainability/way_of_business/materiality_strategy/

#	DESCRIPTION	LOCATION OF DISCLOSURE, ADDITIONAL COMMENTS
102-48	Restatement of information	Location Sustainability Report FY2017 – An unlawful value chain from manufacturing to distribution The estimated JTI product values attributed to our activities in tackling illegal online trade in 2017 is restated due to erroneous reporting. In 2017, JTI took down 6,916 social media posts and over 77,640 items, with the associated JTI product value estimated at £621,090. Sustainability Report FY 2018 – Building sustainable supply chains A number of previously published documents stated that the ARISE program launched in 2012. As the program was founded and launched in 2011, this information has been restated in this report. Sustainability Report FY2017 – Workplace health and safety data The number of lost-time incidents (LTIs) in FY2016 was 186, not 155. In FY2017, the correct number was 186, not 172. The LTI rate was 0.37, not 0.35. Sustainability Report FY2017 – Our people The % of our workforce took part in performance appraisal for the year 2016 was 76.6%, not 80.4%. Sustainability Report FY2017 – GRI Index LA11 The % of male workforce who participated in the performance appraisal was 75.3%, not 79.6% and the % of female workforce was 80.6%, not 82.2%. The % of employee (excluding management) who participated in performance appraisal for the year 2016 was 75.4%, not 75.5%. Sustainability Report FY2017 – Our tobacco business value chain The JT Group offices are in 70+ countries and regions.
102-49	Changes in reporting	Location **Significant changes from previous reporting periods in the list of material topics and topic boundaries** Not applicable
102-50	Reporting period	Location About this report
102-51	Date of most recent report	
102-52	Reporting cycle	
102-53	Contact point for questions regarding the report	
102-54	Claims of reporting in accordance with the GRI Standards	
102-55	GRI content index	Location GRI Index Table
102-56	External assurance	Location About this report

Topic-specific Standards Disclosures

GRI STANDARD	DESCRIPTION	LOCATION OF DISCLOSURE, ADDITIONAL COMMENTS

Economic Performance

103-1	Management approach: Explanation of the material topic and its boundary	Location JT Global website: https://www.jt.com/sustainability/way_of_business/materiality_strategy/
103-2	Management approach: The management approach and its components	Location JT Global website: https://www.jt.com/sustainability/way_of_business/tax_it_practice/ Annual Report FY2018
103-3	Management approach: Evaluation of the management approach	
201-1	Direct economic value generated and distributed	Location JT Global website: https://www.jt.com/sustainability/way_of_business/tax_it_practice/ Annual Report FY2018 Improving our social impact

DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED	2018 (MILLION YEN)
Revenue*	2,215,962
Total employee benefits and wages	406,204
Current income taxes	143,090
Tobacco excise taxes	4,677,971
Dividends	259,724
Community investment	5,865

* *Excluding tobacco excise taxes and revenue from agent transactions*

Market Presence

103-1	Management approach: Explanation of the material topic and its boundary	Location JT Global website: https://www.jt.com/sustainability/way_of_business/materiality_strategy/
103-2	Management approach: The management approach and its components	This is our standard operating procedure.
103-3	Management approach: Evaluation of the management approach	

GRI STANDARD	DESCRIPTION	LOCATION OF DISCLOSURE, ADDITIONAL COMMENTS
202-1	Ratios of standard entry-level wage by gender compared to local minimum wage at significant locations of operation	Location Basis of Reporting

SIGNIFICANT OPERATIONS		RATIO OF STANDARD ENTRY LEVEL WAGE TO LOCAL MINIMUM WAGE
JT Tokyo HQ	Male	157.6%
	Female	157.6%
JTI Moscow	Male	238.5%
	Female	238.5%
JTI Trier	Male	146.3%
	Female	146.3%

Indirect Economic Impacts

103-1	Management approach: Explanation of the material topic and its boundary	Location JT Global website: https://www.jt.com/sustainability/way_of_business/materiality_strategy/
103-2	Management approach: The management approach and its components	Location Building sustainable supply chains
103-3	Management approach: Evaluation of the management approach	
203-1	Development and impact of infrastructure investments and services supported	As part of our Global Leaf CAPEX projects, we invested 40.88 million U.S. dollars in infrastructure-related projects in Brazil, Malawi, Tanzania, U.S., and Zambia. In addition, we invested 2.26 million U.S. dollars in infrastructure-related projects in Brazil, Malawi, Tanzania and Zambia, as part of our Grower Support Programs.
203-2	Significant indirect economic impacts, including the extent of impacts	Location Building sustainable supply chains Tackling the illegal trade of our products

Procurement Practices

103-1	Management approach: Explanation of the material topic and its boundary	Location JT Global website: https://www.jt.com/sustainability/way_of_business/materiality_strategy/
103-2	Management approach: The management approach and its components	Location Our tobacco business Our pharmaceutical business Our processed food business
103-3	Management approach: Evaluation of the management approach	

GRI STANDARD	DESCRIPTION	LOCATION OF DISCLOSURE, ADDITIONAL COMMENTS
204-1	Proportion of spending on local suppliers	We define local as the country of operation. Significant location is defined as any location with more than 5% of global spend.

SIGNIFICANT LOCATIONS	SUPPLIER TYPE	% OF LOCAL SPEND IN 2018
Japan	Tobacco leaf and non-tobacco material suppliers	50%
Geneva HQ	Non-tobacco materials and other products and services suppliers	58%
Germany	Non-tobacco materials and other products and services suppliers	56%
Philippines	Non-tobacco materials and other products and services suppliers	63%
Russia	Non-tobacco materials and other products and services suppliers	96%
Taiwan	Non-tobacco materials and other products and services suppliers	89%

The percentage of local suppliers of bulk drug substances to our pharmaceutical business is 0%. The percentage of local spent for suppliers of TableMark is 100%.

FP1	Percentage of purchased volume from suppliers compliant with Company's sourcing policy	FP1 is a measure set out in the Food Processing Sector Disclosure. Therefore, this answer relates solely to our processed food business. 100% of purchased volume from suppliers is compliant with the sourcing policy of the JT Group processed food business, via self-declaration of suppliers.

Anti-corruption

103-1	Management approach: Explanation of the material topic and its boundary	Location JT Global website: https://www.jt.com/sustainability/way_of_business/materiality_strategy/
103-2	Management approach: The management approach and its components	Location Good governance and business standards – Anti-bribery and corruption JT Group Anti-Bribery Policy https://www.jt.com/about/compliance/risk_management/pdf/anti_bribery_eng.pdf JT Global website: https://www.jt.com/about/compliance/risk_management/
103-3	Management approach: Evaluation of the management approach	
205-2	Communication and training on anti-corruption policies and procedures	Location Good governance and business standards – Anti-bribery and corruption

Anti-competitive Behavior

103-1	Management approach: Explanation of the material topic and its boundary	Location JT Global website: https://www.jt.com/sustainability/way_of_business/materiality_strategy/
103-2	Management approach: The management approach and its components	Location Good governance and business standards – Anti-competitive behavior JT Global website: https://www.jt.com/about/compliance/risk_management/

GRI STANDARD	DESCRIPTION	LOCATION OF DISCLOSURE, ADDITIONAL COMMENTS
103-3	Management approach: Evaluation of the management approach	Location Good governance and business standards – Anti-competitive behavior JT Global website: https://www.jt.com/about/compliance/risk_management/
206-1	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes	Location Good governance and business standards – Anti-competitive behavior In 2018, there were no legal actions for anti-competitive behavior, anti-trust, and monopoly practices that resulted in a significant fine for the JT Group, and no such legal actions that resulted in a penalty, or warning, with material impact for sustainability, taking into account the size of the JT Group.

Energy

103-1	Management approach: Explanation of the material topic and its boundary	Location JT Global website: https://www.jt.com/sustainability/way_of_business/materiality_strategy/
103-2	Management approach: The management approach and its components	Location Improving our environmental impact – Making progress in energy and GHG emission reduction
103-3	Management approach: Evaluation of the management approach	
302-1	Energy consumption within the organization	Location Improving our environmental impact – Making progress in energy and GHG emission reduction Basis of Reporting JT Global website: https://www.jt.com/sustainability/people_planet_society/planet/enviroment/

Water and Effluents

103-1	Management approach: Explanation of the material topic and its boundary	Location JT Global website: https://www.jt.com/sustainability/way_of_business/materiality_strategy/
103-2	Management approach: The management approach and its components	Location Improving our environmental impact – Water
103-3	Management approach: Evaluation of the management approach	Location Improving our environmental impact – Water
303-1	Interactions with water as a shared resource	Location Basis of Reporting Improving our environmental impact – Water
303-2	Management of water discharge-related impacts	Location Improving our environmental impact – Water
303-3	Water withdrawal	Location Basis of Reporting JT Global website: https://www.jt.com/sustainability/people_planet_society/planet/enviroment/
303-4	Water discharge	

GRI STANDARD	DESCRIPTION	LOCATION OF DISCLOSURE, ADDITIONAL COMMENTS
Biodiversity		
103-1	Management approach: Explanation of the material topic and its boundary	Location JT Global website: https://www.jt.com/sustainability/way_of_business/materiality_strategy/
103-2	Management approach: The management approach and its components	Location Building sustainable supply chains — Promoting forestry at small-scale farms We approach biodiversity as a topic integrated into our responsible business operations.
103-3	Management approach: Evaluation of the management approach	
304-2	Significant impacts of activities, products, and services on biodiversity	Location Building sustainable supply chains — Promoting forestry at small-scale farms Impacts on biodiversity can be observed directly or indirectly through activities such as: › Crop production/land management e.g., promotion and adoption of good agricultural practices; land/soil use and conservation practices; the use and management of agricultural inputs such as crop protection agents and fertilizers, and the use and management of water resources; › Wood use and forestry management e.g., tree planting, natural regeneration, avoided deforestation and forest remediation; and the use of wood for tobacco curing, domestic consumption, and construction materials for curing barns and other buildings; › The building of new, or expansion of, buying stations, processing facilities, offices etc.
Emissions		
103-1	Management approach: Explanation of the material topic and its boundary	Location JT Global website: https://www.jt.com/sustainability/way_of_business/materiality_strategy/
103-2	Management approach: The management approach and its components	Location Improving our environmental impact – Making progress in energy and GHG emission reduction
103-3	Management approach: Evaluation of the management approach	
305-1	Direct GHG emissions (Scope 1)	Location JT Global website: https://www.jt.com/sustainability/people_planet_society/planet/enviroment/
305-2	Energy indirect GHG emissions (Scope 2)	Location JT Global website: https://www.jt.com/sustainability/people_planet_society/planet/enviroment/ Improving our environmental impact – Making progress in energy and GHG emission reduction – Combined scope 1 and 2 GHG emissions
305-3	Other indirect GHG emissions (Scope 3)	Location Building sustainable supply chains Improving our environmental impact – Making progress in energy and GHG emission reduction – GHG emissions in our value chain
305-4	GHG emissions intensity	Location Improving our environmental impact – Making progress in energy and GHG emission reduction – GHG emissions intensity for the tobacco business
305-5	Reduction of GHG emissions	Location Improving our environmental impact – Making progress in energy and GHG emission reduction – Combined scope 1 and 2 GHG emissions Our processed food business – Reducing our environmental impact

GRI STANDARD	DESCRIPTION	LOCATION OF DISCLOSURE, ADDITIONAL COMMENTS
Waste		
103-1	Management approach: Explanation of the material topic and its boundary	Location JT Global website: https://www.jt.com/sustainability/way_of_business/materiality_strategy/
103-2	Management approach: The management approach and its components	Location Improving our environmental impact – Waste
103-3	Management approach: Evaluation of the management approach	
306-2	Total weight of waste by type and disposal method	Location Improving our environmental impact – Waste – Waste generation, breakdown of waste generated JT Global website : https://www.jt.com/sustainability/people_planet_society/planet/enviroment/ Basis of Reporting
Environmental Compliance		
103-1	Management approach: Explanation of the material topic and its boundary	Location JT Global website: https://www.jt.com/sustainability/way_of_business/materiality_strategy/
103-2	Management approach: The management approach and its components	Location Improving our environmental impact
103-3	Management approach: Evaluation of the management approach	
307-1	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	During 2018, there were no significant monetary fines or non-monetary sanctions for non-compliance with environmental laws and regulations.
Supplier Environmental Assessment		
103-1	Management approach: Explanation of the material topic and its boundary	Location JT Global website: https://www.jt.com/sustainability/way_of_business/materiality_strategy/
103-2	Management approach: The management approach and its components	Location Building sustainable supply chains
103-3	Management approach: Evaluation of the management approach	
308-1	Percentage of new suppliers that were screened using environmental criteria	
308-2	Significant actual and potential negative environmental impacts in the supply chain and actions taken	

GRI STANDARD	DESCRIPTION	LOCATION OF DISCLOSURE, ADDITIONAL COMMENTS

Employment

103-1	Management approach: Explanation of the material topic and its boundary	Location JT Global website: https://www.jt.com/sustainability/way_of_business/materiality_strategy/
103-2	Management approach: The management approach and its components	Location Investing in people – Talent Development Our people
103-3	Management approach: Evaluation of the management approach	
401-1	Total number and rates of new employee hires and employee turnover by age group, gender, and region	Location Basis of Reporting

NEW EMPLOYEES' HIRE AND TURNOVER

The data scope is A and the total number of employees under this scope is 49,737.

BY GENDER	MALE	FEMALE	TOTAL
Total number of new employees	5,252	1,950	7,202
Rate of new employees' hire	14.1%	15.6%	14.5%
Total employee turnover	3,971	1,821	5,792
Employee turnover rate	10.7%	14.6%	11.6%

The data scope is D. The total number of employees under this scope is 38,546.

BY AGE	<30	30–50	>50	TOTAL
Total number of new employees (*D)	2,915	3,412	215	6,542
Rate of new employees' hire (*D)	37.8%	13.5%	4.0%	17.0%
Total employee turnover (*D)	1,449	2,512	661	4,622
Employee turnover rate (*D)	18.8%	9.9%	12.3%	12.0%

The data scope is D. The total number of employees under this scope is 38,546.

BY REGION	JAPAN	SOUTH AND WEST EUROPE	NORTH AND CENTRAL EUROPE	CIS+*	OTHER	TOTAL
Total number of new employees (*D)	389	285	1,135	785	3,948	6,542
Rate of new employees' hire (*D)	5.2%	10.1%	19.4%	10.9%	26.1%	17.0%
Total employee turnover (*D)	384	316	539	1,008	2,375	4,622
Employee turnover rate (*D)	5.1%	11.2%	9.2%	14.0%	15.7%	12.0%

** Commonwealth of Independent States*

GRI STANDARD	DESCRIPTION	LOCATION OF DISCLOSURE, ADDITIONAL COMMENTS
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	Location Basis of Reporting As of the end of 2018, significant locations include our JT head office in Tokyo, Japan, and our international tobacco business head office in Geneva, Switzerland. Our international tobacco business, for instance, positions compensation levels in the 75th percentile against companies with which we compete for talent.

JT HEAD OFFICE IN TOKYO

BENEFITS	PERMANENT EMPLOYEES	TEMPORARY FULL-TIME EMPLOYEES		TEMPORARY PART-TIME EMPLOYEES
		COMMISSIONED PERSONNEL	CONTRACT EMPLOYEES*	
Bereaved family compensation program	Y			
Regular health examination	Y	Y	Y	Y
Medical leave system	Y	Y		
Parental leave	Y	Y	Y	Y
Retirement provision	Y			
Stock ownership	Y			

INTERNATIONAL TOBACCO BUSINESS HEAD OFFICE IN GENEVA

BENEFITS	PERMANENT EMPLOYEES	TEMPORARY FULL-TIME EMPLOYEES	TEMPORARY PART-TIME EMPLOYEES
Life insurance	Y	Y	Y (Prorated)
Healthcare	Y	Y	Y
Disability and invalidity coverage	Y	Y	Y (Prorated)
Parental leave	Y	Y	Y (Prorated)
Retirement provision	Y	Y	Y (Prorated)
Stock ownership	Y		

** Contract employees may be given benefits if they are exempt from Company regulations.*

We also provide more benefits to our employees. Regarding initiatives in our Japanese operations, please see the Sustainability Report FY2015 (page 35, Generational diversity and work-life balance), and our JT website: https://www.jti.co.jp/ (in Japanese.)
Below are examples from our international tobacco business:

Flexible working style
We allow employees to use flexible working hours and to enjoy remote working arrangements in some offices such as Geneva (JTI HQ), U.K., and Spain, workload permitting.

Child care support
In the JTI HQ, employees are offered access to the Company-sponsored childcare facility; in some offices (e.g. Spain, U.K.), we provide vouchers to employees with children in the form of flexible benefits arrangements, or as part of the local benefits package. Our paid maternity and paternity leave exceeds legal requirements (e.g. U.K.).

GRI STANDARD	DESCRIPTION	LOCATION OF DISCLOSURE, ADDITIONAL COMMENTS

Labor/Management Relations

103-1	Management approach: Explanation of the material topic and its boundary	Location JT Global website: https://www.jt.com/sustainability/way_of_business/materiality_strategy/
103-2	Management approach: The management approach and its components	We comply fully within the framework of local law in our places of operation.
103-3	Management approach: Evaluation of the management approach	
402-1	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	Location About this report Basis of Reporting

MINIMUM NOTICE PERIODS regarding operational changes	NUMBER OF MONTHS between the announcement and the time the first employee leaves the factory because of the closure	NUMBER OF MONTHS between the announcement and the final closure	MINIMUM NOTICE PERIOD FOR CONSULTATION AND NEGOTIATION: is this minimum notice period specified in collective agreements?
Belgium	33 months	41 months	No
Malaysia	2 months	8 months	Yes

Occupational Health and Safety

103-1	Management approach: Explanation of the material topic and its boundary	Location JT Global website: https://www.jt.com/sustainability/way_of_business/materiality_strategy/
103-2	Management approach: The management approach and its components	Location Investing in people – Workplace safety The JT Group health and safety strategy
103-3	Management approach: Evaluation of the management approach	Location Investing in people – Workplace safety The JT Group health and safety strategy
403-1	Occupational health and safety management system	Location The JT Group health and safety strategy
403-2	Hazard identification, risk assessment, and incident investigation	
403-4	Worker participation, consultation, and communication on occupational health and safety	
403-5	Worker training on occupational health and safety	Location Investing in people – Workplace safety The JT Group health and safety strategy
403-6	Promotion of worker health	Location The JT Group health and safety strategy

GRI STANDARD	DESCRIPTION	LOCATION OF DISCLOSURE, ADDITIONAL COMMENTS
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	**Description of our approach to preventing and mitigating significant occupational health and safety impacts that are directly linked to business.** Health and safety on the farm is essential to our business. Our Leaf Production Technicians work closely with our directly contracted growers to improve health and safety. We do so through our Agricultural Labor Practices (ALP) program. We apply the same standards when working with our leaf merchants. Green tobacco sickness poses a risk to tobacco farming, so we take steps to prevent this by applying our ALP.
403-8	Workers covered by an occupational health and safety management system	Our occupational health and safety management system covers all of our workers.
403-9	Injury rate (IR), occupational disease rate (ODR), lost day rate (LDR), absentee rate (AR), and fatalities by region and by gender	Location The JT Group health and safety strategy We report lost-time incidents (LTIs) instead of lost-day rate, due to our data-collection methods within our management systems. In JT, absenteeism in 2018 was reported as 0.61. **EMPLOYEES' NUMBER OF FATALITIES, LOST-TIME INCIDENTS (LTIS), AND LTI RATE PER REGION AND GENDER (FY2018)**

REGION	NUMBER OF FATALITIES		NUMBER OF LOST TIME INCIDENTS (LTIS)		LTI RATE
	MALE	FEMALE	MALE	FEMALE	
South and West Europe	0	0	4	3	0.26
North and Central Europe	0	0	13	2	0.30
CIS+	0	0	5	2	0.26
Japan	0	0	42	45	0.40
Other	3	0	52	15	0.21

403-9	Injury rate (IR), occupational disease rate (ODR), lost day rate (LDR), absentee rate (AR), and fatalities by region and by gender	The differences are due to JTI's geographical expansion in countries with higher safety risks. We have recognized and will address these risks by building a more holistic and systematic approach to safety at our manufacturing sites and sales branches. In 2019, the focus will be on targeting the highest risks in emerging markets. In 2018, most LTIs in Japan were due to vehicle collisions caused by third parties, sprains and strains, or slips and falls. To mitigate these risks, we not only conduct risk assessments, but also work on raising safety awareness among our employees. We record employees' occupational illness frequency rate. FY2015 :0 (*B), FY2016: 0 (*C), FY2017 :0.087(*C), FY2018:0(*C). The rate is calculated by the number of occupational illness divided by million working hours.
403-10	Work-related ill health	Location The JT Group health and safety strategy We started collecting JT Group-based data and expect further reporting in the future.

GRI STANDARD	DESCRIPTION	LOCATION OF DISCLOSURE, ADDITIONAL COMMENTS

Training and Education

103-1	Management approach: Explanation of the material topic and its boundary	Location JT Global website: https://www.jt.com/sustainability/way_of_business/materiality_strategy/
103-2	Management approach: The management approach and its components	Location Investing in people – Talent Development Our people
103-3	Management approach: Evaluation of the management approach	
404-2	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Location Investing in people – Talent Development Our people In 2018, 207 of our employees joined our Talent Partnership Program.
404-3	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	**PERCENTAGE OF EMPLOYEES RECEIVING REGULAR PERFORMANCE AND CAREER DEVELOPMENT REVIEWS**

BY GENDER	2017
Male	71.2%
Female	85.0%

BY EMPLOYEE CATEGORY (*D)	2017
Executive Officers	100%
Management (excluding Executive Officers)	93.8%
Employees (excluding management)	67.3%

We have reported on the 2017 performance appraisal data because the information for 2018 is currently being analyzed.

Diversity and Equal Opportunity

103-1	Management approach: Explanation of the material topic and its boundary	Location JT Global website: https://www.jt.com/sustainability/way_of_business/materiality_strategy/
103-2	Management approach: The management approach and its components	Location Investing in people Our people
103-3	Management approach: Evaluation of the management approach	Location Our people
405-1	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	**BREAKDOWN OF EMPLOYEES BY GENDER AND AGE GROUP** (Except Executive officers)

AGE GROUP	MALE	FEMALE	TOTAL
Under 30	6,594	2,822	9,416
30–50	23,802	7,988	31,790
Over 50	6,660	1,618	8,278

GRI STANDARD	DESCRIPTION	LOCATION OF DISCLOSURE, ADDITIONAL COMMENTS
405-1	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	**EMPLOYEES BY POSITION AND GENDER AT THE END OF 2018** POSITIONS / MALE / FEMALE / TOTAL Executive officer: 93.7% / 6.3% / 63 Managment (excluding Executive Officers): 86.4% / 13.6% / 3,489 Employees (excluding Executive Officers and Management): 66.2% / 26.0% / 46,096 **EXECUTIVE OFFICERS BY POSITION AND GENDER AT THE END OF 2018** AGE GROUP / MALE / FEMALE / TOTAL Under 30: 0 / 0 / 0 30–50: 6 / 0 / 6 Over 50: 50 / 3 / 53 *This data does not include four executives in our Japanese domestic Group companies, as we do not ask employees their age.*
405-2	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	Location Basis of Reporting SIGNIFICANT OPERATIONS / EMPLOYEE CATEGORY / RATIO OF ANNUAL BASE SALARY OF WOMEN TO MEN IN 2018 JTI Geneva HQ / Vice President / 94.7% JTI Geneva HQ / Director / 96.0% JTI Geneva HQ / Manager / 92.6% JTI Geneva HQ / Associate / 103.0% JT Tokyo HQ / Executive Officer / 87.8% JT Tokyo HQ / Management / 95.1% JT Tokyo HQ / Employee / 99.1%

Non-discrimination

103-1	Management approach: Explanation of the material topic and its boundary	Location JT Global website: https://www.jt.com/sustainability/way_of_business/materiality_strategy/
103-2	Management approach: The management approach and its components	Location Good governance and business standards JT Global website: https://www.jt.com/sustainability/people_planet_society/people/ Basis of Reporting

GRI STANDARD	DESCRIPTION	LOCATION OF DISCLOSURE, ADDITIONAL COMMENTS
103-3	Management approach: Evaluation of the management approach	Location Good governance and business standards JT Global website: https://www.jt.com/sustainability/people_planet_society/people/ Basis of Reporting
406-1	Total number of incidents of discrimination and corrective actions taken	Location Good governance and business standards JT Global website: https://www.jt.com/sustainability/people_planet_society/people/ Basis of Reporting In 2018, three alleged cases of workplace discrimination were reported. One of the three was proven as a violation of our Codes of Conduct, and we took appropriate corrective action.

Freedom of Association and Collective Bargaining

103-1	Management approach: Explanation of the material topic and its boundary	Location JT Global website: https://www.jt.com/sustainability/way_of_business/materiality_strategy/
103-2	Management approach: The management approach and its components	Location Building sustainable supply chains Agricultural Labor Practices booklet: https://www.jti.com/sites/default/files/global-files/documents/related-documents/jti_ALP_booklet2017_view_doublepage.pdf
103-3	Management approach: Evaluation of the management approach	Location Building sustainable supply chains
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	Location Building sustainable supply chains The right to exercise freedom of association and collective bargaining is at significant risk in a number of countries where we directly or indirectly source tobacco leaf. We assess and mitigate those risks through our Agricultural Labor Practices program.

Child Labor

103-1	Management approach: Explanation of the material topic and its boundary	Location JT Global website: https://www.jt.com/sustainability/way_of_business/materiality_strategy/
103-2	Management approach: The management approach and its components	Location Building sustainable supply chains JTI website: https://www.jti.com/our-views/arise-ending-child-labor-through-education-and-opportunity ARISE website: http://ariseprogram.org/en Agricultural Labor Practices booklet: https://www.jti.com/sites/default/files/global-files/documents/related-documents/jti_ALP_booklet2017_view_doublepage.pdf
103-3	Management approach: Evaluation of the management approach	

GRI STANDARD	DESCRIPTION	LOCATION OF DISCLOSURE, ADDITIONAL COMMENTS
408-1	Operations and suppliers at significant risk for incidents of child labor	Location Building sustainable supply chains JTI website: https://www.jti.com/our-views/arise-ending-child-labor-through-education-and-opportunity ARISE website: http://ariseprogram.org/en Operations and suppliers having significant risk for incidents of child labor have been identified in a number of countries where we directly or indirectly source tobacco leaf. We assess and mitigate those risks through our Agricultural Labor Practices program, ARISE program – Achieving Reduction of Child Labor in Support of Education, Grower Support Programs and Good Agricultural Practices, as well as communication and training, and the Eliminating Child Labour in Tobacco-Growing (ECLT) Foundation.

Forced or Compulsory Labor

103-1	Management approach: Explanation of the material topic and its boundary	Location JT Global website: https://www.jt.com/sustainability/way_of_business/materiality_strategy/
103-2	Management approach: The management approach and its components	Location Building sustainable supply chains JTI website: https://www.jti.com/future-proof-farming Agricultural Labor Practices booklet: https://www.jti.com/sites/default/files/global-files/documents/related-documents/jti_ALP_booklet2017_view_doublepage.pdf
103-3	Management approach: Evaluation of the management approach	
409-1	Suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor	Location Human Rights Building sustainable supply chains – Supplier Screening

Human Rights Assessment

103-1	Management approach: Explanation of the material topic and its boundary	Location JT Global website: https://www.jt.com/sustainability/way_of_business/materiality_strategy/
103-2	Management approach: The management approach and its components	Location Human Rights
103-3	Management approach: Evaluation of the management approach	
412-1	Total number and percentage of operations that have been subject to human rights reviews or impact assessments	In 2018, we carried out human rights due diligence in Japan, which covered our Japanese domestic tobacco, pharmaceutical and processed food businesses. These businesses in total represent 41% of our Group's consolidated revenue. We have also conducted human rights assessments in five high-risk countries in our international tobacco business.
412-2	Employee training on human rights policies or procedures	Location Human Rights
412-3	Total number and percentage of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	In 2018, we have implemented a formal process for 100% of all significant investment agreements and new acquisitions covering human rights, by updating our Business Development Risk Assessment Protocol to include pre-acquisition human rights screening.

GRI STANDARD	DESCRIPTION	LOCATION OF DISCLOSURE, ADDITIONAL COMMENTS

Local Communities

103-1	Management approach: Explanation of the material topic and its boundary	Location JT Global website: https://www.jt.com/sustainability/way_of_business/materiality_strategy/
103-2	Management approach: The management approach and its components	Location Investing in people Improving our social impact
103-3	Management approach: Evaluation of the management approach	
413-1	Percentage of operations with implemented local community engagement, impact assessments, and development programs	Location Basis of Reporting Corporate community investment programs: We have corporate community investment projects implemented in 79% of the countries where we operate. There are 63 countries in which we have corporate community investment projects. ARISE and Grower Support Programs (GSPs): In addition to our corporate community investment programs, we also have ARISE and GSPs in Brazil, Malawi, Tanzania, and Zambia.

Supplier Social Assessment

103-1	Management approach: Explanation of the material topic and its boundary	Location JT Global website: https://www.jt.com/sustainability/way_of_business/materiality_strategy/
103-2	Management approach: The management approach and its components	Location Building sustainable supply chains
103-3	Management approach: Evaluation of the management approach	
414-1	Percentage of new suppliers that were screened using social criteria (or provide a statement describing future plans)	
414-2	Negative social impacts in the supply chain and actions taken	

Public Policy

103-1	Management approach: Explanation of the material topic and its boundary	Location JT Global website: https://www.jt.com/sustainability/way_of_business/materiality_strategy/
103-2	Management approach: The management approach and its components	Location Optimizing the regulatory environment Exceeding expectations with products and services – Latest regulatory developments on e-cigarettes in 2018
103-3	Management approach: Evaluation of the management approach	Location Optimizing the regulatory environment Exceeding expectations with products and services – Latest regulatory developments on e-cigarettes in 2018

GRI STANDARD	DESCRIPTION	LOCATION OF DISCLOSURE, ADDITIONAL COMMENTS
415-1	Total value of political contributions by country and recipient/beneficiary	In compliance with Political Funds Control Laws in Japan, JT refrains from making political contributions. None of JT's subsidiaries made political contributions in any jurisdiction in 2017, except a non-tobacco subsidiary in Japan, which made a political contribution that amounted to low-single-digit million Yen, at its own discretion, in compliance with all relevant Japanese laws.

Customer Health and Safety

103-1	Management approach: Explanation of the material topic and its boundary	Location JT Global website: https://www.jt.com/sustainability/way_of_business/materiality_strategy/
103-2	Management approach: The management approach and its components	Location Exceeding expectations with products and services Our pharmaceutical business Our processed food business
103-3	Management approach: Evaluation of the management approach	
416-1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	Location Exceeding expectations with products and services Our pharmaceutical business Our processed food business Health and safety impacts in our tobacco business, pharmaceutical business, and processed food business are fully (100%) assessed for improvement, with the exception of some of our most recent tobacco business acquisitions, where assessments are ongoing.
416-2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes	During 2018, there were no incidents of non-compliance with regulations or voluntary codes concerning the health and safety impacts of products and services during their life cycle that resulted in a significant fine for the JT Group, and no such incidents that resulted in a penalty, or warning, with material impact for sustainability, taking into account the size of the JT Group.

Marketing and Labeling

103-1	Management approach: Explanation of the material topic and its boundary	Location JT Global website: https://www.jt.com/sustainability/way_of_business/materiality_strategy/
103-2	Management approach: The management approach and its components	Location Our tobacco business Our pharmaceutical business Our processed food business
103-3	Management approach: Evaluation of the management approach	Location Our tobacco business Our pharmaceutical business Our processed food business
417-2	Total number of incidents of non-compliance with regulations and/or voluntary codes concerning product and service information and labeling	During 2018, there were no incidents of non-compliance with regulations or voluntary codes concerning product and service information, or labeling that resulted in a significant fine for the JT Group, and no such incidents that resulted in a penalty, or warning, with material impact for sustainability, taking into account the size of the JT Group. No issues were found against our voluntary code, our Global Marketing Principles.
417-3	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes	During 2018, there were no incidents of non-compliance with regulations or voluntary codes concerning marketing communications, including advertising, promotion and sponsorship that resulted in a significant fine for the JT Group, and no such incidents that resulted in a penalty or warning with material impact for sustainability, taking into account the size of the JT Group. No issues were found against our voluntary code, our Global Marketing Principles.

GRI STANDARD	DESCRIPTION	LOCATION OF DISCLOSURE, ADDITIONAL COMMENTS
FP5	Percentage of production volume manufactured in sites certified by an independent third party according to internationally recognized food safety management system standards	Location Our processed food business

Socioeconomic Compliance

103-1	Management approach: Explanation of the material topic and its boundary	Location JT Global website: https://www.jt.com/sustainability/way_of_business/materiality_strategy/
103-2	Management approach: The management approach and its components	Location Good governance and business standards – Living our Codes of Conduct
103-3	Management approach: Evaluation of the management approach	
419-1	Significant fines and non-monetary sanctions for non-compliance with laws and/or regulations in the social and economic area	During 2018, there were no significant fines or non-monetary sanctions for non-compliance with laws and/or regulations in the social and economic area.