

JT Group Sustainability Report

FY2013



Scope of data and information presented in this report

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

Due to the diverse nature of the JT Group, we do not have Group-wide figures for all information presented in this report. As a result, we use the following notation to show the scope of the data and information reported (please see page 64 for a diagrammatic representation of the scope of our reporting).

This report follows the reporting principles of the Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines; however, our reporting is not yet in accordance with the GRI G4 Guidelines.

***A = the entire JT Group**

including subsidiaries (i.e. international tobacco, Japanese domestic tobacco, pharmaceutical, beverage and processed food businesses)

***B = solely Japan Tobacco Inc. (JT)**

(includes Japanese domestic tobacco, pharmaceutical, and beverage businesses, and excludes processed food business, international tobacco business, and subsidiaries of all businesses)

***C = Japan Tobacco Inc. (JT) and Japanese domestic group companies**

(includes subsidiaries of Japanese domestic businesses, excludes international tobacco business)

***D = Japan Tobacco Inc. (JT) and Japan Tobacco International (JTI)**

***E = solely Japan Tobacco International (JTI)**

our international tobacco business

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CEO statement



This year marks the 15th anniversary of JTI, our international tobacco business, and the beginning of our shift from a primarily Japan-focused company to a global business. Since then, we have plotted a course of steady growth, navigating our way through turbulent economic times, with stricter regulations and harsher competition. Today, the JT Group is one of the leading tobacco companies in the world, with offices and factories in over 70 countries, and distinctive pharmaceutical, beverage and processed food businesses.

In the fiscal year 2013, we achieved another set of sound financial results, and at the same time reconfirmed our commitment to being a responsible corporate citizen. The “4S” model, our management principle, guides our approach to business, outlining the requirement to balance the interests of consumers, shareholders, employees, and wider society, while fulfilling our responsibilities towards them and aiming to exceed their expectations. I am convinced that following the “4S” model will not only support our mid- to long-term growth, but also support our contribution to the sustainability of society.

During the year, we strengthened our commitment to sustainability by appointing an Executive Officer with dedicated responsibility for our corporate social responsibility (CSR). In our international tobacco business, we also created a new CSR department to deliver our sustainability drive. I expect these organizational changes to strengthen our sustainability performance in the coming years.

We continue to seize opportunities and tackle challenges both within and outside our direct operations. In our supply chain, we work with thousands of small-scale tobacco farmers who face complex challenges such as child labor and deforestation, which are often linked to wider issues of poverty and development. We aim to exert a positive influence within our tobacco farming communities to help address these issues as they can directly and indirectly affect our own operations.

In our own operations, we established our long-term commitment to environmental management through a new Long-term Environmental Plan to 2020. The Plan focuses on our most important environmental issues: climate change, waste, water, and biodiversity.

This report also reflects a growing commitment to communicating our sustainability performance, and in the coming years we will report in accordance with the Global Reporting Initiative (GRI), the global standard for sustainability reporting.

These examples reflect only a fraction of our initiatives within the JT Group. In carrying out these initiatives, we recognize the need to embrace change and to remain innovative in order to meet our combined business and sustainability goals. We still have a long way to go, but I assure you that we are committed to further improvement and to meeting stakeholders’ expectations.



Mitsuomi Koizumi
President and Chief Executive Officer
Japan Tobacco Inc.

Corporate Profile

About the JT Group

The JT Group is a leading international tobacco company with offices and factories in over 70 countries. Our products are sold in more than 120 countries, and our internationally recognized brands include Winston, Camel, and Mevius. We also operate pharmaceutical, beverage and processed food businesses, which allow us to diversify our sources of profit and achieve future sustainable growth.

Headquartered in Tokyo, JT is listed on the Tokyo Stock Exchange and our company comprises five main business units:



Japanese domestic tobacco business

We are the sole manufacturer of tobacco products in Japan. Total sales volume was 120.1 billion cigarettes in 2013, and we held a 61.0% market share based on sales volume of cigarettes in Japan.



International tobacco business

Headquartered in Geneva, Switzerland, our international tobacco business has 30 tobacco-related manufacturing facilities around the world. Our international tobacco brands are distributed in more than 120 countries worldwide.

Combined, our tobacco business is the third-largest manufacturer of tobacco products in the world by market share* and produces three of the top ten global cigarette brands by sales volume.

* Based on unit sales of cigarettes and excluding China National Tobacco Corporation



Pharmaceutical business

Our pharmaceutical business conducts research and development both in Japan and the U.S. We focus on three areas: glucose and lipid metabolism, virus research, and immune disorders and inflammation. In Japan, sales and marketing is conducted by our subsidiary Torii Pharmaceutical.



Beverage business

Our beverage business focuses on the Japanese market only and produces non-alcoholic beverages such as ready-to-drink coffee and flavored waters.



Processed food business

Our processed food business also primarily focuses on the Japanese market and is operated by TableMark, our processed food subsidiary. Key products include frozen noodles, frozen and packed cooked rice, and frozen baked bread. We also operate a production facility for seasonings, as well as the 'Saint-Germain' bakery chain in Japan, which offers fresh oven-baked bread.

Key products and brands

Tobacco business

Winston, Camel, Mevius (previously Mild Seven), Benson & Hedges, Silk Cut, LD, Sobranie, Glamour, Seven Stars, Pianissimo

Pharmaceutical business

Remitch Capsules (anti-pruritus), Truvada Combination Tablets (anti-HIV), Stribild Combination Tablets (anti-HIV)

Beverage business

Roots (canned coffee), Momono Tennen-sui (bottled flavored water)

Processed food business

Sanuki Udon (frozen noodles), Takitate Gohan (packed cooked rice), Bakers Select (frozen baked bread and pastries)

Quantity of cigarettes sold (billions of cigarettes)

416.4

International

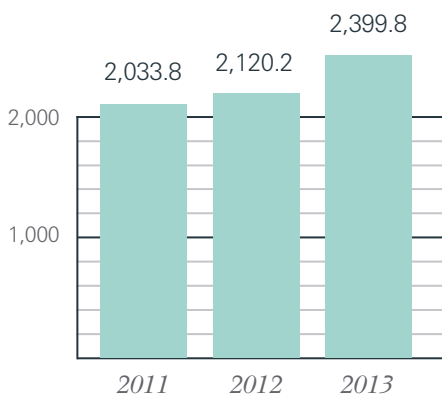
120.1

Japanese domestic

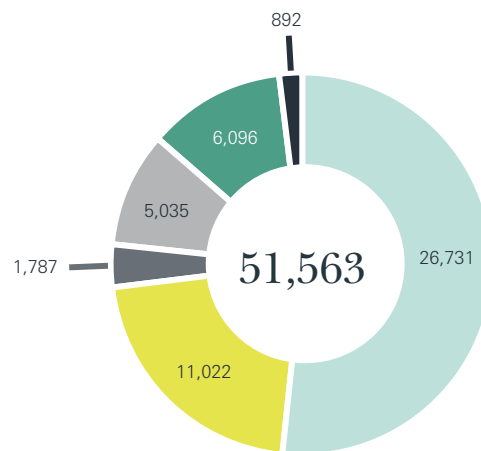
Total number of cigarette and tobacco-related factories



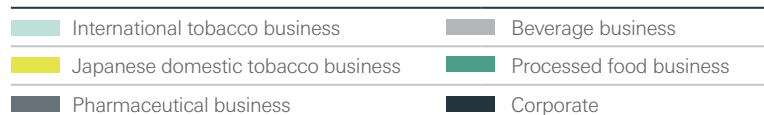
Total revenue* (billion Yen)



*Please refer to the Annual Report for further details on financial information

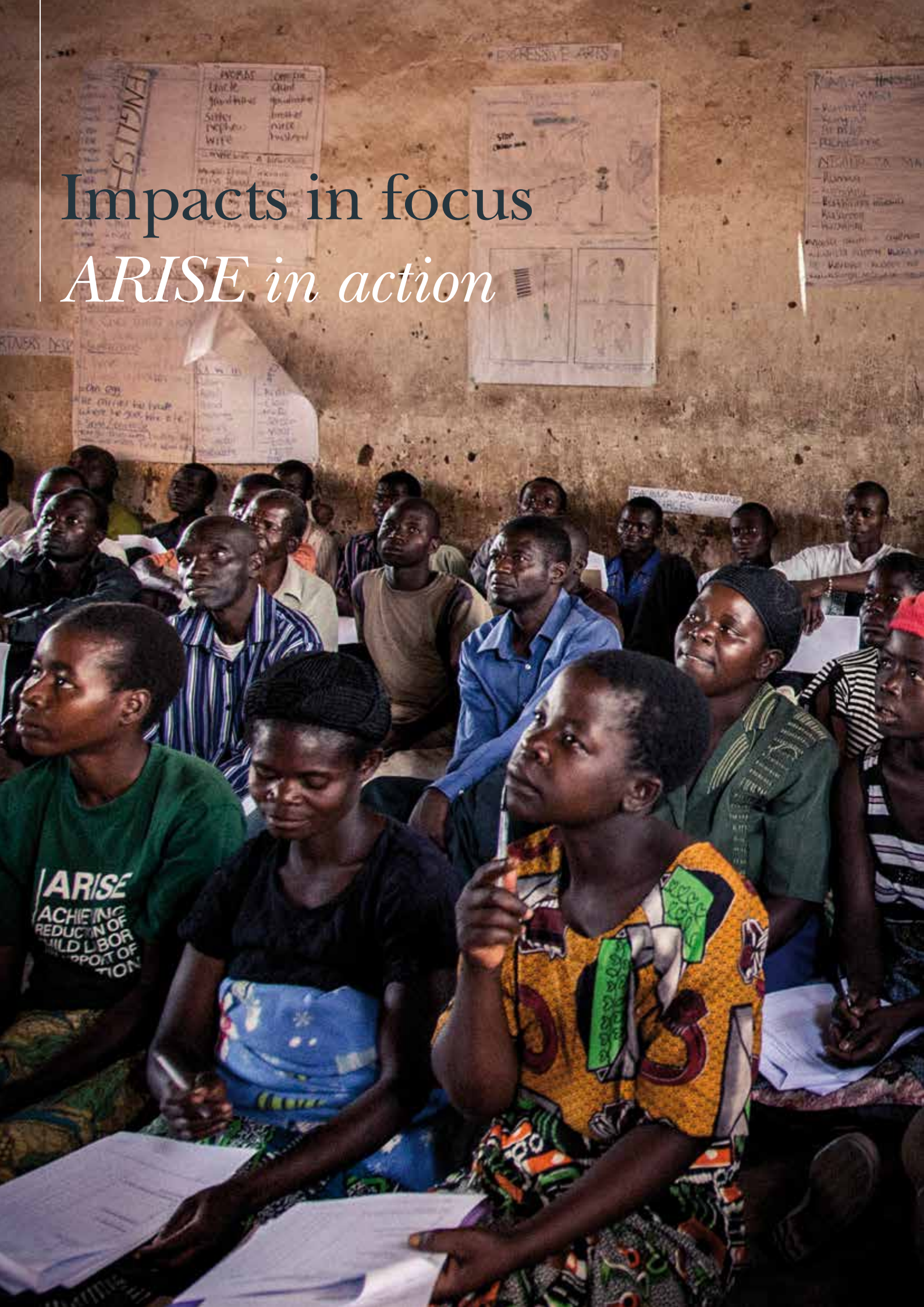


Number of employees by business ^{*A}



Impacts in focus

ARISE in action





Business skills training in Malawi



Baking classes in Brazil

In 2012, in partnership with U.S.-based NGO Winrock International and the International Labour Organization (ILO), JTI launched a multi-year program, Achieving Reduction of Child Labor in Supporting Education (ARISE), with the aim of helping to eliminate child labor in the tobacco growing communities where we do business.

The ARISE program works to tackle the social and economic factors that cause tobacco farmers to engage children in hazardous work and provides a long-term, sustainable solution to the problems associated with child labor in tobacco growing communities.

ARISE aims to ensure that children are not part of the workforce by providing education and engaging with tobacco farming communities in various ways. This ranges from providing educational materials, after-school tutoring, and mentoring, to vocational training for older children in farming schools. Through ARISE, we work with communities to improve their understanding of the long-term value of education, and the future prospects that it can bring. ARISE also works to replace lost income from child laborers through Family Support Scholarships, which can enable parents or guardians to send their children to school.

Through long-term investment and expansion of the program, we aim to ensure the ongoing prosperity of children and their families.

Working to eliminate child labor

In Mthyoka, a village 33km from Malawi's capital, Lilongwe, the community depends on agriculture and small-scale businesses to sustain their livelihoods. During the intensive growing seasons, it has historically been regarded as normal practice for smallholder farmers to use their own children, or employ other children, to work on their farms.

When ARISE commenced in Mthyoka village, 30 of the most vulnerable households were identified in an effort to curb this trend. A Community Child Labor Committee (CCLC) was established in the village and the mothers within these 30 vulnerable households were each given financial support, to help develop individual and group businesses, on the condition that they enrolled and maintained their children in school.

ARISE aims to facilitate economic empowerment within households in order to alleviate financial dependency on children's labor and income. Together with the financial support

and some additional training provided by ARISE, the women established local businesses and initiated a village savings and loan scheme to enable borrowing. By 2013, their savings meant that the lost income from removing their children from farm labor had been recouped through their new business ventures. The women re-distributed this money according to the initial investment made by each of them, and they began saving once more. As a result of ARISE, their children are attending school on a regular basis, and the women were able to enroll 21 more children from the community into school, thanks to their savings, as well as purchasing play equipment for after-school programs.

The CCLC members monitor the school attendance of children and visit small-scale tobacco farmers in the village to assess the extent of any child labor.



Impacts in focus
*Supporting recovery
after the 2011 earthquake
in Tōhoku*

New rice variety developed by the JT Group set to revitalize local agriculture

October 2013 saw 12 farmers from Rikuzentakata City in Iwate Prefecture, one of the hardest-hit areas from the 2011 earthquake and tsunami in Japan, harvest their crop of a new rice variety. It was a significant moment, and those working to restore agriculture in the region have placed high expectations on the new rice variety, 'Takata no yume', developed by the JT Group. Ukyo Niinuma, who has leased the family's land to another farmer to grow Takata no yume, said, "It's a delight to see the new variety of rice growing in our field with its robust growth."

Takata no yume was originally developed by the JT Group's Plant Innovation Center (PIC) in 2000 as a new rice variety to suit the climate of the Tōhoku region. It was officially registered as 'Iwata 13', but before it was commercialized, our agribusiness was closed in 2003, leaving the seeds dormant inside the PIC's seed bank.



Ukyo Niinuma, who has leased the family's land to another farmer to grow Takata no yume

Iwata 13 becomes Takata no yume

The Great East Japan Earthquake struck the Tōhoku region on March 11, 2011. The city of Rikuzentakata was hit by the tsunami and suffered unprecedented damages to its fields and crops. Nine months after the earthquake, the JT Group donated the ownership rights and dormant seeds of Iwata 13 to the city of Rikuzentakata in a bid to restore the city's primary industry and the livelihoods of its residents.

In April 2012, we set out to identify local farmers to cultivate the rice. At first, there was little uptake as farmers were reluctant to cultivate a nameless rice variety with no previous track record, especially in light of the challenges faced since the tsunami. However, with the help of the local government, we were able to find a farmer keen to grow the rice.

Taste was the most important consideration for the first cultivation, and JT employees with agricultural expertise visited

the farm on numerous occasions to provide assistance. In the autumn, soon after the first harvest was completed, the rice was entered in a tasting event and its taste was highly appreciated. At the same time, a competition was held to establish a new name for the rice variety and 'Takata no yume' was the winning name, meaning the 'dream of Takata'.

A symbol of the reconstruction

Takata no yume has become a symbol of the reconstruction of Tōhoku. In 2013, 12 farmers harvested a total of 28 tons. Although only a small fraction of Iwate Prefecture's annual rice crop of 300,000 tons, it is nevertheless an important first step for the people of Rikuzentakata City, who welcomed the JT Group's commitment to assist in the reconstruction efforts.

In 2014, the farmers aim to produce 150 tons and expand sales to the general public. We will also continue to provide support in helping to revitalize Rikuzentakata City's agriculture.



Rice balls made of Takata no yume



A grower harvesting rice

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01 The JT Group and sustainability

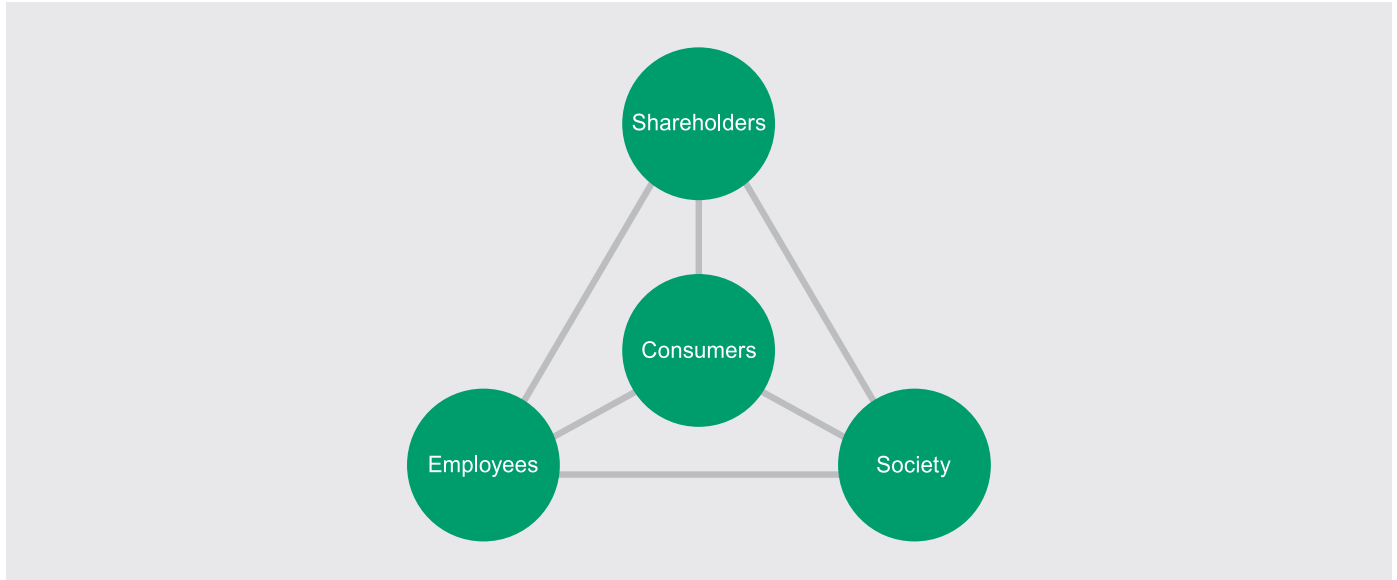
Our approach to sustainability is governed by our management principle, known as the “4S” model. Under the model, we balance the interests of consumers, shareholders, employees, and wider society, and fulfill our responsibilities towards them, aiming to exceed their expectations.

Using the “4S” model, we strive for sustainable growth over the mid- to long-term by continually delivering added value to our consumers. We believe that pursuing this model enhances corporate value and helps us to meet and exceed stakeholders’ interests in the most balanced way possible. We take pride in the strong relationships we have built with the four stakeholder groups within the “4S” model, and through our engagement we are able to reflect stakeholder views in our business activities.

Strategy and approach

In addition to the “4S” model, our responsibilities as a corporate citizen are also reflected in the JT Group Mission, “To create, develop and nurture its unique brands to win consumer trust, while understanding and respecting the environment and the diversity of societies and individuals”. Responsible behavior and continuous improvement are also commitments that are outlined in the JT Group Way, and our Codes of Conduct.

For more information on the “4S” model, the JT Group Mission, and the JT Group Way, please visit www.jt.com/about.



“4S” model

Value chain approach

Based on the “4S” model and the JT Group Mission, we work to continually strengthen our sustainability management and performance. We take a value chain approach to sustainability focusing on issues at every stage of our business operations, from supply chain, research and development, and manufacturing to sales and marketing, distribution, and product use and disposal.

Business-specific sustainability issues

Given the international and diverse nature of our organization, different parts of the JT Group have developed business-specific approaches to sustainability linked to the level of exposure to sustainability risks. For example, in our tobacco leaf supply chain, we aim to safeguard the long-term supply of high-quality tobacco leaf for the JT Group. Sustainability issues play a significant role in meeting that aim, including improving environmental and social conditions, protecting human rights, and working in partnership with stakeholders. In our international tobacco business, our supply chain strategy also focuses on enhancing the livelihoods and long-term profitability of farming communities, particularly those in developing countries (see page 33).

In our pharmaceutical business, some of the key strategic issues that we consider, based on importance to patients, include an ethical approach to research and development, responsible marketing of our products, and a reliable supply of drugs (see page 56).

In our beverage and processed food businesses, our key commitments are to delivering the highest-quality products, ensuring food and product safety (see page 58), and minimizing our environmental footprint from manufacturing, sales, and distribution (see pages 40–41).

With operations in more than 70 countries, our international tobacco business is exposed to a wide range of sustainability issues and risks. To identify the most important sustainability issues across this business, a materiality exercise was conducted in 2013 as a first step towards developing a more defined strategic approach. Further detail is provided on page 18.

Developing a new strategy

Recognizing the importance of an organization-wide, forward-looking approach to sustainability, we are in the process of developing a comprehensive sustainability strategy, which will be rolled out across various parts of the JT Group over the course of 2014 and 2015. A number of organizational changes were implemented in 2013 to support this process, including appointing a Senior Vice President for CSR, who is a member of the JT Executive Committee, and establishing a dedicated CSR department in our international tobacco business.

The JT Group governance

The JT Board of Directors holds the ultimate responsibility for the administration and supervision of our activities. The Board is supported by a number of governance structures. These include the Compliance Committee; the Compensation Advisory Panel; the Executive Officer system responsible for efficient business management; and the Audit & Supervisory Board, a separate governance board that oversees our audit activities.

In 2013, our Board of Directors consisted of nine Directors, two of which are independent. Five members of the Board also serve as Executive Officers and three are non-executive, including the JT Group Chairman. The separate Audit & Supervisory Board consists of four members, two of which are independent.

Within our corporate governance framework, we develop appropriate internal controls, including compliance, internal audit, and risk management, and results of these activities are reported regularly to the Board. Our Annual Report provides further details on our latest governance structures and Board members (www.jt.com/investors/results/annual_report).



Remuneration

The Compensation Advisory Panel supports the Board of Directors with the compensation calculation policy and the compensation system for Directors and Executive Officers. Remuneration for our Directors is determined by the Board of Directors, taking into account the range approved at the Annual General Meeting of Shareholders (AGM) and deliberations of the Compensation Advisory Panel.

Compliance and audit

Compliance requirements are outlined in the JT Group Code of Conduct, which has been approved by the Board of Directors. Under the Code, all Directors and employees are expected to fully comply with applicable regulations, our Articles of Incorporation, social norms, and other compliance standards (see page 21). The Compliance Committee discusses important compliance-related issues and reports to the Board of Directors. The Audit & Supervisory Board conducts audits on operations, including compliance-related issues, as well as accounting audits, while exchanging relevant information with independent auditors and the Operational Review and Business Assurance Division, which conducts internal audits.

Risk management

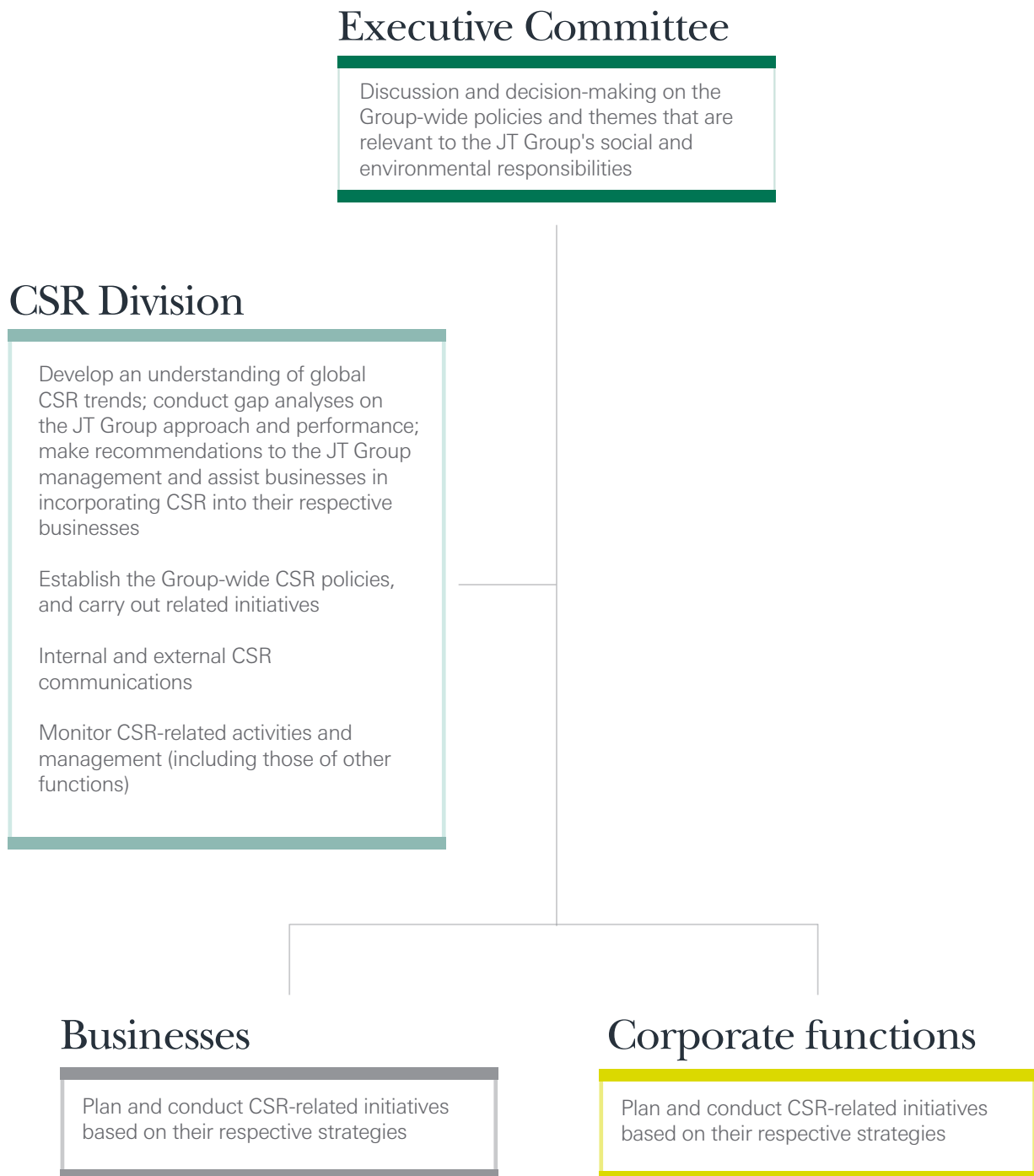
Our approach to addressing key financial and business risks is detailed in our Annual Report. Financial risks and disaster incidents are reported to the Board of Directors quarterly. As part of our risk management process, internal audits are conducted by the independent Operational Review and Business Assurance Division, which reports directly to the President of JT. We also have crisis management and disaster control systems in place.

Each of our business units has individual sustainability risks, based on the nature of their operations and geographical location. Identification and mitigation of sustainability risks is incorporated into our Group risk management approach. Our key Group-wide risks that relate to sustainability include instability in the procurement of key materials and natural disasters.

Sustainability governance

The Executive Committee holds responsibility for Group-wide sustainability decision-making and is supported by the Senior Vice President for CSR, who is a member of the Executive Committee and also leads the CSR Division. The CSR Division monitors Group-wide sustainability issues, initiatives, and performance; implements Group-wide policies and procedures; and is responsible for internal and external communication and knowledge sharing on sustainability. The CSR Division also helps Group businesses and corporate functions understand global CSR and sustainability trends.

Sustainability governance in the JT Group



Stakeholder engagement

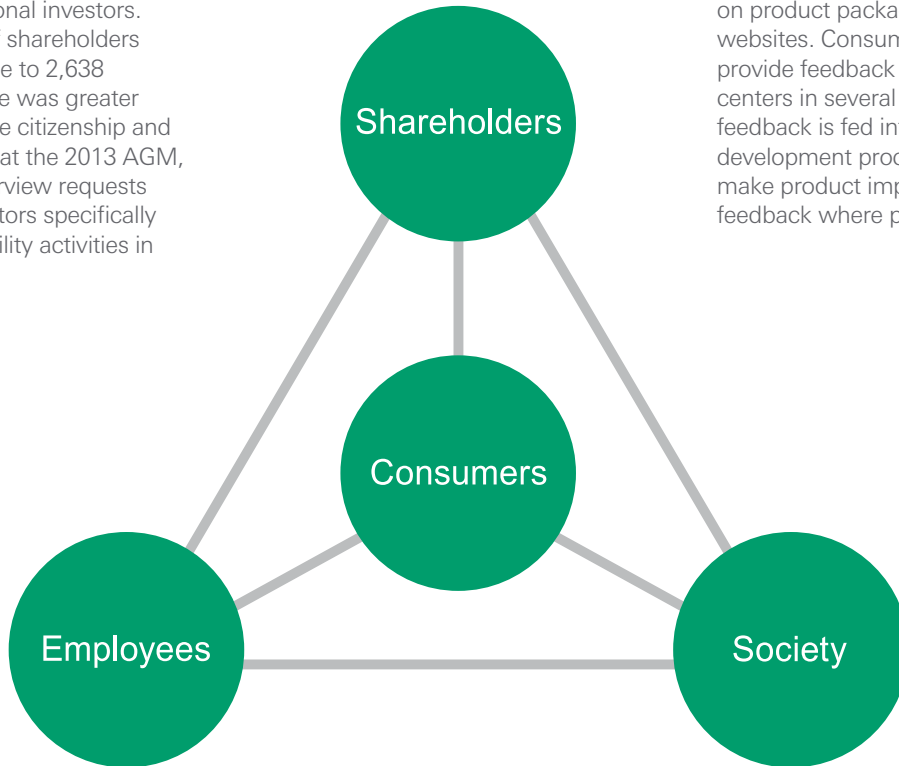
Stakeholder engagement across the JT Group is conducted under our “4S” model, which requires us to balance the interests of four stakeholder groups. We are working towards a Group-wide approach to stakeholder engagement on sustainability issues, and within our international tobacco business, we have begun to systematically seek and address feedback on issues relevant to our business sustainability from our various stakeholder groups. We will continue to develop our approach to stakeholder engagement as part of developing our new sustainability strategy in 2014 and 2015.

Shareholders

Along with the Annual General Meeting of Shareholders (AGM), we hold regular meetings with institutional investors. In 2013, the number of shareholders attending the AGM rose to 2,638 from 763 in 2012. There was greater interest in our corporate citizenship and sustainability activities at the 2013 AGM, and an increase in interview requests from institutional investors specifically covering our sustainability activities in 2013.

Consumers

We provide consumers with details of our products and their ingredients on product packaging and/or on our websites. Consumers can contact us and provide feedback through consumer call centers in several countries. Consumer feedback is fed into our product development processes, and we aim to make product improvements based on feedback where possible.



“4S” model

Employees

We use a variety of communication channels to keep our employees informed on important company matters and to gather their opinions and feedback. These include our intranet and regular employee engagement surveys. Our employee engagement surveys provide a view on employee satisfaction and highlight areas where changes or improvements can be made. We are members of organizations working on employee-related sustainability issues, such as the Japan Women’s Innovative Network (J-WIN) and the Japan Industrial Safety and Health Association.

Society

A range of stakeholders fit within the society category of our “4S” model. These include local communities, suppliers, retail customers, governments and regulators, and non-governmental organizations (NGOs). We engage with NGOs and local communities where we operate to understand their needs and concerns in relation to our operations, products, or specific issues. We have measures in place to engage with our suppliers in relevant parts of the business, and we work with our customers and regulators to address issues such as preventing youth access

to tobacco and combating the illegal tobacco trade. We are members of a number of bodies concerned with societal issues, including the Industrial Federation for Human Rights (Tokyo), the Business Ethics Research Center (Japan), the Institute of Business Ethics (U.K.), the ILO/United Nations Global Compact Child Labor Platform, the Eliminating Child Labor in Tobacco Growing Foundation, and the CEB Compliance & Ethics Leadership Council.

Trade and business associations

In general, we are members of national industry and business associations in the countries where we operate as well as being members of regional and international organizations that represent the interests of the sectors in which we work. These include, but are not limited to, KEIDANREN (Japan Business Federation), Tobacco Institute of Japan (TIOJ), Confederation

of European Community Cigarette Manufacturers (CECCM), European Cigar Manufacturers Association (ECMA), Japan Pharmaceutical Manufacturers Association (JPMA), Japan Soft Drink Association, Japan Frozen Food Association, and Japan-EU Business Dialogue Round Table.



Engaging with governments and regulators

We believe that appropriate and proportionate regulation of the tobacco sector is both necessary and right. All tobacco regulation should be evidence-based, practical, enforceable, and competitively neutral.

Open and transparent engagement

We have a right – and an obligation – to express our point of view regarding regulation that affects our business and products. Like other businesses, we actively seek open and transparent dialogue with governmental authorities, regulators, decision-makers, and opinion-formers around the world. If we see an issue or oversight within a government's proposed course of action, we offer alternative solutions wherever possible.

We believe that transparency and stakeholder participation are critical to ensuring that the resulting regulation is effective, proportionate, and meaningful. Open and honest engagement results in better and more informed regulation and is in the best interests of all relevant parties. We are opposed, therefore, to any efforts to exclude the tobacco industry from regulatory engagement. Political stakeholders and policy-makers should be independently minded and consider the merits of our position, as well as those of other legitimate stakeholders, before making any policy decisions.

Responsible engagement

We have certain responsibilities when we are consulted by governments or take part in consultation processes. Among these are:

- To be open and transparent in our dialogue with authorities
- To be respectful of each country's decision-making process
- To offer alternative solutions, whenever possible, that meet the principles of better regulation if issue is taken with a government's proposed course of action
- To provide credible evidence substantiating our positions and arguments

Within our international tobacco business, we have clear guidelines for political engagement and an anti-bribery policy that is embedded within our Code of Conduct (see page 23). We comply with all applicable requirements pertaining our relationship with governments, for example with the U.K. Bribery Act and the EU Transparency Register. For more information regarding our position and views on the regulation of tobacco products, see www.jti.com.

Identifying our material issues

Due to its international reach and exposure to a range of sustainability risks, we undertook a first-phase materiality assessment for our international tobacco business in 2013. As part of this process, we engaged with internal and external stakeholders to gather feedback on the JT Group's 2013 CSR Report. A benchmarking exercise against peers and competitors, and a media analysis were also carried out.

External stakeholders were identified based on their relevance to the tobacco industry as well as the nature and scale of their relationship with us. These included suppliers, NGOs, and academics.

Internal stakeholders were identified based on their relevance to the JT Group's strategic approach to sustainability and the sustainability reporting process. These included senior management across the international tobacco business from divisions including Human Resources; Regulatory Affairs; Corporate Strategy; Global Leaf; Global Supply Chain; and Environment, Health and Safety.

The outcome of the engagement was a materiality matrix (see below), which was reviewed and validated by senior management. Our approach to managing these material issues and, where relevant, our performance is provided in this report. Our materiality process is ongoing and we plan to expand it to better cover all of our business operations in the future.

Issues material to our pharmaceutical, beverage and processed food businesses were selected for reporting based on peer benchmarking and an internal prioritization exercise.

Materiality matrix for the JT Group international tobacco business



Performance highlights

11.5%

Decrease in total Scope 1 and Scope 2 greenhouse gas (GHG) emissions since 2009

3,071

Children withdrawn or prevented from child labor

51,563

Number of permanent employees

9,130

Number of temporary employees

57.1 billion Yen

R&D spend globally



24.9%

Female workforce

446

Number of new suppliers certified to Know Your Supplier (KYS)

0.73 tons per million cigarettes equivalent

GHG emissions intensity

100%

ISO 22000 certified frozen food factories

96.1%

Participation in Employee Engagement Survey in Japan



7,780 million Yen

global expenditure on community investment and corporate citizenship programs

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02 How we do business

Our Codes of Conduct underpin how we do business across the JT Group. They outline our individual and collective responsibility to key stakeholder groups and to wider society. All operations are required to comply with the high standards of business integrity laid down in the Codes. These include preventing bribery and corruption, avoiding discrimination, respecting human rights, environmental protection, data privacy, and fair competition.

We establish systems and checks to ensure compliance, and all employees are required to abide by their respective Code. Employees are trained on the requirements of the Code and are provided with mechanisms to report concerns about potential breaches or violations.

Code of Conduct

The JT Group Code of Conduct outlines our responsibilities towards consumers, business partners, shareholders, employees, and society. Our international tobacco business and pharmaceuticals subsidiary have their own Codes of Conduct, which are based on the JT Group Code but also reflect their individual operating circumstances.

Our Codes of Conduct outline our legal and ethical obligations and describe practices and procedures that must be followed to meet these obligations. The standards set within our Codes of Conduct form an integral part of how we manufacture, sell, and market our products and are supported by our policies, procedures, and operating guidelines. The consequences of violating laws and ethical principles can be severe, including large fines or criminal penalties, loss of business, and damage to our reputation. Our Codes of Conduct work to protect our business from actions that might lead to these consequences.

Our Codes of Conduct are regularly updated. The JT Group Code of Conduct is updated in line with changes to relevant laws and regulations, and the most recent update was in 2012. In our international tobacco business, we update the Code of Conduct every three years. The most recent revision was in 2011 and the next update will be in 2014.

All employees and executives are required to adhere to their relevant Code of Conduct, and in our international tobacco business we also require all commercial partners to act in accordance with our standards. Every employee across the JT Group¹ receives a copy of the relevant Code of Conduct when they join the Company or when there is an update to the Code. Each employee is required to submit an acknowledgement that they have received the Code. Please see www.jt.com and www.jti.com for full details of the Group Code and international tobacco business Code, respectively.

¹excluding Torii Pharmaceutical

“Our Codes of Conduct are vital to our success and are critical documents that support our compliance and ethics programs. Our Codes reflect the JT Group’s values and responsibilities to consumers, business partners, shareholders, employees and society; and they indicate the behavior that every one of us should follow.”

Ryoji Chijiwa

Senior Executive Vice President, Compliance and General Affairs,
Japan Tobacco Inc.

Code of Conduct training

We provide online, face-to-face, and on-the-job training to raise awareness of our Codes of Conduct and embed ethical behavior across our business practices. For employees required to adhere to the JT Group Code of Conduct, we expanded the scope of our online training in 2013 and 98.9% of eligible employees participated in compliance training during the year ^{†C}.

In our international tobacco business, employees are required to complete an online or face-to-face training session once every three years. The last session of Code of Conduct training was delivered to 22,365 employees around the world in 18 languages.



98.9%

of employees participated in compliance training during the year ^{†C}

02

How we do business

Compliance

In our Japanese domestic tobacco, pharmaceutical, and beverage and processed food businesses, every division is required to assess their compliance risks and submit plans to address any risks identified. A compliance survey is carried out each year, and the results of the survey feed into each division's plans for addressing compliance risks. Approximately 28,500 employees² responded to the 2013 compliance survey, representing a response rate of 95.5%. Each division² is also required to hold a compliance meeting at least once a year. The meetings raise awareness of compliance issues and risks and allow risk management plans to be developed.

In our international tobacco business, we launched a second global compliance survey in 2014 to evaluate employees' perception of the culture of compliance within the business and whether we operate in line with the Code of Conduct.

² excluding Torii Pharmaceutical



Anti-competitive behavior

Competition laws and the issue of fair competition are covered by our Codes of Conduct. Our employees are prohibited from discussing business operations with competitors. This includes, but is not limited to, pricing, terms and conditions of sales or purchases, customers, suppliers, markets, or any other sensitive or confidential commercial information.

In our international tobacco business, for example, if an employee is engaged in a conversation or meeting with a competitor and sensitive or inappropriate commercial information is discussed, they are instructed to end the conversation, express their disagreement with discussing such topics, leave the meeting immediately, and report the matter to a Legal department representative.

“The response rate of 86% for the 2014 Compliance survey exceeded expectations and benchmarks of other high performance companies. This response represents almost 20,000 employees participating either online or in paper format.”

Bruno Duguay
Chief Compliance Officer, Japan Tobacco International

Reporting concerns

Across the JT Group, each of our operating companies has its own compliance team. If an employee is concerned about a potential violation of our Codes of Conduct, they can contact their line manager, human resources lead, or a member of the compliance team. All employees in Japan² receive a Reporting Concerns booklet explaining the process. In Japan, we also provide an external reporting concerns service, run by an independent provider. All reported concerns and investigation reports are treated on a strictly confidential basis.

In our international tobacco business, our Reporting Concerns Mechanism (RCM) is a confidential channel for employees to raise concerns. The system uses a network of more than 200 RCM contact people from around our global operations. RCM contact persons are trained to listen carefully to any employee reporting a concern, collect information in a consistent way, and protect the identity of the reporting employee and any employee suspected of misconduct. The Corporate Compliance function follows up on all reports and, where necessary, launches an investigation. If appropriate, corrective measures are taken. In the last five years, use of the RCM system has steadily increased, pointing to increasing confidence among our employees in the RCM process.

「コンプライアンスって何?」、「コンプライアンスは面白い!」と思いませんか? コンプラ KAWARA-BAN では、日々の中にある「コンプライアンス」を身近な事例を題材に紹介しています。ぜひ一読ください。

◎2014年 個人情報適切に管理していますか?

昨日、Bさんは食堂でCさんと一緒にいたので、所属は大丈夫なの?何か手伝えなるとお誘いを受けてCさんへ声をかけた。驚くことに、多くの情報がCさんの病気を病んだことと関係しているのか、どこから伝わったのか...

■ 事例から学べること

お客様の個人情報と同時に社員の個人情報についても、慎重かつ細心の注意を払って取り扱うことが必要です。

今回のケースでは、Aさんが個人情報を提供してある書類を机の上に放置したまま席を立ったことが原因で、Cさんの個人情報がCさんに知られてしまった。Aさんは、業務上、社員の個人情報に接する立場であり、そのことを認識し、個人情報を適切に管理しておくはなりません。

また、Cさんへ心配する気持ちから行動があったかもしれませんが、Bさんの行動が、Cさんのプライバシーを侵害する、結果として関係なくつづいていきます。

様々な人が働く職場では、一人ひとりが、お互いの個人情報・プライバシーを守り、最大限に尊重することが大切です。自分自身にとっては「大したことがない」「全然大丈夫だ」と思えることも、他の人にとっては深刻な問題に陥ることで、不信感や怒りを感じることがあるかもしれません。

お互いが相手の立場に立ち、周囲の人を傷つけないよう個人情報の取り扱い、プライバシーの保護には十分に注意しましょう。

■ 関連する主な行動規範

- 3-4 適切な文書・情報管理
- 4-3 プライバシーの保護・尊重
- 4-6 守秘義務

従業員のプライバシーに配慮し、個人情報の取り扱いには、十分に注意しましょう!

ある日、総務部のAさんは社員の個人情報、勤務が記載された書類を整理していた。整理の途中、机の隅から「さすく来て欲しい」と呼ばれたAさん。その書類を机の上に置いたまま机を離れた。Aさんを見て総務部にやって来たBさんは、Aさんが平手どかり、立ち去るとして、Aさんの机の上には個人情報が目撃された。Aさんは、Aさんが〇〇病を患っており、現在治療中であることを知った。

Compliance news bulletin

Anti-bribery and corruption

With operations spanning the world, some of our business is conducted in jurisdictions with a high prevalence of bribery and corruption. Our Codes of Conduct forbid corrupt practices in any form. With its wide geographical spread, our international tobacco business faces the greatest exposure to corruption risk. To ensure our approach reflects the latest regulatory developments, such as the U.K. Bribery Act, we updated the anti-bribery and corruption requirements of JTI's Code of Conduct in 2011. This reinforced our zero tolerance approach to corruption in our operations. Employees are encouraged to report any concerns regarding bribery or corruption through our Reporting Concerns Mechanism (see page 22).

	2011	2012	2013
% of Reporting Concerns Mechanism claims relating to corruption ^{1E}	2.1%	3.4%	4.3%



02

How we do business

Training

In our international tobacco business, we train employees on anti-bribery and corruption through our Code of Conduct training. In 2013, we developed three training approaches specific to anti-bribery and corruption: online training for employees with a higher risk of exposure to bribery and

corruption; anti-corruption compliance workshops for regional and local management teams, and the leadership team of our manufacturing operations; and the inclusion of anti-corruption case studies within our online Code of Conduct training, which is provided to all international tobacco business employees.

Gifts, hospitality, and entertainment

Our international tobacco business also has a policy to comply with all laws on the exchange of gifts, hospitality, and entertainment (GHE), including with government officials. We do not encourage a culture of exchanging GHE as it could potentially breach local legislation and is a source of reputational risk. Under the policy, prior approval must be sought for all GHE exchanges with government and public officials regardless of value. In other cases, we take into account local circumstances and all GHE exchanges above US\$250 must be approved.

The purpose of GHE should be to promote healthy business relationships rather than seeking to gain a business or personal advantage or reward preferential treatment. In 2013, we updated our GHE policy as part of a wider review of our anti-corruption approach and launched a new GHE online training course, which was delivered to 1,090 relevant employees during the year.

To ensure complete transparency and provide a clear audit trail, we have a central system to log, approve, and report all requests for GHE. On a quarterly basis, our Corporate Compliance function analyzes GHE requests and reports to management the number and value of GHEs exchanged.

In 2013, the total number of GHE requests that were fully approved increased to 673 from 519 in 2012. The increase in GHE requests matches the increase in awareness across our business in line with communication, training, and management workshops delivered in the past two years. This will continue to be a strategic priority in order to minimize the possibility of corruption cases in our operations.

In this section

Health and safety > P.25

Responsible employer > P.27

Employee development and talent management > P.28

Equality and diversity > P.29

03 Our people

A large part of how we do business relates to how we attract, retain, and treat our employees, and how we keep them safe at work.

Our approach to human resources is grounded in our “4S” model. We provide all JT Group employees with growth opportunities, adopt transparent rules and standards, treat all employees fairly, respect diversity, and seek a variety of talent.

Our employees are a critical contributor to our success and by following this approach, we aim to provide workplaces where they can thrive and develop.



Health and safety


To the JT Group, effective health and safety management means not only complying with all relevant legislation but also establishing systems to minimize risks for employees, contractors, and visitors to our operations.

Group-wide, we have a uniform understanding of the importance of health and safety, and this is reflected in individual policies within our business units that are tailored to specific business needs. Although each business has its own policy, there are a number of common factors to our approach, including maintaining effective management systems, using systematic risk assessments to identify workplace risks, and investing in continual performance improvement.



Health and well-being team in Brazil


Health

The health of our employees is directly linked to their productivity and satisfaction at work. Within JT , we provide a full-time medical staff of 14 doctors and 34 public health nurses across 11 office locations. They provide legally required medical examinations as well as health checks and consultations to help employees with lifestyle-related health issues.

In our international tobacco business, we launched a wellness strategy in 2013 that defines our approach to worker health, hygiene, and well-being. The strategy consists of four pillars for improvement of health management and performance: reaction, risk assessment, control and management, and well-being. The initial focus has been on understanding absence through ill health by determining health risks in our supply chain and manufacturing operations so that we can make informed decisions on worker protection. Future focus areas include exposure control and risk management, developing competence among our employees, and developing global well-being programs that address the reasons for employee absence.

We will also focus on business resilience through pandemic planning and endemic disease programs, such as for HIV/AIDS. We are taking the model of our successful Action Against AIDS program in South Africa and have initial plans to roll the initiative out across our operations in Malawi, Tanzania, and Zambia. Here, prevalence of HIV and AIDS are among the highest rates globally.

Safety in our Japanese domestic businesses

In 2013, we renewed our five-year Occupational Safety Hazard Prevention Plan  that sets a target to eliminate occupational accidents in JT by 2017. With one lost time incident (LTI) across our 13 Japanese tobacco-related manufacturing facilities in 2013, we are close to achieving zero LTIs. Our ongoing focus

is on eliminating all recordable incidents, and we developed new 'Safe Working Guidelines' for our tobacco manufacturing operations in 2013.

Training is an essential part of achieving our goal, and a major training program in our Japanese domestic tobacco manufacturing operations is Kiken Yochi training, or risk prediction training. The training brings together small groups of employees to identify operational risks, determine root causes, and develop risk mitigation approaches and goals for their own factory.

Safety in our international tobacco business

In our international tobacco business, our safety strategy targets work-related injuries and aims to build a sustainable safety culture. Twenty-one of our manufacturing sites are certified to the OHSAS 18001 safety management standard, and in 2013 the first of our research and development facilities achieved certification. Our target is to certify all manufacturing, research and development, and tobacco leaf supply chain operations to ensure we have a consistent and systematic approach to improving workplace safety.

Key safety initiatives that we are implementing include Safety Culture and Fleet Safety Programs. Our Safety Culture Program engages and encourages employees to adopt safe workplace behaviors. It includes safety leadership training, safety observation, and dialogue processes, and establishes task-teams for specific safety topics. The Fleet Safety Program provides defensive driver training and web-based safe driver training, as well as setting objectives to reduce road traffic collisions. These programs have contributed to a downward trend in work-related injuries. As our business grows, we will review and revise these programs to ensure all high-risk activities continue to be targeted for safety improvement.

Japan Tobacco Inc.*B

	2011	2012	2013
Occupational accident frequency rate ^{*1}	1.13 ^{*3}	0 ^{*3}	4.44
Occupational accident severity rate ^{*2}	0.012 ^{*3}	0 ^{*3}	0.031
Total number of fatalities	0	0	0
Total number of lost time incidents (LTIs)	25	20	31

^{*1} 1,000,000 x (Number of lost time incidents/Total working hours)

^{*2} 1,000 x (Number of work loss days/Total working hours)

^{*3} Please note that 2011 and 2012 data for occupational accident frequency rate and accident severity rate represented production sites only; however, 2013 data includes all JT operations due to improvements in the scope of reporting

International tobacco business*E

	2011	2012	2013
Number of fatalities	2	2	3
Number of lost time incidents (LTIs)	76	68	58
LTI rate (LTIs per 200,000 hours worked)	0.32	0.29	0.22
Number of vehicle accidents	1,757	1,508	1,362
Vehicle accident frequency rate (accidents per million km)	8.4	7.1	6.1

In our international tobacco business, safety performance in certain areas can be challenging due to vast differences in safety cultures within the geographies in which we operate. In 2013, across the international tobacco business, there were three fatalities. We had 58 lost time incidents (LTIs), the lowest number since measurement began in 2003. The number of vehicle accidents was reduced by around 22%, and our vehicle accident frequency rate was reduced from 8.4 to 6.1, which again is the lowest in the international tobacco business's history. We will continue to improve our safety performance until we achieve our vision of an injury-free work environment. Further details can be found within the JTI Environment, Health & Safety (EHS) report on www.jti.com.



Embedding safety in new acquisitions: Sudan

Following the 2011 acquisition of Haggag Cigarette and Tobacco Factory in Sudan, one of our first priorities was to improve a safety record that fell far short of our standards. With support from regional and global safety leaders, a four-year safety roadmap was devised, starting in early 2012 with the urgent need to provide Personal Protective Equipment, and ensure it was used. The roadmap also includes implementing safety procedures, safety leadership training, incident reporting and investigation, and regular progress review meetings. In a short period, the intensive safety focus started to pay off, with LTIs reduced from 23 in 2011 to nine in 2012 and two in 2013.



Car fleet safety in Russia

In Russia, our vehicle fleet consists of 1,800 vehicles travelling some 38 million kilometers each year. Following a study by our safety team, we discovered that 45% of our fleet accidents were speed related. In response, we initiated a fleet safety program in 2012. The program includes GPS monitoring of our vehicle fleet, which allows us to record vehicle speeds and driver behavior such as accelerating, braking, and overtaking. Combined with regular driver training, the program has halved the vehicle accident frequency (VAF) rate from 8.7 in 2011 to 4.11 in 2013 and reduced total accidents from 347 to 150 accidents. The program has also received a State Traffic Police commendation.

VAF rate = number of fleet vehicle accidents/ distance in kilometers travelled by all vehicles x 1,000,000 kilometers

Responsible employer

The JT Group operates a strategic framework that acknowledges employees as a cornerstone of our success. We invest in our employees accordingly and encourage collaboration across our diverse workforce, which spans more than 70 countries. Two critical factors that support this approach are ongoing engagement with our employees and positive industrial relations. Communication is key to being a responsible employer, and we engage in an open dialogue with employees and their representatives to generate mutual respect.

Working with Trade Unions

We have a long history of positive industrial relations. Across the JT Group, industrial relations are based on individual countries' labor laws, and we aim for open and constructive relations with Trade Unions and Works Councils. Dialogue with Trade Unions is generally undertaken within the jurisdiction of our local operations, and typical engagements cover aspects of company management, strategy and planning, as well as operational issues.

In JT ^{BE}, 99.9% of our employees in non-management positions (and 74.8% of contract and part-time employees) are covered by collective bargaining agreements. In our international tobacco business, Trade Unions or Local Works Councils represent the workforce in 21 countries. These groups generally exist to facilitate employee-management dialogue, and several groups also negotiate on behalf of the workforce. In 12 of these countries, the majority of the workforce is unionized and membership is voluntary in all but two. In two of our operating countries, employee negotiations are carried out at an industry level so there is little direct company involvement.

In line with the relevant European Directive, we also have a voluntary European Works Council agreement in place. Our European Works Council operates as an employee information and consultation body for transnational issues relating to our operations in Europe. The Council has regular meetings each year and is made up of employee representatives and members of management.

Communicating with employees

Across the JT Group, we communicate with our employees irrespective of whether or not a Trade Union is in place to keep them informed on important company matters. We use many communication methods from notice boards and face-to-face meetings to web-based channels and electronic communications for our sales forces in the field.

Employee Engagement Survey

One method of communicating with employees and receiving their feedback is our Group-wide Employee Engagement Survey (EES), conducted regularly across the JT Group. The EES gathers employees' views on their working environment, our way of doing business, and the business unit or function they belong to. Each function uses the results of the survey to develop initiatives to improve the workplace, make operations more effective, and further motivate employees.

In 2013, 96.1% of our workforce in Japan ^{JP} participated in the survey.



Employee development and talent management

Our employees contribute to the success of the JT Group and in return we provide an open, fair, and stimulating work environment in which they can pursue their goals and improve their skills and abilities. This is reflected in our human resources policies, which establish the Group-wide goal of providing growth opportunities for all employees and ensuring we have the right person to fill the right position at the right time. We see this approach as an investment in the future success and growth of the JT Group.

Development process

For the JT Group, dedicated communication between managers and employees is a critical part of the employee development and talent management process. Performance appraisals are important means for employee development, setting an employee's development objectives as well as business objectives. These are based on needs identified during the previous year or those required to deliver successful performance in the future. In 2013, 97.9% of our workforce received performance appraisals. In our international tobacco business, the number of employees who received performance appraisals has steadily increased over the years to approximately 15,700 in 2013.

To help develop our existing workforce, our policy is to fill open positions with internal candidates who have the right experience for the job. In our international tobacco business, we filled approximately 90%* of all management positions with internal candidates in 2013.

Enabling employees to explore opportunities or roles across functions, business units, or internationally is another key part of developing talent within the JT Group. It provides opportunities for career progression and helps to meet the changing needs of our global organization. In our international tobacco business in 2013, 3,999* employees changed positions internally, representing around 15% of our international workforce.

JT/JTI Talent Partnership Program

To develop the global capabilities of our workforce and help develop our future business leaders, we established the JT/JTI Talent Partnership Program in 2006. The Program builds employees' skills and experiences by exposing them to the different working styles and cultures between our Japanese domestic and international tobacco businesses. The Program is a long-term investment for the Group and allows the transfer of technical skills and brand knowledge as well as building relationships between the JT Group's two largest business units. In 2013, 162 employees from JT were working within the international tobacco business, up from 136 employees in 2012.

Training

Employee training is provided through a mixture of on-the-job learning, formal internal and external training, and e-learning. Due to the diverse nature of our international tobacco business, we operate a number of centralized training academies to ensure we provide a consistent approach to training regardless of geographical location. These include training academies for leadership development, Manufacturing operations, Consumer and Trade Marketing, Corporate Affairs, Human Resources, and IT.

*Data note: data relates to our international tobacco business and excludes locations not currently on our SAP HR Management System, amounting to 3,033 people in 2013

External recognition

In a number of countries, we have received recognition for our employee practices.

Top Employers 2013

Belgium	Italy
Czech Republic	the Netherlands
Denmark	Poland
France	Switzerland
Greece	U.K.



Investors in People

Jordan	Turkey
Russia	U.K.
South Africa	WWDF
Tanzania	

Great Places to Work 2013

Ireland	Spain
Italy	Turkey

In addition to these awards and certifications, a number of the JT Group's entities were also recognized in local best employer awards and ratings.

Equality and diversity

We are proud of our diverse workforce and the way that it contributes to and shapes the culture of the JT Group. Employing a diverse workforce is a strong source of competitiveness within an international marketplace and supports our goal of sustainable growth. In 2013, we employed more than 110 nationalities across our global workforce. Beyond national diversity, we value diversity of opinion, allow people to express their own personalities, and believe in creating a work environment that fosters creativity and innovation.

We have a commitment to equal opportunity and anti-discrimination, and this is reflected in our Codes of Conduct and human resources policies. We recruit strictly based on talent and regardless of an individual's race, nationality, creed, religion, gender, sexual orientation, or physical ability.

Gender diversity

The JT Group maintains an open approach to diversity. We take a gender-neutral approach to recruitment in order to appeal equally to all potential employees irrespective of gender or any other measure of diversity. We do not apply diversity quotas in our hiring processes and recruit solely on ability. While we have a gender-neutral approach to recruitment, we want to ensure that we create workplaces that are attractive to women and put in place measures to ensure that we attract, support, and retain female employees across the Group.

In JT ^{USA}, we established a Diversity Development Department in 2013, with the aim of promoting working environments in which diverse workforces can thrive. Although diversity covers various factors, the current focus of the department is female

representation. Female representation within management increased from 1.4% in 2013 to 2.2% at the end of March 2014. We have set ourselves a target to triple this figure by 2018, and achieve 10% female management by 2023. To support this goal, we have established a dedicated section on our intranet and hold seminars on female empowerment in the workplace. During the recruitment process for spring 2014, females accounted for more than 30% of new hires.

In our international tobacco business, the overall ratio of men to women was 70:30 in 2013. Female representation at Vice President and Director level stood at 11.1% and 25.9%, respectively.

Number of employees by position and gender in 2013 ^{*D}

	Male	Female
Executive Officer	35	1
Management excluding Executive Officer	1,924	261
Non-management	22,702	7,909

Data note: data excludes locations not currently on our SAP HR Management System, amounting to 3,033 people in 2013

Generational diversity

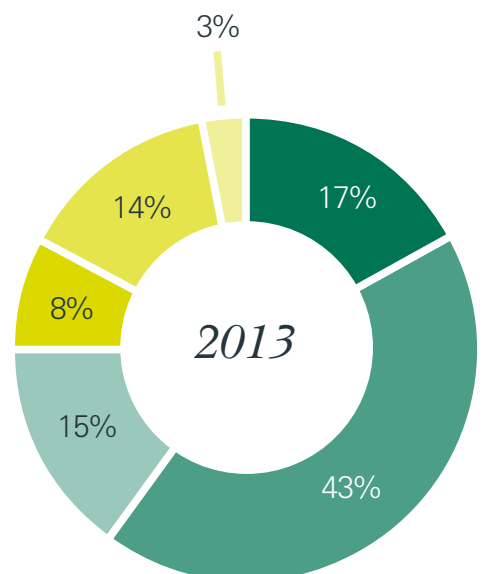
In addition to gender diversity, we work to create a culture that takes advantage of inter-generational learning and experience sharing. Our policies and practices do not discriminate on the basis of employee age or generation, and we adopt ways of working that are appropriate to all generations represented in our workforce.



Breakdown of employees by gender and age group ^{*D} (%)

Male	
■	Under 30 years old
■	From 30 to 50 years old
■	Over 50 years old
Female	
■	Under 30 years old
■	From 30 to 50 years old
■	Over 50 years old

Data note: data excludes locations not currently on our SAP HR Management System, amounting to 3,033 people in 2013





In this section

Supplier standards and practices > P.³¹

Tobacco supply chain: strategy > P.³³

Tobacco supply chain: long-term farmer profits > P.³⁴

Tobacco supply chain: Agricultural Labor Practices and child labor > P.³⁵

Tobacco supply chain: sustainable wood > P.³⁷

04 Responsible supply chain

Our supply chain provides the products, services, and raw materials for our tobacco, pharmaceutical, and beverage and processed food businesses. We have tens of thousands of suppliers around the world, many of which are small-scale farmers providing the raw materials we need for our products.

We expect all of our suppliers and business partners to uphold high standards of integrity. Our Responsible Procurement Policy, our Supplier Standards, and our Codes of Conduct detail our approach to selecting suppliers and establishing supplier standards.

Supplier standards and practices

With businesses in a wide range of sectors, our supply chain is large and complex. Wherever we operate, we expect our business partners to share our commitment to the highest standards of business integrity, legal compliance, and responsible business practice. At the Group level, our Responsible Procurement Policy sets this expectation. It clarifies that when selecting suppliers, we take account of candidates' compliance with relevant laws and regulations, and requires that we consider human rights, the environment, and other social responsibilities. Please visit www.jt.com/csr/procurement/principle for more details on the policy.



In our tobacco business, we established the JT Group Principles in Leaf Tobacco Production in 2013. Under these principles, we work with contract tobacco growers to improve the quality of leaf tobacco, raise workplace standards, protect the environment, and work to eliminate child labor. Please visit www.jt.com/csr/procurement/leaf_tobacco for more details on our tobacco production principles. More detail on our approach to sustainability in our tobacco supply chain is also provided on page 33.

In our pharmaceutical and beverage and processed food businesses, we select suppliers based on rigorous checks that prioritize quality and safety. Both sectors focus on the full chain of supply, an approach that is described as part of our product responsibility approach on pages 58–59.

Know Your Supplier

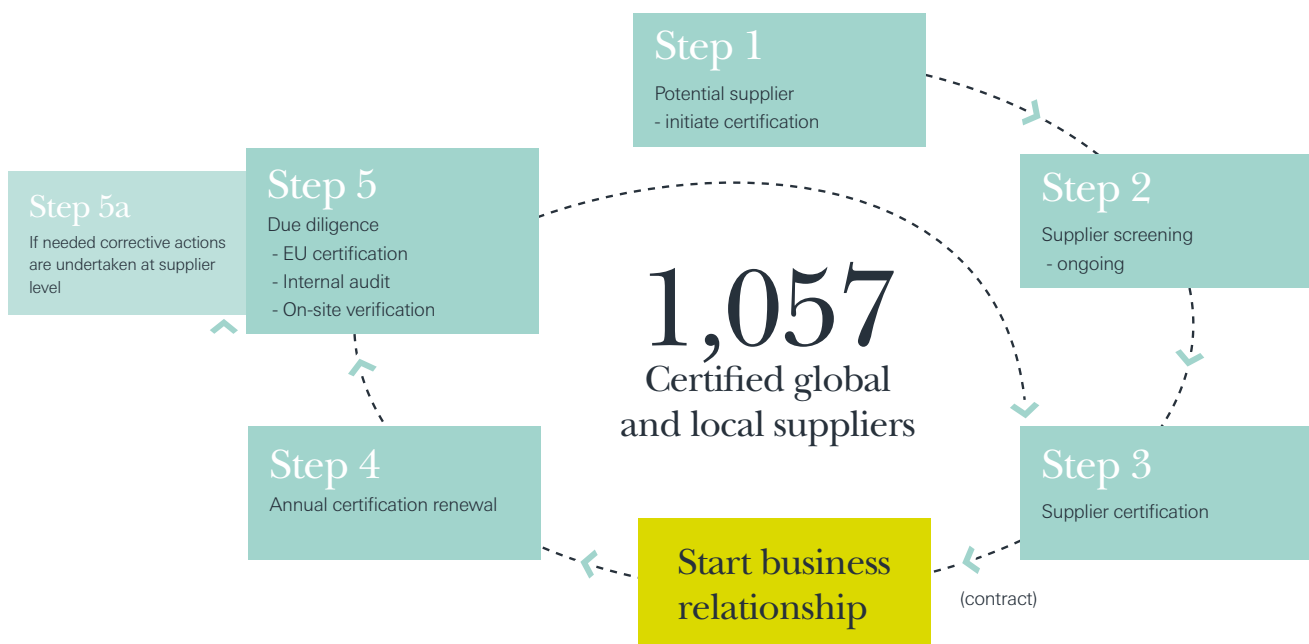
In JTI, our international tobacco business, we operate a formal supplier selection and review process, based on criteria such as assurance of supply; service delivery; quality of products and services; commercial flexibility; innovation; ethical business practices; and respect for environment, health, and safety regulations.

In line with the JTI Code of Conduct and recognized international standards, we also run a Know Your Supplier (KYS) program for key suppliers. KYS provides a framework for assuring that our suppliers respect business integrity, equal opportunities, fair employment, health and safety, and the environment. KYS also aims to help ensure that our supply chain is free from association with the illegal tobacco trade (see page 52).

Through KYS, a supplier completes an online questionnaire and provides supporting evidence to show that their business meets relevant technical and commercial standards and also complies with our KYS standards. Finally, once a supplier is contracted, they receive JTI's Supplier Standards, which set out a number of requirements that suppliers must meet.

In 2012, we introduced an additional step in the certification process, which involves a site visit to review compliance with our standards for specific categories of suppliers. In 2013, external auditors conducted 11 supplier site assessments, mainly in China. The suppliers involved have completed all corrective measures identified during these assessments.

Certification process





Supplier certification to KYS^{®E} 2012 2013

Number of new certifications	203	446
Number of certifications renewed	386	611

Monitoring compliance

Under KYS, in the event that shortfalls in standards are identified, a supplier is given the opportunity to implement corrective measures. We then follow up with the supplier to ensure these measures are effectively in place.

We take a zero tolerance approach to the illegal trade in tobacco products (see page 52). If we discover a supplier has knowingly engaged in illegal trade, or facilitated it, the supplier is blocked from doing business with us and their contract is terminated.



Agricultural Labor Practices training

Know Your Grower

Our Agricultural Labor Practices (ALP) set the standards we expect of our contracted tobacco growers for safe and fair working conditions. Know Your Grower (KYG) is our program for monitoring and managing tobacco farmers' compliance with the ALP standards. An ongoing cycle of observation and continual improvement, KYG directly helps our contracted tobacco growers to meet their contractual obligations to the ALP standards (see page 35 for more details on ALP).

Within KYG, our farming experts observe labor practices during farm visits where they advise on the best growing methods to improve tobacco yield and quality. Farming experts record any misalignment with the ALP standards, along with other opportunities for improvement on contracted growers' farms, and provide advice on making improvements. Our farming experts play a central role in KYG, and their training not only includes the ALP but also provides the skills needed to support growers to bring about improvements.

With the observations and data collected through KYG, we aim to understand better those cases where growers do not meet the ALP. This allows programs to be developed to help them meet their commitments. This information will also provide the basis for tailor-made social investments in our farming communities.

Following successful pilots of KYG in Brazil and Serbia in 2013, and guided by the International Labour Organization (ILO) principles, we are accelerating implementation in these countries during 2014. We plan to implement KYG in the African countries where we buy tobacco leaf directly from contracted growers during the 2015–2016 crop seasons. As KYG coverage grows, we will train more farming experts to ensure thorough observation and the successful expansion of the program. In 2013, 1% of total growers were involved in KYG program preparation. It is planned to cover the whole directly contracted grower base by 2018.

	Target	2012	2013
Implement Know Your Grower incorporating ALP	Rollout in Serbia and Brazil during 2014 Rollout in U.S., Zambia, Malawi, and Tanzania by 2018	Preparation of pilot programs in Serbia and Brazil	Implementation of pilot programs in Serbia and Brazil

Tobacco supply chain- *strategy*

Securing a long-term supply of quality tobacco leaf is the foundation of our tobacco supply chain strategy. It allows us to continue creating value for both the JT Group and the tobacco farming communities we work with. Our vision for international tobacco procurement (tobacco leaf procured internationally, i.e. outside Japan, is used by the whole Group) is to 'lead in sustainable leaf supply' and is underpinned by four key strategic goals:



1. Preservation of tobacco farming

Our first priority is to preserve tobacco farming and ensure the long-term viability of the farmers who supply us directly and indirectly. If farmers cannot make a profitable living from growing tobacco, then our business cannot succeed. Our farmer profits model is being tailored to different local circumstances and helps us to offer sustainable returns over the long term.

Profit comes from more than price alone. We work closely with farmers to ensure they have access to the right growing materials and use the best growing and curing methods to maximize the quality and yield of tobacco leaf per hectare. We also encourage crop rotation, which can provide alternative income, can improve food security, and promotes soil preservation. Research and innovation is crucial to understanding the best farming methods. Our Agronomy, Development, Extension, and Training (ADET) center in Brazil studies many aspects of tobacco farming, and works closely with farmers to implement the results on the ground.

2. Social and environmental leadership

By helping farmers to be profitable over the long term, we can make a positive contribution to social conditions in tobacco farming communities. We provide additional support by investing to improve quality of life and overall conditions in the rural communities where we operate. We do this by creating access to clean water, improving well-being, and advancing education through targeted social investments within our Grower Community Programs (see page 35).

We aim to reduce the environmental footprint of our tobacco supply chain, and our primary focus is on energy reduction and good forestry practices. The latter is of particular importance because we rely on wood as a vital fuel for flue-cured tobacco.

3. Operational excellence

It is vital that our operations are well equipped to support our supply chain. By allocating suitable resources to our operations, we ensure that the appropriate organization, capital infrastructure, systems, and processes are in place.

4. Access through partnership

We can only respond to the economic, social, and environmental factors that influence the long-term supply of tobacco leaf by working in partnership. We build direct relationships with farmers and, wherever possible, we aim to purchase tobacco directly from farmers rather than from auction floors. This helps to ensure that we secure access to tobacco leaf in a responsible manner. We also work in partnership with governments, NGOs, leaf tobacco dealers, and other stakeholders on issues in our tobacco supply chain.

The initiatives and data in the tobacco supply chain section of this report primarily relate to our directly contracted farmers outside Japan.

Tobacco supply chain - *long-term farmer profits*

Long-term farmer profits are an essential part of our strategy to secure a lasting supply of high-quality tobacco leaf. Many factors affect the profitability of our farmers. Although some are outside our control, such as weather patterns and demographic change, we focus our attention on those that we can influence, including cost of production, yield, quality, and price. As a result, we have established four key pillars to improve farmer profits in our international procurement of tobacco:



Managing direct relationships with farmers

Building and maintaining strong relationships with our farmers helps us to optimize the factors that improve their profitability. Our local farming experts work with our directly contracted farmers to help them improve tobacco production techniques. Across Zambia, Malawi, Serbia, U.S. and Brazil in 2013 we had 243 farming experts in place, up from 159 in 2012.



Supporting production cost savings

Reducing the cost of tobacco growing, harvesting, and curing results in direct savings for farmers. We can reduce costs by helping farmers to be more efficient; for instance, fertilizer application in Brazil has been reduced by up to 15% since 2010, and by bringing down the cost of materials. We buy many input materials in bulk and pass savings on to our growers. By sourcing ourselves, we can also ensure quality and reliability.



Modeling sustainable farmer returns

We have developed a unique farmer profits tool to support our goal of enabling farmers to earn sustainable profits over three to five years. Currently in place in Brazil, the tool takes into account the local conditions and other factors, including costs, risks, and alternative income sources, which inform the price that we negotiate with farmers each year. We also use the tool to check that the average price paid over multiple crop cycles delivers progress towards sustainable profit. We will roll out the tool across Malawi, Zambia, U.S., and Serbia in 2014.



Innovation and better farming practices

Our ADET center in Brazil is dedicated to researching tobacco farming innovations that will improve quality and productivity. During 2013, there were 75 ongoing trials, including assessments on fertilizing and irrigation methods, curing efficiency, mechanization, and agroforestry and integrated pest management practices. The results of our research are passed on to farmers in numerous ways. In 2013, we trained 230 farmers at the ADET center, and our farming experts host field days on 'model farms', where a local farmer has been recognized for their expertise in applying our recommended agronomy practices.



Half-a-hectare of tobacco in a box

The 'farm in a box', distributed by our international tobacco business, provides all a smallholder needs to start a 0.5 hectare plot of tobacco. Each pack contains selected seeds, crop protection materials, utensils, and safety equipment. An improved Grower Pack, now being distributed in Zambia, also contains a growing manual that provides farmers with guidance. If required, a farming expert can advise the grower, using the photographs or calendar in the manual. The pack also provides guidance on labor practices and safety procedures.

	<i>Target</i>	<i>2012</i>	<i>2013</i>
Good agricultural practices	100% of directly contracted farmers receive technical support	93%	95%
Farmer cost of production model	Farmer costs of production model implemented across all countries where we source tobacco directly from contracted farmers by 2013	100%	100%
Farmer profit modeling	Implement across all countries where we source tobacco directly from contracted farmers by the end of 2014	Pilot in Brazil	Review of pilot and model enhancement

Tobacco supply chain - *Agricultural Labor Practices and child labor*

We source tobacco from several developing countries where communities are highly dependent on agriculture. Alongside improving growing standards, we work with our farmer communities to address a range of important issues. These include improving the rights and safety of tobacco workers through our Agricultural Labor Practices; improving living conditions and livelihoods through our Grower Community Programs (GCP); and eliminating child labor, for instance through education with our ARISE program (see page 8).

Agricultural Labor Practices

Our Agricultural Labor Practices (ALP), launched in 2013, define the standards we expect of our contracted tobacco growers for safe working conditions, fair treatment, working hours, provision against forced labor, and freedom of association. They also describe our stance against child labor and measures to eliminate it. Growers' compliance with the ALP is monitored through our Know Your Grower (KYG) program, which is part of our wider Know Your Supplier approach. We will expect all contracted farmers to be compliant with the ALP once KYG program is fully implemented across our tobacco supply chain. For more detail on KYG and its rollout, please see page 32.

Grower Community Programs

Our Grower Community Programs (GCP) deliver community projects based on an assessment of need. In 2013, we ran community programs in 82 communities: 11 in Brazil, 68 in Malawi, and 3 in Zambia. GCP priorities are school infrastructure, education, water, sanitation, and community well-being. In 2014, we plan to launch a scheme to sponsor teachers in order to build their skills and create conditions where both teachers and students can succeed.



Grower Community Program: Zambia

In 2013, we drilled boreholes to provide access to water for an estimated 10,000 people in three Zambian tobacco communities. This reduces the time spent fetching water and improves access to clean running water. We have also funded a maternity ward in Zambia's Western Province, which provides access to safe pre- and post-natal care for approximately 140 women annually. In terms

of education, we are running adult literacy courses in the Chipata district, reaching around 300 people annually. We also built the Mwalauka village primary school, which provides education to around 500 children.

Child labor

We take a strategic approach to eliminating child labor where we operate. At the core of our approach is an emphasis on improving the economics of farming. Encouraging more profitable farming practices, a guaranteed price for contracted farmers, and good agricultural standards will help prevent farmers from using child labor. Building on the economic approach, our social approach engages communities on the complex issues of child labor and establishes and trains community members on community child labor monitoring systems. This foundation underpins our key programs such as ARISE.

In 2012, in partnership with U.S.-based NGO Winrock International and the ILO, we launched a multi-year program to help prevent and eliminate child labor in our tobacco communities. The ARISE program works to tackle the social and economic factors that cause tobacco farmers to engage children in hazardous work.

ARISE aims to ensure that children are not part of the workforce by providing education and engaging with tobacco farming communities in various ways. This ranges from providing educational materials, after-school tutoring, and mentoring to vocational training for older children in farming schools. Through ARISE, we work with communities to improve their understanding of the long-term value of education, and the future prospects that it can bring. ARISE also works to replace lost income from child laborers through Family Support Scholarships, which can enable parents or guardians to send their children to school.

ARISE made good progress in 2013 with expansion in Malawi and Brazil, and the program has been implemented in Zambia. We aim to launch ARISE in Tanzania in the near future. See page 8 for more details on ARISE.

	Target	2012	2013
ARISE: our program to help prevent and eliminate child labor in tobacco growing communities	Expansion of the ARISE programs in Malawi and Brazil Implementation in Zambia in 2013, and Tanzania in 2015	Implementation in Malawi and Brazil	Program expanded in Malawi and Brazil and implemented in Zambia

ARISE in 2013

	Brazil	Malawi	Totals
Children withdrawn or prevented from child labor	663	2,408	3,071
Children and youth enrolled in formal and informal education	573	2,408	2,981
Households with improved livelihoods	191	785	976
Children attending farm schools	90	500	590
Mothers attending agribusiness training	355	173	528
Community members educated in child labor elimination	930	1,162	2,092

Freedom from child labor, training for a future

In the Ntcheu district, Malawi, the ARISE project has withdrawn 100 children and prevented 200 more from entering child labor. One of them, Doris, 16, could not go to school because she needed to earn money for her family's household. ARISE provided Doris with vocational training in carpentry skills in one of the program's Community Service Outlets. It has learning materials, well-maintained equipment, and provides training and start-up capital to establish a small enterprise. ARISE also provided similar support to one of Doris's relatives to make sure she and her siblings remain free of child labor.



Topping up vocational schooling in Brazil

To reduce child labor, improve education, and retain young people in rural areas, we invest in vocational training schools for young people. In 2013, we renovated the rural vocational school in the Vale do Jaguari, which will serve the children of 230 of our contracted tobacco growers. Twenty students are enrolled so far and mostly learn horticulture skills in out-of-school lessons. The children can then return to the family farm to practice what they have learned, without interrupting their normal school hours. According to the President of the Vale do Jaguari Association representing these types of rural schools, "JTI is thinking about the future. The Company is helping to reduce the rural exodus by qualifying the youth in rural areas."

Tobacco supply chain - *sustainable wood*

In many regions where we operate, wood is vital for effective tobacco curing, both as a fuel and for building curing barns. A sustainable supply of wood is therefore key to ensuring a long-term supply of leaf tobacco.

Deforestation has often been widespread due to pressure from agriculture and urbanization, weak regulation, and poor woodland management.

To tackle this situation, we work with tobacco growers to educate them on the environmental and economic value of wood. We help to replace the wood used for curing through tree planting initiatives and developing new barn construction techniques, supplemented by our reforestation program.

Tree planting initiatives

Our agroforestry initiatives train and support farmers to plant and maintain enough trees to ensure they can meet the fuel and timber needs of today's tobacco growing communities, and those of future generations. In Brazil, agroforestry is well established and growers either plant trees for their own wood supply or purchase wood from local renewable sources.



A tree nursery at a local school in Zambia to teach the children about ecology, and provide seedlings to JTI contracted growers

Agroforestry in Zambia

In Zambia, our agroforestry initiative offers a financial incentive to farmers for every tree seedling that survives each year. The year 2013 was an important one for the initiative, with four nurseries producing 457,200 seedlings and over 1,000 farmers attending our Agroforestry Roadshows. Three forestry experts and 41 farming experts continue to provide on-the-ground support to our tobacco growers, showing them the benefits of our Agroforestry Program.

Reforestation

Supplementary to our agroforestry initiatives is our reforestation program. The program aims to regenerate previously deforested areas in locations where we have directly contracted farmers that depend on wood for fuel or timber. We also work on the efficiency of cooking stoves in local communities, which reduces fuel consumption.

During 2013, we exceeded our targets in Zambia's Eastern Province. We raised 3,595,281 seedlings and planted 3,304,679 trees against a target of three million, respectively. We also

improved kitchen stoves in 2,323 households. By 2014, we plan to have funded the planting of 24 million trees across Malawi, Zambia, and Tanzania.

Barn construction techniques

Barns are used in both air-curing and flue-curing of tobacco. Wood-built barns are commonly used for air-curing, and wood is a common fuel source for flue-curing. To improve curing efficiency, we conduct trials to develop low-tech improvements in furnace and barn design adapted to the areas where we operate. We train farmers in new developments and provide direct support through our local farming experts. Recent innovations include our live barn initiative and new flue-curing technologies.

Live barns

Live barns are changing the way that our farmers air-cure their tobacco in Malawi and Zambia. Instead of using vertical timbers, live barns are constructed by planting trees, which after three years grow to form the main structure of a curing barn. This avoids the need for maintenance and a continuous supply of wood for construction. During 2013, and as part of the pilot program, farmers in Malawi and Zambia collectively planted 314 live barns. By 2018, we plan to establish 18,000 live barns across Malawi and 4,700 across Zambia.

New flue-curing barns

Flue-curing barns require a constant heat source for each week-long curing cycle. In Africa and Brazil, farmers mainly use wood, which in Africa is becoming scarce and expensive to source.

Added to this, inadequate curing infrastructure and access to building materials prevents farmers from realizing the full yield and quality potential of their crop, and hence affecting their profitability.

To tackle this, we have developed a new low-tech barn design for flue-curing. Farmers installing the new design features are anticipated to benefit from an increase in cured leaf of up to 15%, a higher-quality product, and reduced wood consumption of up to 65%.

		2012	2013
100% sustainable wood supply established in each country where we source tobacco directly from contracted farmers	Virginia, Flue-cured 100% by 2018	Brazil 90%	100%
		Zambia Implemented from 2013	2%
	Burley, Air-cured 100% by 2018	Malawi Implemented from 2013	33%
		Zambia Implemented from 2013	3%

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05 Environment

Environmental protection is a critical part of our responsibility to society. We work hard to identify, understand, and reduce our environmental impacts, going beyond strict legal minima. We do this not only because it is the right thing to do, but also because it delivers business and cost benefits.

Our commitment to environmental protection is reflected in the JT Group Environment Charter and Environmental Policy. Our commitment is wide-ranging and focuses on our whole value chain, from the procurement of raw materials to production, distribution, and sales.

To deliver improvements across the business, we have set targets in four key areas: prevention of global warming by reducing greenhouse gas (GHG) emissions, protection of water resources through sustainable water use, protecting biodiversity, and prevention of waste and promoting recycling along with effective resource use. Our newly developed Long-term Environmental Plan outlines initiatives that aim to deliver these goals by 2020.

Environmental management

Three critical factors drive our commitment to reducing the environmental impacts of our business: our legal obligations, our business performance, and our responsibility as a corporate citizen.

Compliance with all relevant laws and regulations is our baseline everywhere we operate. Beyond compliance, there are sound business reasons for effective environmental management. By reducing consumption of resources such as energy and water, as well as avoiding waste, we minimize our impacts while also reducing costs. We also recognize our obligation to preserve resources and protect the environment so that future generations can enjoy the same opportunities that we benefit from today.



Management approach

Environment Charter and Environmental Policy

The JT Group Environment Charter and Environmental Policy provide the foundation for our commitment to environmental protection. They require that we reduce our environmental impacts in every country that we operate in and across our entire value chain, from raw materials procurement to production, distribution, and sales. Our Environmental Policy applies to all operations and covers the following areas:

- Management systems: establish effective environmental management systems and continually improve them
- Compliance: comply with environmental laws and regulations everywhere that we operate
- Products and services: reduce environmental impacts of our products and services in their development phase, taking into account potential impacts on biodiversity
- Process and supply chain: reduce environmental impacts and optimize the use of natural resources at all stages of our activities, taking into account potential impacts on biodiversity. We encourage suppliers to understand and abide by our Environment Charter
- Environmental education: develop environmental awareness among employees through education and training, and encourage them to take personal responsibility for the environment
- Environmental communication: openly communicate our environmental performance and engage with our stakeholders to build trust

The JT Group Long-term Environmental Plan

To support our Environment Charter and Policy, in 2014 we developed a Long-term Environmental Plan to 2020. The Plan outlines medium- and long-term improvement targets and initiatives in four key areas:

- Prevention of global warming by reducing GHG emissions
- Protection of water resources through sustainable use of water

- Protection of biodiversity through sustainable stewardship of the natural environment
- Prevention of waste and promoting recycling along with effective resource use

The Plan also aims to enhance our environmental management approach on a global basis and deliver improvements in environmental data reporting.

Environmental responsibilities

Responsibility for environmental management rests with JT's Executive Deputy President. The head of each operating division controls environmental management within their division and relevant Group companies. The Group Executive Committee monitors performance and developments in environmental management.

Environmental management systems

The JT Group's environmental management system (EMS) is based on the ISO 14001 environmental management standard. Using a formal EMS ensures that our processes are consistent and systematic across the business and that we continually improve our environmental performance.

All manufacturing sites are encouraged to obtain ISO 14001 certification. Non-manufacturing sites, such as research and development facilities and distribution centers, can seek formal certification or implement their own ISO 14001 compliant EMS. Smaller sites and offices use simplified versions. By using different levels of EMS, we manage environmental impacts according to the nature and scale of an individual operation. In 2013, 100% of our Japanese domestic tobacco factories and 78% of our international tobacco business factories were certified to ISO 14001. Recent acquisitions in our international tobacco business explain the lower figure, and we are working towards all manufacturing sites becoming certified to ISO 14001.

Energy and GHG emissions

As a company that uses agricultural commodities as a key component in many of our products, climate change poses a potential long-term risk to our operations. Temperature changes, shifting weather patterns, and water scarcity could all have an impact on agricultural growing patterns and productivity, affecting the security of our supply chain. As a result, we have set long-term targets to measure, manage, and reduce our GHG emissions.

Managing emissions

We started measuring our energy and GHG emissions in 1995. All of our sites are required to produce action plans with quantified energy and/or emissions reductions targets that include details of investments required and the payback period for investments. In this way we have a continual focus on monitoring our performance and identifying opportunities for improvements.

Measuring emissions across our value chain

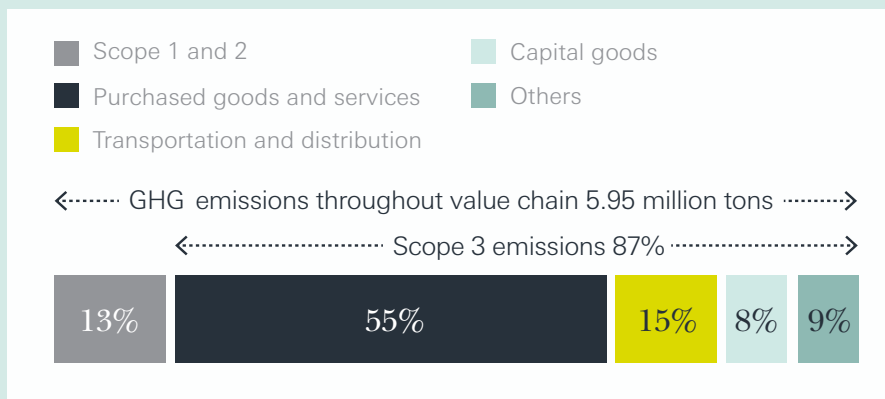
In addition to direct (Scope 1) emissions from fuel use at our sites and indirect (Scope 2) emissions from the electricity we

purchase, we have been monitoring GHG emissions for the JT Group's entire value chain (Scope 3) since 2011. Although these Scope 3 emissions are outside the direct control of the JT Group, this process allows us to identify the areas responsible for the greatest emissions and to examine the most effective way to reduce them.

In 2013, approximately 87% of the total GHG emissions of the JT Group came from Scope 3 sources, with 13% coming from Scope 1 and 2. The main sources of Scope 3 emissions are the products and services we purchase (55%) and transport and distribution of our products (15%).

GHG emissions across the JT Group value chain (2013)

All of our Scope 1 and 2 emissions are externally verified. Currently, some of our Scope 3 emissions are externally verified, including emissions from purchased non-tobacco materials in our Japanese domestic tobacco business and tobacco leaf for both Japanese domestic and international tobacco businesses. Scope 3 employee travel data in our international tobacco business is also externally verified.



Targeted reductions

We have set long-term GHG targets for 2020:

- To reduce the JT Group GHG emissions (Scope 1 and 2) by 20% by 2020 compared to 2009
- To reduce GHG emissions from our tobacco business per million cigarettes equivalent by 20% by 2020 compared to 2009
- To monitor GHG emissions through the JT Group's entire value chain (Scope 3 emissions) and to establish an effective way to reduce these emissions

We will deliver these targets through focused efficiency programs, including an ongoing, comprehensive energy survey

in our production facilities. We are also targeting fuel efficiency and emissions from our vehicle fleet. For example, we provide eco-efficient driver training and run high-stack loading of trucks.

Performance

The tables show our performance on Scope 1 and 2 emissions for the whole JT Group. Our Scope 1 and 2 emissions have steadily decreased over the past few years as a result of increased focus on monitoring and improvement measures. With a reduction of 11.5% in emissions over 2009, we are well on track to achieve our emissions reduction target for 2020.

GHG emissions (Scope 1 and 2)^{*A}

	2009	2010	2011	2012	2013
Total Scope 1 and 2 GHG emissions (1,000 tons)	903	880	836	830	799

GHG emissions intensity (Scope 1 and 2)^{*A}

	2009	2010	2011	2012	2013
GHG emissions intensity for tobacco business (tons / million cigarettes equivalent)	0.73	0.76	0.73	0.75	0.73



Carbon Disclosure Project

In the last two years that the JT Group has been reporting to the Carbon Disclosure Project (CDP), on a Group-wide basis, we have seen improvements in our disclosure score for effective emissions management. Our disclosure score has risen from 83 in 2012 to 96 in 2013.

Initiatives to reduce emissions



Energy saving vending machines

Vending machines are a key sales channel for our beverage business in Japan, and we focus on reducing their energy use. Energy efficiency measures include installing low-energy LED lighting (49% of our vending machines have LED lighting) and optimizing lighting hours. 59% of our beverage vending machines have energy-efficient heat pumps and 100% have peak cut systems, where the refrigeration compressor is shut down during peak load hours in summer to save power.



Supply chain partnership

Our international tobacco business is actively developing a supply chain carbon management strategy. As part of this, we have partnered with 23 of our leading international suppliers to focus on emissions reduction in areas outside our direct control. We are also working with directly contracted farmers to reduce emissions from fertilizers and tobacco curing, the two main sources of GHG emissions in our tobacco supply chain. For more details on initiatives in our supply chain, see pages 30–37.



Promoting eco-driving

We undertake a variety of eco-driving training across the JT Group. In our international tobacco business, this has included training fleet drivers to reduce fuel consumption and emissions. In our beverage subsidiary, sales representatives took part in an eco-driving contest between August 2013 and January 2014. The contest involved the whole sales fleet of more than 100 vehicles and aimed to improve fuel efficiency as well as prevent accidents.



Investing in saving

In 2011, we conducted an energy survey covering 20 factories in our international tobacco business. The survey identified 100 energy saving capital-investment projects with a combined investment of US\$17 million. Senior management provided full backing for the investment, which will be delivered between 2011 and 2015. The result of these projects should be a 7% net reduction in energy consumption by 2015 with a similar reduction in carbon emissions.

One of the highlights of the survey, and the biggest single saving, came at our Yelets factory in Russia. In 2013, we replaced evaporators used in the production of tobacco sheet with new

evaporators that are eight times more efficient. This single change is expected to reduce energy consumption across our international manufacturing sites by 2.4%.

The survey also highlighted that ongoing review of energy efficiency opportunities is essential. As a result, factories will continue to review their operations annually to build on the survey findings and maintain a pipeline of energy efficiency improvements beyond 2015.

Resource efficiency - *waste and water*

As a business with significant global manufacturing operations, using resources efficiently is a high priority across the JT Group. Our main areas of focus are reducing waste and increasing recycling, and using water efficiently and responsibly. This not only provides environmental benefits, but also delivers cost savings and drives efficiency in our operations.

We project waste generation and water use at each of our sites as part of the planning cycle at our operations. We also assess our processes and equipment to identify and implement waste reduction and water efficiency programs.

Waste

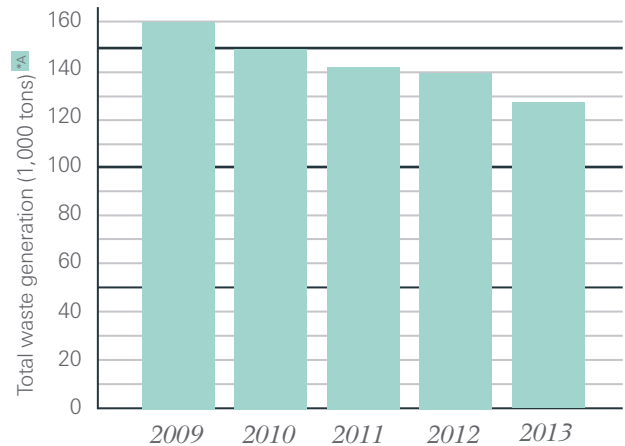
Our Long-term Environmental Plan prioritizes waste prevention through continuous promotion of the 3R waste hierarchy – Reduce, Reuse, Recycle.

Our factories are the main source of waste generation across the JT Group, and we started to monitor and record waste data in 1995. The challenge we face is to improve the detail of our waste monitoring in order to identify improvement initiatives and enable good practice sharing between operations. We remain focused on this challenge and anticipate continued improvements in this area.

The waste recycling rate in 2013 was 75% across the business, stable since 2012.

Performance

Our total waste generation has steadily reduced since 2009. In 2013, we achieved a reduction of around 8% in overall waste generation over 2012.



Sustainable waste management practices in Malawi

Initiatives to reduce waste



Photo by Natsuki Yasuda / studio AFTERMODE



Reducing packaging weight

The JT Group's beverage business is reducing the weight of cans and PET bottles used for its beverages, and TableMark, our processed food subsidiary, is also reducing packaging materials where possible. Changing the base paper used in containers for some of our beverages, from 170g/m² to 160g/m² resulted in a reduction of 148 tons of packaging in 2013.

Support the food bank 'Second Harvest Japan'

The JT Group's beverage and processed food subsidiaries support Japan's first food bank, Second Harvest Japan (<http://2hj.org/english>). Through Second Harvest Japan, products with cosmetically damaged packaging that are within their sell-by date and have no safety concerns are donated to welfare and support organizations such as orphanages, women shelters, and shelters for people without homes. This support has the dual benefit of helping people in need at the same time as stopping products that cannot be sold commercially from becoming waste. According to the Ministry of Agriculture, Forestry and Fisheries of Japan, approximately 17 million tons of food is destroyed every year in Japan.

Halving waste in Jordan

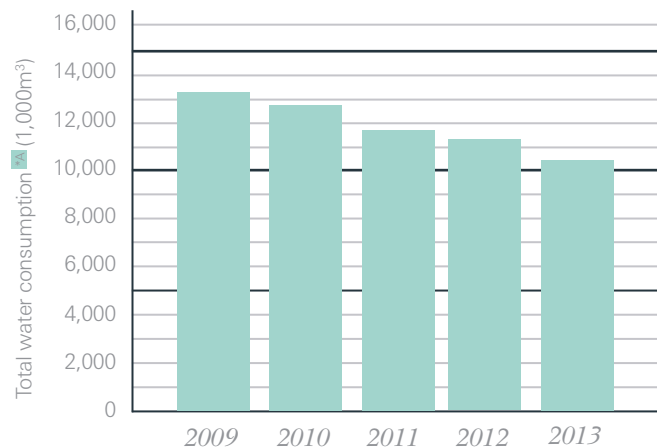
In 2013, our factory in Jordan produced five and a half billion cigarettes while delivering a 48% reduction in waste. With a specific focus on non-tobacco packaging materials and raw material packaging, the factory worked with employees and external suppliers to reduce waste through a commitment to reducing, reusing, and recycling. Actions included reusing steel and plastic drums as water containers for agriculture, or as chemical mixing containers for chemical companies, and the creation of furniture from items such as aluminum foil, wooden covers, and plastic containers.

Sustainable water use

Many of our products are made from natural components; thus, we consider the conservation of water resources as one of the most important environmental issues for the JT Group. Our Long-term Environmental Plan includes a goal to conduct a water risk assessment for all our businesses and to establish appropriate protective and remedial measures in the coming years. The risk mapping process will involve assessing water scarcity and availability forecasts up to 2050, as well as flood, regulatory, and reputational risks.

Performance

Our global water consumption has steadily decreased since 2009. In 2013, we achieved a reduction of around 8% in total water consumption over 2012.



Wastewater treatment plant in Malawi

Until recently, our tobacco processing plant in Malawi discharged its wastewater to a municipal treatment facility. To ensure wastewater at the site is properly treated prior to release, our international tobacco business has built an on-site treatment plant for all wastewater. The plant will ensure that wastewater is processed and re-used on-site when it becomes fully operational in 2014.

Biodiversity

Biodiversity plays an important part in natural processes that are critical to agricultural productivity, such as crop pollination. Linked to this, tobacco is usually grown in biologically diverse areas, so we collaborate with our supplier farmers to minimize biodiversity impacts in our tobacco supply chain.



Our approach

We do not currently have a uniform approach to biodiversity across the JT Group. It is, however, a focus of our Long-term Environmental Plan. This outlines our commitment and approach towards biodiversity to 2020 and establishes a goal to assess the impact of our worldwide operations on biodiversity. Once we understand our impacts better, we can establish

measures to protect biodiversity in a way that responds to the needs and challenges in our operating locations. We launched a program to assess our biodiversity impacts in 2014, and we expect to complete this in the next two years.

Biodiversity in our supply chain

Our approach is to focus on aspects of biodiversity where we can make a difference directly or have a positive influence on those working in the tobacco supply chain. This includes:



Agrobiodiversity

Agrobiodiversity relates to biodiversity on farms. A key factor in this area is including tobacco growers in the process of managing biodiversity on their tobacco farms. Our aim with agrobiodiversity is to establish tobacco production systems that are economically viable, socially acceptable, and environmentally sustainable. Our developing approach to agrobiodiversity is currently being monitored and studied in our agro-research center in Brazil (ADET) through several baseline studies in tobacco growing areas in collaboration with local universities and NGOs.



Tree planting

Growing and planting trees is central to our sustainability approach and serves two purposes. Agroforestry is our main focus, and is designed to ensure an adequate and sustainable supply of wood for tobacco curing. But we also reforest areas where trees have been cut down for use as timber and firewood. Please see page 37 for further details.

Good agricultural practices and integrated pest management

We aim to promote agricultural practices that support sustainable tobacco production and meet our requirements, at the same time as improving productivity and returns for farmers.



Integrated pest management helps farmers with pest control and ultimately reduces the use of pesticides, which may risk threatening biodiversity.

A large part of our approach is assessing and tackling social and economic factors that lead to biodiversity depletion and unsustainable natural resource use, in particular deforestation. A large part of this is working with, and educating, growers on the benefits of considering and managing biodiversity on their farms and promoting the adoption of best practices.



Protecting endangered forests in Brazil

In Brazil, we are supporting a project with the Brazilian NGO SPVS (Society for Wildlife Research and Environmental Education) to avoid deforestation in Paraná State. Through the project, we have adopted a 100-hectare area of the endangered Araucaria forest for a period of five years. Protecting the forest for this period allows time for environmental improvements to be made to the land based on a conservation plan developed and monitored by SPVS.

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06 Product responsibility and consumer impacts

Across the JT Group, our overarching management principle – the “4S” model – and our Mission and Codes of Conduct require that we meet our consumers’ needs with the highest-quality products at the same time as behaving responsibly while conducting our business. The diverse nature of the JT Group, which includes tobacco, pharmaceutical, beverage and processed food businesses, raises a wide variety of product responsibility issues.

In our tobacco businesses, key product responsibility issues include marketing our products responsibly and combating illegal trade in tobacco. In our pharmaceutical business, an ethical approach to research and development, and responsible marketing and the reliable supply of products are key issues. In our beverage and processed food businesses, our main focus is on food safety and providing transparent product information to consumers.

Our tobacco principles

Our approach to product responsibility in our tobacco business is defined by a set of core principles that reflect the main issues relating to tobacco products and our attitude to smoking:

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.

Commitment to the development of reduced-risk products

While the health risks of tobacco use cannot be completely eliminated, we are committed to developing reduced-risk products

4.

Youth smoking prevention

Minors should not smoke and should not be able to obtain tobacco products. This belief is central to our Codes 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, effective solutions that separate smokers and non-smokers while accommodating the legitimate interests of both

With sales in more than 120 countries, our international tobacco business has an additional principle, to ensure we are respectful of each country's culture, norms, legislation, and decision-making process.

For more detail on our tobacco principles, please visit www.jti.co.jp (in Japanese) and www.jti.com (in English).

Tobacco - *health risks, transparency, and regulation*

People smoke for pleasure, but there are real risks that come with that pleasure. Smoking is a cause of serious diseases, including lung cancer, coronary heart disease, emphysema, and chronic bronchitis. This conclusion has been drawn from studies that, taken as a whole, show that smokers are at a greater risk of developing these diseases compared to non-smokers, and that stopping smoking reduces this risk over time.

Accordingly, the JT Group believes that tobacco products should be appropriately regulated. We also believe in the freedom of adults to choose whether they want to smoke and that no one should smoke unless he or she understands the risks of doing so. These risks distinguish tobacco from most consumer goods, and they place a real responsibility upon the industry. It is a responsibility for which we expect to be held accountable, together with governments and the rest of society.

A transparent approach

Our principles establish openness about the health risks of smoking and transparency on the ingredients in our products as two core elements of our approach to business. Consumers also demand transparency, and providing detailed information is an integral part of helping them make informed decisions on whether to smoke or not.

Health risks of smoking

The JT Group believes everyone should be appropriately informed about the health risks of smoking. Our Japanese domestic and international tobacco businesses explain our positions on smoking and health through their websites. These positions are based on our programs of scientific monitoring and review, as well as wider engagements with the scientific and regulatory community.

Product transparency

Across our tobacco business, we respond to consumers' demands to know what ingredients are in our cigarettes and other tobacco products by providing information in 54 countries through online ingredients' lists. We provide information by tobacco product type, brand, and location, with full inventories of key materials and ingredients such as cigarette papers, filtration materials, adhesives, inks, and flavorings. We also provide ingredient information when requested by governments while ensuring that our trade secrets are respected and protected. For more information please visit <http://www.jti.co.jp/corporate/enterprise/tobacco/responsibilities/guidelines/additive/brand> (in Japanese) or <http://ingredients.jti.com>.

Regulatory landscape

Due to the risks associated with tobacco products, our position is that appropriate and proportionate regulation of the tobacco sector is both necessary and right.

As an industry, the tobacco sector is facing increased review and regulatory change. Globally, the Conference of the Parties of the World Health Organization (WHO) Framework Convention on Tobacco Control continues to progress guidelines that cover a wide range of product issues for countries to consider in implementing regulation. In 2014, the European Union has introduced further regulation on tobacco products, and in the United States, the Food and Drug Administration (FDA) is establishing regulation for many aspects of tobacco product design, manufacturing, and evaluation.

We monitor and respond to emerging regulatory developments to ensure that we are well positioned for constructive dialogue with regulators on issues affecting the development and compliance of our products.

A scientific approach

We take a scientific approach to understanding our products and their quality, health risks, and their development and compliance with regulation. We apply global standards from bodies such as the International Organization for Standardization (ISO) or from scientific societies such as the industry-supported Cooperation Centre for Scientific Research Relative to Tobacco (CORESTA). Where such standards do not exist, we have our own internal research and testing programs.

Our tobacco ingredients are examined through an extensive range of testing programs to ensure that the ingredients we use do not increase the inherent health risk of tobacco products. We also review emerging science to ensure that all of the standards we apply are updated and adapted to new findings and techniques.

The aim of these activities is to ensure full compliance with existing regulations and to provide appropriate understanding of the health risks associated with tobacco use.

Potentially reduced-risk products

While the health risks of tobacco use cannot be completely eliminated, the JT Group is committed to developing potentially reduced-risk products that are acceptable to adult users of tobacco products. We continue to research products that may reduce health risks, such as oral smokeless tobacco products and those that heat rather than burn tobacco.

At the regulatory level, work is underway to establish a more detailed understanding of the health risk of these products. In the United States, for example, the FDA has provided guidance on how such 'reduced-risk' could be assessed.

Tobacco - *product innovation*

Product innovation is extremely important to the JT Group and supports our growth and profitability. It is critical to remaining competitive and responding to evolving consumer trends in a rapidly changing environment. Product innovation focuses on a broad range of areas, from traditional and emerging products to packaging and manufacturing processes.



Ploom - smokeless tobacco vaporizer

Focusing innovation on consumer needs

The main driving force behind product innovation in traditional products is meeting consumer needs. We use consumer trends and insight to identify opportunities for innovative concepts and technologies that will work in the marketplace. We also consider industry analysis, market data, and the regulatory landscape when defining the focus of our product research and development (R&D).

In 2013, the R&D and EHS teams from our international tobacco business worked together to assess the environmental impact of our product and packaging design. We are conducting a life cycle analysis (LCA) study to compare the carbon emissions and other environmental impacts of using different packaging materials.

Emerging products

We are committed to meeting consumer demand for emerging products. Although the regulatory backdrop for emerging products is not yet established, we are building our expertise in this area and continue to research emerging products, some of which may reduce health risks.

Consumer needs are increasingly diverse, and their interest in emerging products is evolving. We already have a number of commercial products on the market that fit into the emerging product category. These include Ploom, the only smokeless tobacco vaporizer offered by a major tobacco company, and Zero Style, a smokeless tobacco product available in Japan. We have five main approaches regarding emerging and potentially reduced-risk products:

- We will strive to offer satisfaction and pleasure to meet consumers' evolving needs
- We will develop a product portfolio and pipeline focusing on three areas: tobacco vapor; e-vapor, which is non-tobacco based; and other emerging products
- We will continue to pioneer early commercial launches, as with Ploom and Zero Style
- We will continuously engage with regulators in markets where we launch our emerging products
- We will conduct scientific studies for potentially reduced-risk products

Tobacco - *responsible marketing*

Our view is clear: tobacco products carry risks to health. We therefore support the implementation of evidence-based, practical, effective, and proportionate regulation that governs the marketing of tobacco products while preserving our right to communicate with adults who use those products.

We believe that:

- Minors should not smoke and should not be able to obtain tobacco products
- Adult smokers should be appropriately informed about the health risks of smoking before they make the decision to smoke

We are committed to marketing products responsibly. The JT Group markets its tobacco products to adult smokers in order to maintain brand loyalty and to encourage adult smokers of competitor brands to switch to its products.

The JT Group does not market its tobacco products to minors and does not market its products in order to encourage anyone to take up smoking or to discourage anyone from quitting.



Our marketing standards

Today, our Japanese domestic tobacco business complies with an industry self-regulatory marketing standard set by the Tobacco Institute of Japan (TIOJ) as well as local laws and regulations. The TIOJ marketing standard is in line with Article 40 of the Tobacco Business Law as the Guideline Concerning Advertising of Tobacco Products.

With products distributed in more than 120 markets, our international tobacco business applies a single internal Global Marketing Standard (GMS) wherever our products are sold. We comply with all national laws and regulations concerning the advertising and promotion of our products. In addition, we apply this internal standard when applicable laws and regulations are more permissive, silent on the particular issue, or wholly absent.

The standard covers all aspects of marketing, including print, billboards, electronic media, promotional events, brand sponsorship, and health warnings on packaging and on advertising and promotion materials.

Compliance

In our international tobacco business, our Code of Conduct requires that all employees and appointed agencies, third-party suppliers, service providers, and distributors fully comply with the GMS.

Compliance reviews are undertaken locally. All marketing programs are reviewed and approved to ensure compliance with regulations, and to ensure that our internal marketing standard is correctly applied in all countries where we operate, including markets where our standard is more restrictive than national laws and regulations.

Preventing youth access to tobacco

The JT Group's position is that minors should not smoke and should not be able to obtain tobacco products. This is central to our Codes of Conduct, our marketing practices, and the way we do business.

We believe that tobacco manufacturers, retailers, regulators, and educators have a common interest in preventing minors from accessing tobacco. Alternative solutions for preventing minors from obtaining tobacco products include fines and licensing restrictions for retailers who sell to minors, 'proof of age' programs, and the criminalization of, or imposing administrative sanctions for, proxy purchasing by adults. We participate with other tobacco companies and retail associations in ongoing programs to prevent minors from obtaining tobacco products.



Retailer training

Working with retailers

In our international tobacco business, we focus our activities on Retail Access Prevention (RAP) programs to prevent youth access to tobacco. In order to ensure a consistent approach to developing effective local programs, employees around the world use our Retail Access Prevention Toolkit to guide their planning process. The Toolkit provides background information, recommendations, and checklists for developing various RAP programs, and includes case studies to share good practice.

Trade seminars are one of the most efficient forms of mobilizing the retail industry. They are typically focused on helping retailers comply with minimum age legislation. The seminars help inform retailers on the problem of youth smoking as well as train them on how to cope with conflict situations that could arise at points of sale when complying with minimum age purchase laws. The seminars for retailers are often accompanied by panel discussions with local and national authorities, law enforcement agencies, consumer protection organizations, and media.

A recent example is a new pilot initiative launched with 4,800 retailers in Northwest England, which seeks to improve independent retailers' compliance with the law on underage sales. The program provides retailers with the tools and training to comply with the law and protect themselves and their businesses. If the pilot proves successful, we will roll the scheme out nationally in 2014 with cross-industry support.

Age restrictions on vending machines

In our Japanese domestic tobacco business, we have worked jointly with the tobacco industry and the Japanese Vending Machine Association (JVMA) to ensure that all tobacco vending machines are equipped with an adult identification system, such as the 'taspo' ID card system. The system ensures that vending machines will only work once a 'taspo' ID card is presented. Adult smokers must apply for an ID card with official documentation proving they are 20 years old or over. A photo is also printed on the ID card to prevent improper use, such as lending the card to other people, notably minors. At the end of March 2014, almost all of the tobacco vending machines in Japan were equipped with the 'taspo' ID card reader and more than 10.4 million ID cards have been issued.

Tobacco - *tackling illegal trade*

The illegal trade in tobacco products is a major concern for legitimate tobacco companies, including the JT Group, and for authorities responsible for regulating tobacco sales.

Illegal trade undermines legitimate tobacco manufacturers, distributors, and retailers. It also deprives governments of excise revenues and funds organized crime. In recent years, the criminal illegal tobacco market has grown while the legitimate tobacco industry has suffered major volume losses.

One of the main drivers of the illegal tobacco trade is a steep increase in taxes on tobacco products, and this often leads to large tax differences between (or within) countries, making tobacco smuggling or counterfeiting attractive to criminals. For more information please visit www.jti.com.



Counterfeit analysis

An evolving challenge

As governments, the tobacco industry, and law enforcement agencies work to shut down options for illegal trade, criminals continually change or develop new approaches to smuggling to remain undetected.

One example that is prevalent in Europe is the recent phenomenon of minor or local brands that are legally produced in one country with the sole intent of being smuggled and sold cheaply in other countries where they are illegal. Because of the legal complexities in stopping this production, this part of the illegal trade has grown significantly within the EU. A main contributing factor to this growth is the large tax differences between EU countries and their bordering states.

Our response

We take a stand against the illegal tobacco trade and our priority is preventing genuine JT Group products from entering illegal distribution channels. In addition, we will not tolerate the copying of the JT Group brands or the violation of our intellectual property rights. A key part of preventing our products entering the illegal trade is making sure we do not oversupply

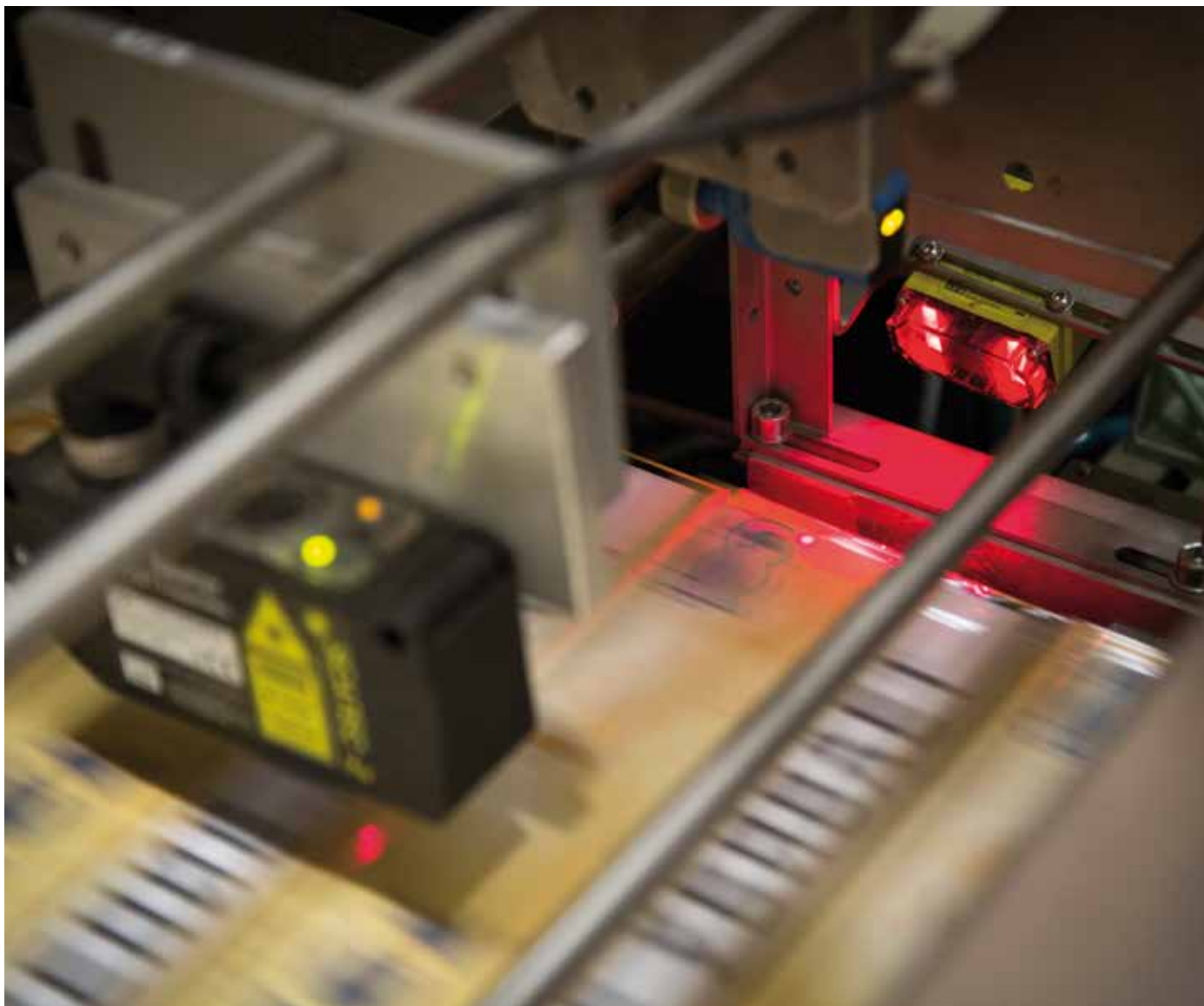
the markets where we operate. As a result, we take steps to ensure that we only supply tobacco products to our markets in quantities that reflect the legitimate consumption in the intended market of retail sale.

Dedicated team

We have an Anti-Illicit Trade (AIT) team dedicated to fighting the illegal tobacco trade, and we work to ensure that counterfeiters and others involved in the illegal trade are prosecuted to the full extent of the law. The team consists of more than 50 employees around the world, and includes former law enforcement officials, customs agents, and intelligence officers.

On average, we commit more than US\$25 million a year to anti-illegal trade activities, including a US\$400 million investment in a 15-year Cooperation Agreement with the EU signed in 2007 to combat the illegal trade of tobacco products in Europe.

The AIT team works both on preventing the illegal trade, trying to stop the flow of illegal tobacco products, as well as reactive activities, such as analyzing trends and data relating to illegal trade. In 2013, information from the AIT team directly led to the seizure of over 736 million illegal cigarettes worldwide.



Codentify technology

Working in partnership

Our prevention activities involve working with and supporting law enforcement agencies as well as engaging with governments and other stakeholders on the causes of the illegal trade and the ways to stop it. Our AIT team provides law enforcement agencies with information on illegal trade and conducts investigations, forensic examinations, and analysis of seizures. We also provide law enforcement officials with training on recognizing counterfeit products and support the training of tobacco sniffer dogs.

We identify illegal tobacco trends by collecting and analyzing the latest illegal tobacco data. This includes studies such as empty pack surveys, which provide a snapshot of a country's or region's exposure to the illegal trade. In 2013, we conducted empty pack surveys in more than 40 countries.

Using technology

The JT Group invests heavily in developing technology to combat the illegal tobacco trade. In many markets, we use the industry's 'Codentify' technology to mark our products with a unique identifying code. This helps to determine where tobacco products may have deviated from their intended distribution

route and into illegal channels. Codentify looks to replace commonly used paper tax stamps, which are easy to counterfeit and have proven to be ineffective in fighting illegal trade.

Secure distribution

With more than 100,000 international shipments of our products each year, we also have a specialist team focused on the security of our shipments and the protection of our employees, factories, distribution centers, and other infrastructure. In this area, we have a single common goal to ensure that the JT Group products reach consumers exclusively through legal trade channels in their intended retail market.

As a result of our illegal trade prevention measures, the presence of our products in seizures of illegal tobacco products continues to decline, and the presence of recently manufactured products in the illegal trade reached an all-time low in 2013.

Tobacco - *products' environmental impacts*

Our products have a number of environmental impacts related to their use and disposal and the two main issues are environmental tobacco smoke (ETS) and litter, which we deal with at a market level.



Smoking lounge in Japan supported by JT

Environmental tobacco smoke

Environmental tobacco smoke (ETS), also known as second-hand smoke, is a mixture of the smoke that comes from the burning end of a cigarette and the exhaled smoke from smokers nearby. Compared to the smoke that a smoker inhales, ETS is aged and highly diluted.

Many people have concerns about exposure to ETS. In poorly ventilated areas, it can cause irritation of the eyes, nose, and throat. ETS may also worsen childhood respiratory tract infections, as well as some childhood respiratory conditions such as asthma. Based on current scientific evidence, we do not believe the claim has been proven that ETS is a cause of diseases such as lung cancer, coronary heart disease, emphysema, and chronic bronchitis.

One of the main concerns over ETS is that it can be a nuisance to non-smokers. This is why we advocate tailored, practical, and effective solutions to separate smokers and non-smokers while accommodating the legitimate interests of both. We encourage all smokers to show consideration for those around them and strongly advise against smoking when children are present.

Practical solutions

We promote practical ways of avoiding ETS that accommodate the legitimate interests of both smokers and non-smokers. These include measures such as separate smoking and non-smoking areas, effective ventilation to control airflow and quality, and designated smoking areas, such as smoking lounges.

Properly ventilated smoking lounges can provide a comfortable environment for smokers and prevent others from being disturbed by ETS. We have worked closely with airport authorities to develop more than 220 smoking facilities in 13 international airports worldwide. One of the most recent opened at Poland's Chopin airport in January 2014.

In Japan, we consult with owners of office buildings, shopping centers, airports, and restaurants to help them create a better environment for smokers and non-smokers to co-exist. We also hold a 'Smokers' Style' competition annually calling for innovative ideas for better smoking spaces.

Litter

Litter from tobacco products, in particular cigarette butts, is an issue that calls for collective responsibility, including from smokers, the tobacco industry, local authorities, NGOs, and businesses. A litter free environment is of benefit to everyone, smokers included. Some of our initiatives to address this issue include anti-litter campaigns and localized programs to raise awareness and offer solutions to help avoid cigarette litter.



Portable ashtrays distributed in Italy



'Pick Up Litter and You Will Love Your City' campaign in action



Long-term commitment in Japan

Our Japanese domestic tobacco business has run a community clean-up campaign called 'Pick Up Litter and You Will Love Your City' since 2004. The campaign aims to raise awareness of the problem of public littering and to encourage people to behave more responsibly by picking up litter from the streets. Now in its tenth year, the campaign operates in collaboration with local governments, companies, and volunteer groups and has held more than 1,580 events, bringing together 3,170 participating organizations. The total number of people involved has reached almost 1.48 million and in total, approximately 740 tons of litter have been collected over the course of the program.

Love your city, love your mountain

In Switzerland, we launched a campaign in 2009 called 'I love my city' to raise awareness among smokers about cigarette butt litter. Through the program, free

portable ashtrays were distributed in several cities. The same campaign was also adapted for Swiss ski resorts under the tag line 'I love my mountain'. So far, over 100,000 personal ashtrays have been distributed.

Promoting responsible consumer behavior in Italy

In Italy, we have been distributing portable ashtrays to smokers since 2008 through a variety of distribution channels and partners, such as la Biennale di Venezia, the Rome Film Festival, Teatro alla Scala Museum, and marine environmental association, Marevivo. By the end of 2013, we had distributed more than four million portable ashtrays.

To support this process, in 2010 we launched 'JTI Clean City Lab', an international design competition open to students of European design schools with the aim of creating a portable ashtray of the future. We run the competition every year with a different design theme, and an exhibition of entries is held during Milan

Design Week. In 2013, university students in Italy, Spain, Switzerland, and the United Kingdom took part in the competition with a theme to design an area where smokers and non-smokers can socialize.

Volunteering for cleaner parks

In October 2013, we ran a volunteer clean-up initiative in Tbilisi, Georgia. Working in one of Tbilisi's central parks, our volunteers collected over 70 bags of waste, including cigarette butt litter. The response to the event from park users was very positive with many thanking volunteers for their efforts. We plan to run similar events twice a year.

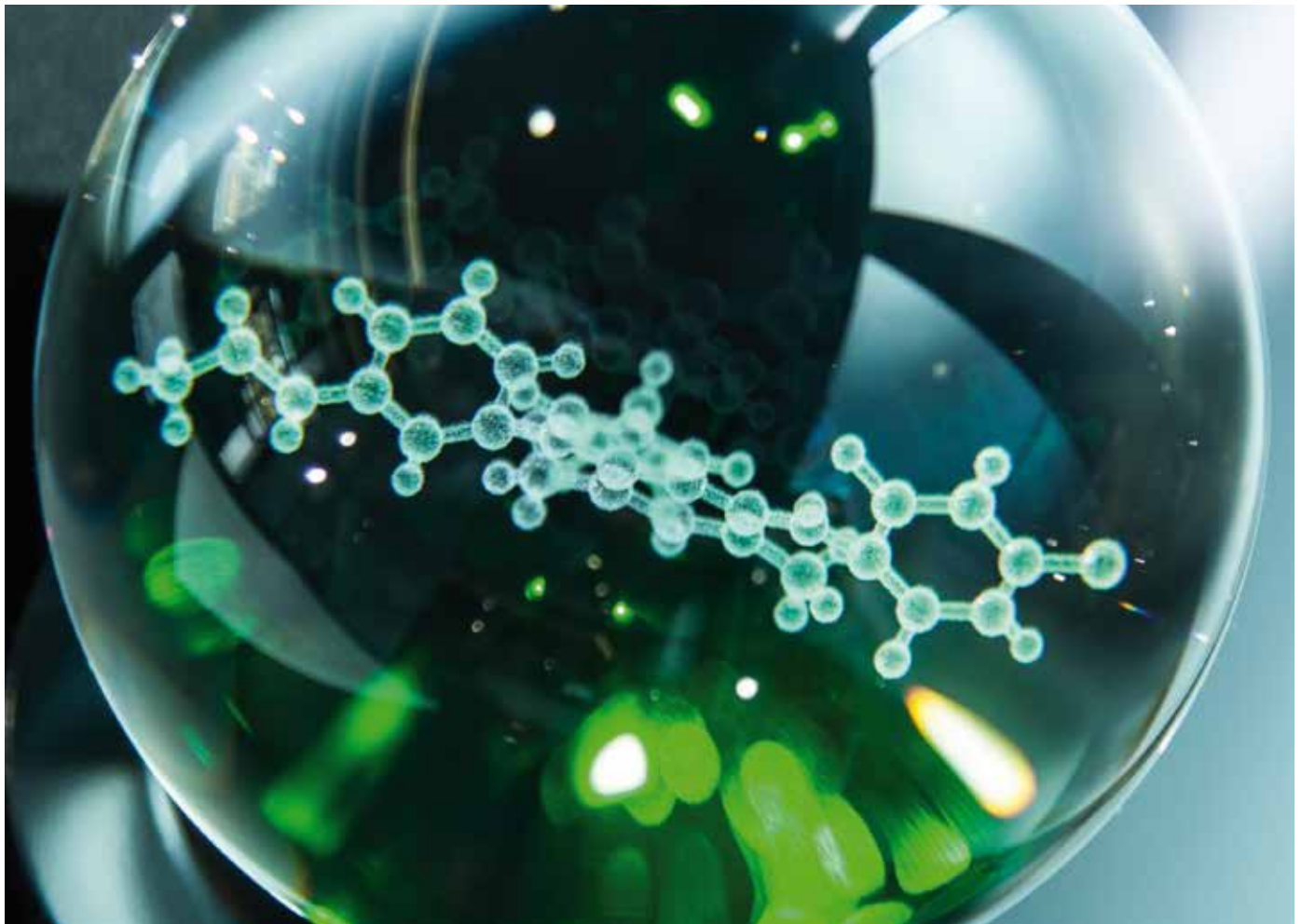
Pharmaceutical - *product responsibility*

The JT Group's pharmaceutical business has a mission to create original and innovative drugs for patients suffering from diseases around the world. In doing so, we aim to alleviate patients' illnesses and to ensure our pharmaceuticals are safe and secure to use.

Responsible research and development

We have a rigorous system of checks in place to ensure new drug development complies with all relevant laws and industry standards. Our research activities are also carried out in an appropriate and ethical manner, including the control of chemical substances, animal testing, and gene analysis.

<i>Metric</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>
Pharmaceutical R&D expenditure ^{2A} (billion Yen)	23.4	24.9	30.7	30.5



3-Dimensional structure of trametinib, MEK inhibitor

Complying with pharmaceutical regulations and standards

New drug development is subject to a range of laws and regulations, including those requiring safety verification of drug ingredients at the pre-clinical stage and safety assurance for drug trials during clinical development. We have systems in place to comply with these laws and regulations and to control safety within drug development and trials through in-house audits to check that our operating procedures are correctly followed. We also gather data to monitor the efficacy and side effects of drugs on the market to help guide future drug developments and drug safety.

Managing chemical substances

We comply with all relevant laws and regulations on the control of designated chemical substances, and our employees are made aware of chemical safety risks and management. Our Central Pharmaceutical Research Institute leads the JT Group's new drug development and is responsible for our chemical substances management system. Torii Pharmaceutical, our pharmaceutical subsidiary, separates chemicals into different categories requiring different levels of management. Each category has specific rules and procedures that respond to the particular characteristics and safety risks of different groups of chemicals.

Ethical considerations in research

In order to examine the ethical and scientific validity of our research projects, we have established an Ethics Review Committee for Clinical Studies, which conforms with the Ethical Guidelines for Clinical Studies in Japan. Our Ethics Review Committee on Human Genome/Gene Analysis also examines our research in accordance with the Ethical Guidelines for Human Genome/Gene Analysis Research issued by the Japanese Government.

Animal testing is an essential part of pharmaceutical research and development for determining the safety and efficacy of drugs. When conducting animal testing, our pharmaceutical business examines the scientific rationale, respects the lives of animals, and always takes animal welfare into consideration. We have established in-house standards for managing animal testing and the breeding of laboratory animals in accordance with the Japanese Law for Humane Treatment and Management of Animals and its relevant guidelines.

Our practices for the proper management of animal testing at our Central Pharmaceutical Research Institute were externally certified by the Japan Health Sciences Foundation. We have also established an animal testing committee, which reviews animal testing and ensures it is conducted in accordance with the 3R concept, which covers:

- Replacement: where possible, opt for test methods that do not use animals
- Reduction: minimize the number of animals used in testing
- Refinement: do not let laboratory animals suffer unnecessary pain

Responsible marketing

Across the pharmaceutical industry, medical representatives (MRs) play a crucial role in the sale and promotion of medical supplies. In Japan, Torii Pharmaceutical markets our products through a team of 485 highly trained MRs. Outside Japan we license our drugs to other pharmaceutical manufacturers and do not have a sales function.

The JT Group is a member of the Japan Pharmaceutical Manufacturers Association (JPMA), an industry association of the pharmaceutical industry in Japan, and we comply with the JPMA's 'Code of Practice'. Launched in 2013, the Code of Practice promotes high ethical and transparency standards for pharmaceutical companies in the promotion of their medical supplies and prescription drugs. Part of the Code is a requirement for JPMA members to establish their own company code of practice in this area.

To comply with this requirement, Torii Pharmaceutical has established its own code, and we hold training sessions and seminars to ensure employees and MRs understand and abide by both Torii Pharmaceutical's as well as the JPMA Code of Practice.

We also adhere to the JPMA's 'Transparency Guideline', which promotes public disclosure and accountability for payments from pharmaceutical companies to healthcare professionals and medical institutions. For more information on the JPMA Transparency Guideline and Code of Practice, please visit www.jpma.or.jp.

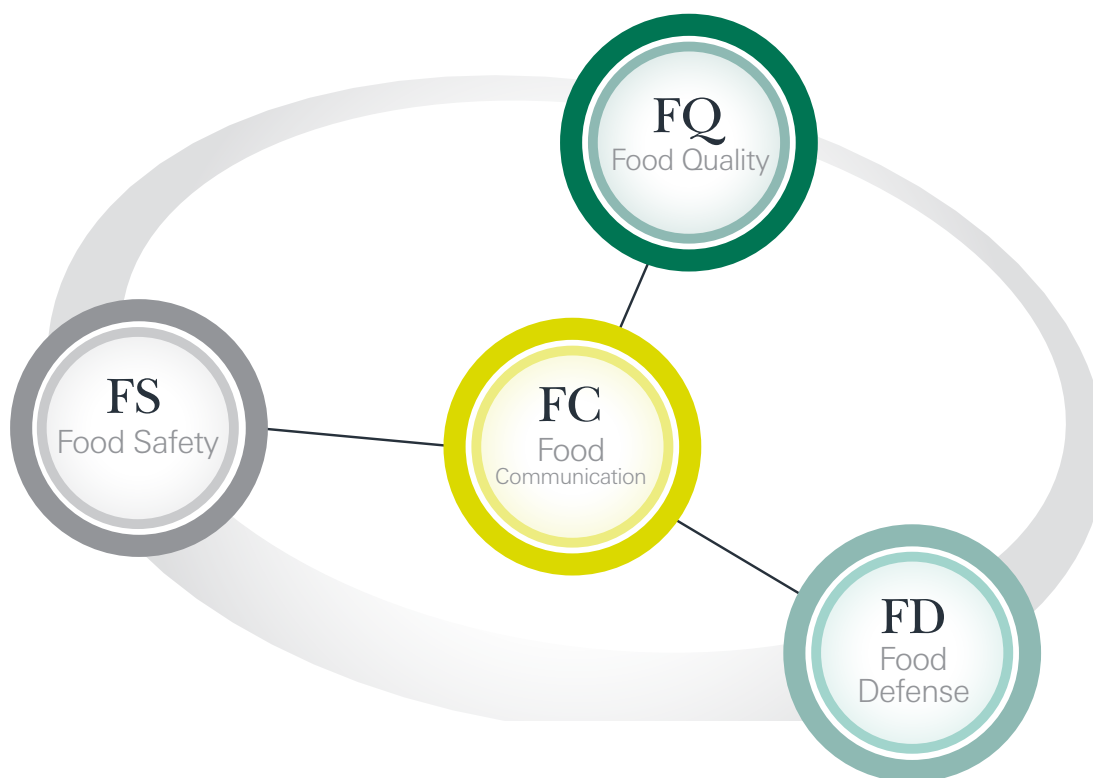


Beverage and processed food - *product responsibility*

In our beverage and processed food businesses, we aim to meet consumers' needs with the highest-quality and best-tasting products. Food safety is one of the JT Group's main priorities, and we will continue to maintain the highest standards for safety control to provide consumers with safe and reliable products.

Delivering safe, high-quality products

To ensure our consumers enjoy high-quality and safe beverage and processed food products we focus on four distinct areas: food safety, food defense, food quality, and food communication. Activities in these areas ensure we have a rigorous quality and process control system to guarantee food safety in every part of our beverage and processed food businesses, from raw materials procurement to manufacturing and distribution.



Food safety

Each of our beverage and processed food businesses has an independent Food Safety division to monitor and control food safety. We analyze product-specific food safety risks and conduct inspections and audits in line with these risks. Across the JT Group, our beverage and processed food businesses hold a food safety meeting every quarter to review food safety initiatives and share best practices.

All of our Group and third-party contract frozen food factories are certified to the ISO 22000 food safety management system.

Factories are subject to regular external certification audits as well as unannounced audits to ensure compliance. Our beverage business does not have any manufacturing operations, and all production is outsourced to third-party manufacturing partners. We encourage our third-party suppliers to certify their factories to the FSSC 22000, a complete certification scheme for food safety systems.

FSSC 22000 certified beverage business partner factories (%)	66.7
ISO 22000 certified frozen food factories (%)	100



Pre-harvest inspection of vegetables

Food defense

Food defense involves protecting our manufacturing processes and products from the risk of intentional or accidental contamination. We have an integrated risk management program in this area and follow established risk management policies, procedures, and audits. TableMark, our processed food subsidiary, has created a food defense guideline that applies to all factories and distribution centers, as well as contract manufacturers. The guideline outlines specific security management measures to enhance our food defense. These include:

- Tight control of facilities, water sources, and toxic substances
- Establishing restricted areas for both employees and visitors
- Restrictions on personal belongings in factories

Working with business partners on food quality and defense

In 2013, our beverage business held a quality assurance and food defense seminar for 23 people from our manufacturing partners. The seminar focused on measures to raise product quality, which is an important issue for our beverage business as all manufacturing of our brands takes place in third-party factories.



TableMark's Uonuma Mizunosato Factory in Japan

Food quality

Quality management is established across the entire beverage and processed food supply chain through certification to ISO 22000 or FSSC 22000. We collect and monitor consumer satisfaction data to assess the quality of our products and implement product improvements on an ongoing basis.

Food communication

We provide a range of information to consumers about our products, including disclosure of ingredients and traceability information. We also give details of food safety control programs on our websites to provide assurance to customers on product safety.

In our processed food business, we disclose the factory where products are manufactured and the origin of the main ingredients. Consumers are also provided with traceability information on our website for some packed cooked-rice products, which includes specific data on where the rice was grown, the factory of manufacture, production dates, and details relating to suppliers.

Customer feedback, both positive and negative, helps us to understand and maintain the quality of our products. Our consumer complaints management system is compliant with ISO 10002, the international standard for customer satisfaction. We also provide toll-free numbers on product labels to give consumers the opportunity to request additional information.

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Supporting disaster relief and recovery > P.63

07 The bigger picture

Contributing to the communities in which we operate across the JT Group is part of our responsibility as a corporate citizen. We are guided by the JT Group Corporate Citizenship Activity Policy, which focuses on community needs in four areas: social welfare, including poverty reduction, assisting disadvantaged elderly people, adult education, and support for those with disabilities; arts and culture; environmental protection; and disaster relief.

We provide support in a number of ways, including through financial contributions and corporate philanthropy, employee volunteering, and an independent charity, the JTI Foundation (www.jtifoundation.org). In 2013, we invested a total of ¥7,780 million in corporate citizenship and community involvement activities (2012: ¥6,197 million). This includes financial donations to organizations such as the Eliminating Child Labor in Tobacco Growing Foundation and a diverse range of community involvement activities within our tobacco supply chain.

Providing training and employment support for disabled people

In 2012, in co-operation with the Kyrgyz Society for the Blind and the Deaf, JTI launched a project to establish mini-centers in five regions of Kyrgyzstan to provide computer training for visually impaired and deaf people. With the aim of helping develop independence and providing social activities, the project launched 11 mini-centers and by the end of 2012, 108 participants had passed computer training courses.

In 2013, the project was modified and expanded based on the experience gained in 2012. This included the launch of 'Equal Opportunities', a social center in Bishkek offering a range of new computer training courses as well as programs to facilitate social integration and independence. The new courses include:

- Computer technology courses for the blind and visually impaired, which comprise 164 hours in class, 164 hours of homework, and 82 hours of individual work
- Computer technology courses for the deaf and hearing-impaired users, which comprise 80 hours in class, 80 hours of homework, and 40 hours of individual work
- Orienteering with a cane, which includes 30 hours in the classroom and 120 hours of practice outside the classroom
- GPS navigation in the city for the blind, which includes 80 hours in class, 120 hours of practical work, and 40 hours of homework



07

The bigger picture

Legal support

Alongside the courses, the center also provides legal advice to trainees and is assisted by a legal advisor, herself visually impaired, who monitors and analyzes legislation in the Kyrgyz Republic on the rights of people with disabilities. Employment legislation for disabled people and government benefits for legal support of program participants is also monitored.

Employment

Another important function of the center is an employment program for those who have passed courses at the center, as well as for citizens with disabilities who have applied for help. Within the employment program, several databases have been established to record information on disabled people seeking work, available jobs, and the most popular or suitable vacancies among disabled people. In March 2014, as part of the employment program, the Equal Opportunities center launched a joint project with call center provider Positive Contact, which selected candidates to work as call center operators. Seven

participants started training in the call center in April 2014 and all will be employed by the call center upon completion of their training.

“I was afraid to go out. Only on the initiative of my wife did I walk somewhere. Usually, I spent days just listening to the TV. Through a blind neighbor I learned about a society of the blind and the deaf, and decided to join it. And today, I already signed up for a computer course at Equal Opportunities.”

Igor Pustuyev
Equal Opportunities service user

According to the Ministry of Labor,⁵ there are over 155,000 people with disabilities in Kyrgyzstan, including 25,000 blind and deaf. Annually, a quota of 500–700 jobs is allocated to disabled people by employers; however, in practice, employment is provided to not more than 200 people a year.

⁵ http://www.vb.kg/doc/273385_v_bishkeke_otkrylsia_centra_po_obycheniui_trydoystroystvy_lovz.html

Supporting environmental protection

Restoring forests in Japan – the JT Forest

Since 2005, we have worked to protect the environment by conserving and developing forests across Japan with our JT Forest initiative. The initiative assists local communities in their efforts to protect and enhance areas of forest by leasing them for a fixed period and establishing forest development plans that respond to a specific forest's needs. We provide support for the identified development plans in consultation and cooperation with various stakeholders, including experts, local communities, and local governments. The ultimate goal of the JT Forest is to create thriving forests that are used and maintained in a sustainable way.

The JT Forest currently operates in nine forest areas (see map), working on issues such as reviving previously deforested areas and conducting forest maintenance, including thinning, weeding, developing narrow paths for regular use, and protecting young trees from damage caused by wild animals. We also run Forestry Program days, where JT employees, local residents, and local government officials can come together to work on forest preservation.

Shakotan (Hokkaido)

since December 2010

Tsuruoka (Yamagata)

since April 2009

Nakatsugawa (Gifu)

since April 2008

Yunomae (Kumamoto)

since April 2009

Kosuge (Yamanashi)

since March 2006

Shigetomi (Kagoshima)

Nakahechi (Wakayama)

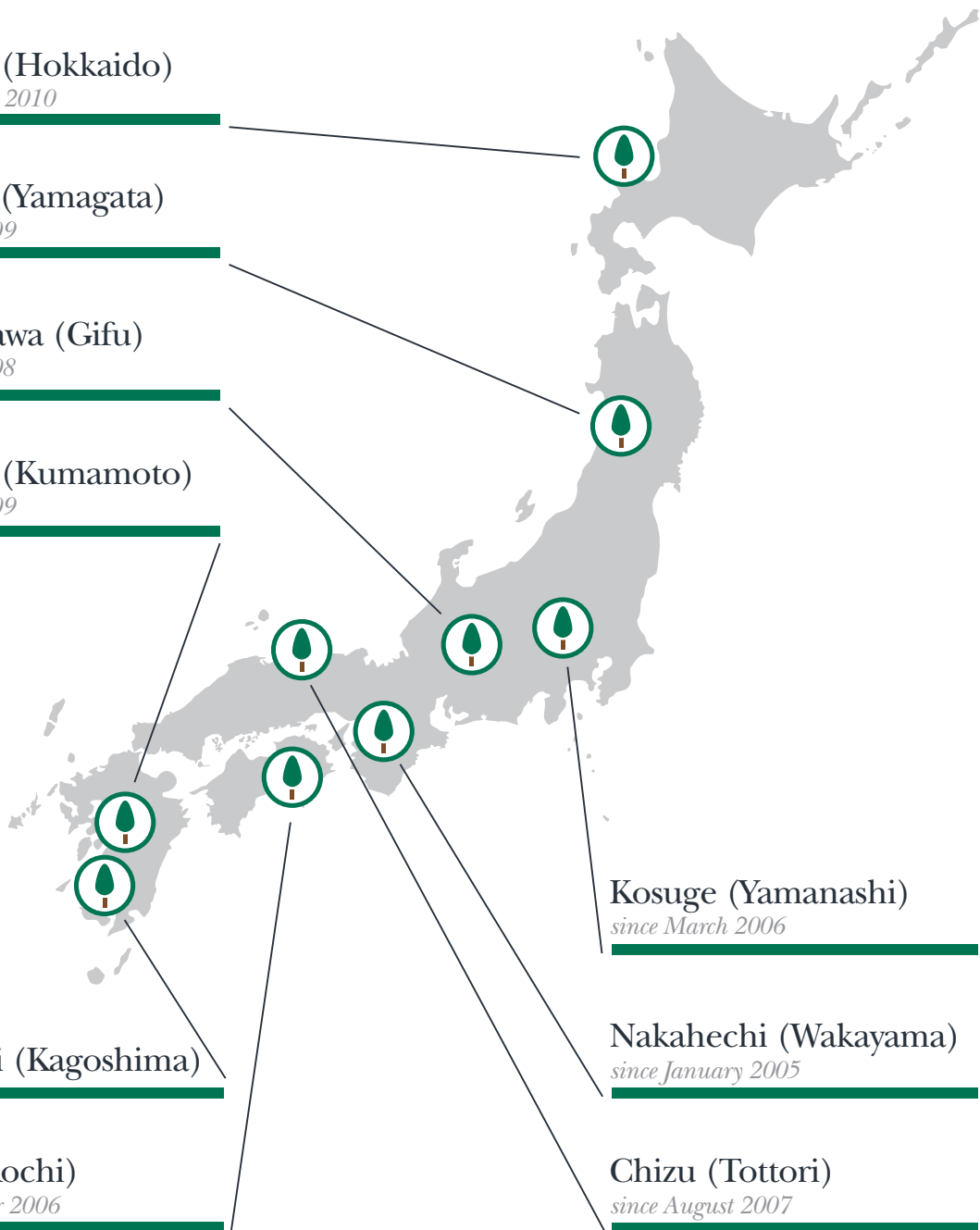
since January 2005

Nahari (Kochi)

since November 2006

Chizu (Tottori)

since August 2007





The ceremony for renewed agreement for JT Forest Tsuruoka

Extending our support

In 2013 and early 2014, we renewed three JT Forest conservation agreements in Gifu, Kumamoto, and Yamagata Prefectures. In 2013, we renewed our agreement with Yunomae-machi, in Kumamoto Prefecture, which was due to expire in March 2014, for a further five years. The JT Forest project in Yunomae has thinned the forest, improving its ability to protect soil and absorb rainwater, and planted trees to attract and support wildlife, including Japanese deer and Japanese dormouse. These maintenance and conservation initiatives will continue and be expanded during the extended agreement period.

In early 2014, we also renewed our forest conservation agreement for the 'Yamagata Forest of Kizuna' with Yamagata Prefecture, Tsuruoka-city, and Shimogawa Production Forestry Cooperative. The new five-year agreement will continue to enhance coastal sandstorm control and improve the forest, where environmental education for the community's younger generation can be provided.

Supporting disaster relief and recovery

Although it has been three years since the Great East Japan Earthquake hit the Tōhoku region of Japan, the recovery effort is ongoing. Many people are still struggling to re-establish their lives and livelihoods. As a result, both human and financial resources remain in high demand for the restoration of affected areas.

Immediately after the earthquake and tsunami, we supported the urgent disaster relief efforts in the worst affected areas. Over the longer term, we have supported the recovery effort with donations, teams of volunteers, and programs of support for non-profit organizations (NPOs) working in areas trying to recover and rebuild following the disaster. These programs are carried out as part of the 'JT NPO Support Program', which has been providing support to Japanese NPOs since 1999. Based on the acute needs of the affected areas, however, we decided to launch a new support program in 2013.

The 'JT Reconstruction Support Project' supports NPOs working to reconstruct and revitalize communities in three areas most badly affected by the disaster – Miyagi, Iwate, and Fukushima Prefectures. Its goal is to provide a greater level of funding for these NPOs, ensuring stability for their future activities.

The JT Reconstruction Support Project is operated on our behalf by the Japan Earthquake Local NPO Support Fund, which screens applications from organizations for financial support.

The screening body, which is mainly made up of independent experts, assesses applications four times each year. In total, the project will provide a fund for three years to support around 20 NPOs annually with grants of three to five million Yen for each.

Examples of activities supported to date include:

- Support for female-led business start-ups that work to help communities' everyday life in tsunami-devastated areas
- Preventing isolation of community members living in both temporary housing and their own houses
- Creation of jobs for women while helping them balance the parenting of young children in the affected areas
- Support for families with disabled children in disaster areas
- Projects to clear debris from the sea-bed in tsunami-affected areas
- Creation of cooperative business models both with local people and those from outside affected communities
- Support projects to empower women who immigrate to Fukushima

<i>FY2013</i>	<i>1st. term (Oct 2013)</i>		<i>2nd. term (Jan 2014)</i>		<i>3rd. term (Apr 2014)</i>		<i>Total</i>	
Activity base	No. of NPOs	Grants (million Yen)	No. of NPOs	Grants (million Yen)	No. of NPOs	Grants (million Yen)	No. of NPOs	Grants (million Yen)
Iwate Pref.	0	0	2	7.12	1	5.00	3	12.12
Miyagi Pref.	3	13.46	1	4.40	3	10.10	7	27.96
Fukushima Pref.	2	9.12	2	7.70	3	12.50	7	29.32
Total	5	22.58	5	19.22	7	27.60	17	69.40

About this report

This is the JT Group's tenth report providing detail on our sustainability-related policies and activities. We report on our sustainability activities and performance annually, and this is the first year that we have titled our report as a 'Sustainability Report'. Our previous report, titled 'JT Group CSR Report 2013', was published in June 2013.

This report follows the reporting principles of the Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines; however, our reporting is not yet in accordance with the GRI G4 Guidelines. We have defined the content of this report using a materiality assessment in our international tobacco business, and peer benchmarking and an internal prioritization exercise in our other Group businesses.

The reporting period for this report is based on the JT Group's financial year, running from April 1, 2013 to March 31, 2014. The financial year of our international tobacco business matches the calendar year (from January 1 to December 31, 2013) and is consolidated within this report. See 'Notes on data' below for more information on our data reporting for these two periods.

The JT Group is transitioning towards calendar year reporting, and as part of this process, our 2014 financial year will run from April 1 to December 31, 2014 (a nine-month financial year). Our 2015 financial year will run from January 1 to December 31, 2015.

In this report, the terms CSR and sustainability have the same meaning.

Changes in structure, size, or ownership

There are no significant changes to the size or structure of the JT Group within the reporting period of this report.

In October 2013, we announced that we will close some tobacco-related factories in Japan in 2015. In December 2013, we also announced the acquisition of a minority stake in a leading Russian tobacco distributor. Please see www.jt.com for press releases related to these announcements.

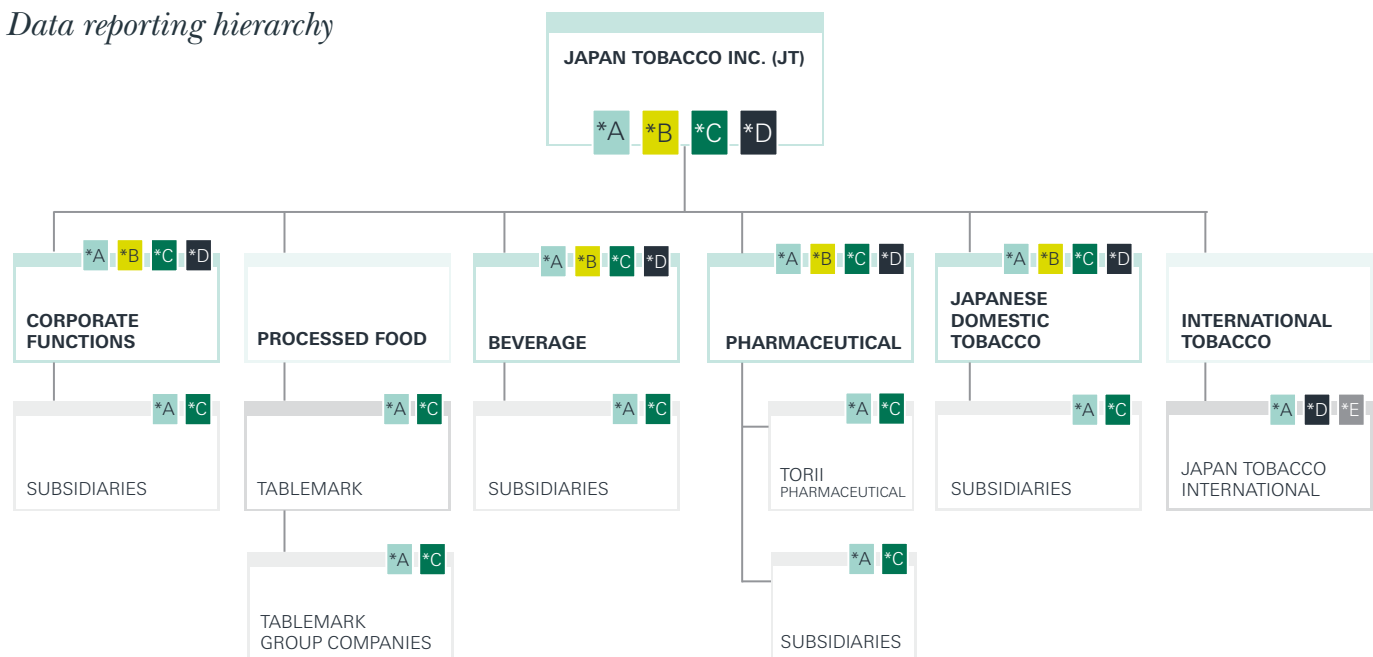
Notes on data

Due to the different financial reporting periods for the JT Group operations in Japan (April to March) and our international tobacco business (January to December), the data reported in this report varies depending on the level of coverage and completeness of our data sets.

With the change in the JT Group accounting period from financial to calendar year from the end of 2014 onwards, our data reporting will become more uniform across the business in future reports.

In this report, January – December Japanese Yen exchange rates against U.S. Dollar are: ¥79.80 (2011), ¥79.81 (2012) and ¥97.73 (2013).

Data reporting hierarchy



- *A =the entire JT Group
- *B =solely Japan Tobacco Inc. (JT)
- *C =Japan Tobacco Inc. (JT) and Japanese domestic group companies
- *D =Japan Tobacco Inc. (JT) and Japan Tobacco International (JTI)
- *E =solely Japan Tobacco International (JTI)

GHG data measurement

We measure our GHG emissions across our value chain following the WRI/WBCSD GHG Protocol, an international guideline for calculating GHG emissions. Under the GHG Protocol, three Scopes have been set to calculate and report on GHG emissions:

- Scope 1: All direct GHG emissions from corporate activities, such as burning of fossil fuels at factories
- Scope 2: Indirect GHG emissions from consumption of purchased electricity, heat, or steam
- Scope 3: Other indirect emissions (divided into 15 categories). This includes the extraction and production of purchased materials and fuels, transport in vehicles not owned or controlled by the reporting entity, electricity-related activities not covered in Scope 2, outsourced activities, waste disposal, and more

Conversion factors

For the purposes of GHG reporting, in Japan we use conversion factors set by the Japanese Act on the Promotion of Global Warming Countermeasures, 2009. In our international businesses, we use conversion factors set by the International Energy Agency for 2009.

External verification and assurance

This Sustainability Report is not externally assured this year. Some of the data in this report is externally verified. This includes Group-wide Scope 1 and 2 GHG data and some Scope 3 GHG data. Verified Scope 3 emissions include non-tobacco materials purchased by the Japanese domestic tobacco business, tobacco leaf for both Japanese domestic and international tobacco businesses, and employee travel for our international tobacco business.

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 (in Japanese)

Publications

JT Annual Report: www.jt.com/investors

CSR Communication Book (only in Japanese): www.jti.co.jp/csr/report/index.html

Awards and recognition

Awards

Tokyo Stock Exchange Corporate Activity Award:

www.tse.or.jp/english/news/07/b7gje6000001qpbv-att/b7gje6000001qpon.pdf

Sustainability indices

The JT Group is a member of the Morningstar Socially Responsible Investment Index (MS-SRI) (www.morningstar.co.jp/sri, in Japanese).

Contacts and feedback

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