

JT Group Sustainability Report | *FY2015*



## 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 'Torii Pharmaceutical' are to Torii Pharmaceutical Co., Ltd., our pharmaceutical subsidiary. References to 'TableMark' are to TableMark Holdings Co., Ltd., our processed food subsidiary, and its consolidated subsidiaries.

This report contains Standard Disclosures from the Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines.

We report data for the entire JT Group including subsidiaries, wherever possible. In the middle of 2015 the JT Group withdrew from the beverage business. As a result, we excluded this business from reported data for 2015, or stated otherwise where that was not possible or appropriate, such as cases reported via our Reporting Concerns Mechanism, and data on Code of Conduct training and compliance survey uptake. In addition, some of the historical data presented in this report has been restated to reflect the changes in the organization retrospectively.

In this report we used the following scope notations:

**\*A = the entire JT Group including subsidiaries**  
(i.e. international tobacco, Japanese domestic tobacco, pharmaceutical, and processed food businesses)

**\*B = solely Japan Tobacco Inc. (JT)**  
(includes Japanese domestic tobacco and pharmaceutical businesses, and excludes international tobacco business, processed food 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)

Any data without annotated scope in this report covers the entire JT Group including subsidiaries – \*A. For data prior to 2015, scopes \*A, \*B, \*C, and \*D include the beverage business, or restatements are indicated. See our Basis of Reporting document for further detail.

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# CEO statement

Worldwide economic and geopolitical conditions in 2015 continued to be challenging, but the JT Group delivered another year of solid profit growth and our focus on sustainability remained. During the year we made significant progress in a number of areas, in particular on laying even stronger foundations on which to build our sustainability strategy. We also carried out our first materiality assessment across the entire JT Group, which will inform our strategic and operational plans in line with and balancing stakeholder expectations, as underpinned by our “4S” model.

We worked on a series of overarching policies and frameworks that will guide our sustainability performance in the future. We launched and published the JT Group Supplier Standards as well as the JT Group Anti-Bribery Policy and the JT Group HR Management Philosophy. We also began drafting a JT Group Human Rights Policy in consultation with stakeholders.

Our international tobacco business began work on developing a supplier life cycle management system for non-leaf suppliers that will lead to a better understanding of the sustainability risks they face. For tobacco leaf suppliers we began to put in place measures for a 2016 rollout of our Agricultural Labor Practices to third-party merchants. In the area of emerging products, which are assuming increasing importance within our business strategy, our global team continued to innovate in a way that will produce new products, such as e-vapors and t-vapors, which fulfill consumer expectations and fall within regulatory parameters.

We also made strides in other areas such as continuing to increase our focus on talent development. As a result, our international tobacco business now has the highest level of certification from the Top Employers Institute, which is given to organizations that have demonstrated the high standards

of HR practices and employee offerings across the globe. We still have a considerable way to travel on our sustainability journey. There are many continuing challenges, not least in the area of occupational health and safety, where, tragically, there were two fatalities in 2015. In the field of tobacco regulation we face some new laws that, if not carefully considered, have the potential to be ineffective and disproportionate to our society. We also need to redouble our efforts on addressing societal issues in tobacco communities such as child labor, despite having made good progress in that area over recent years.

I am convinced that the solid building blocks we have put in place during 2015 leave us in a stronger position to address such challenges, and will help us make even more significant strides in the coming years.



**Mitsuomi Koizumi**  
President and Chief Executive Officer  
Japan Tobacco Inc.







# Q & A

with Ryoko Nagata

SENIOR VICE PRESIDENT | CSR

**1. This is your third year as Senior Vice President for Corporate Social Responsibility (CSR). How would you describe the sustainability journey so far under your leadership?**

Although we still have a long way to go, our journey so far has been very much about laying the foundations of sustainability and, as part of our “4S” model, understanding the expectations of our stakeholders. As part of this process, we conducted a materiality assessment for the first time at Group level in 2015. The results gave us interesting insights into where we need to focus our efforts. Talking to business functions about key sustainability topics such as human rights, talent

management, occupational health and safety, and compliance has increased awareness of sustainability internally, and we are now in a position to set our direction for the future. Without strong commitment from business functions on these issues, we would not have been able to make the progress that we have. One of my priorities over the past three years has been to improve the way we collect and communicate sustainability information, and I am proud of the advances we have made. One clear result of all the effort we have put in is that our Sustainability Report FY2015 has, for the first time, been compiled in accordance with the ‘Core’ level of the GRI G4 Sustainability Reporting Guidelines.

**2. The JT Group has paid more attention to emerging products over the past few years. What were the key achievements in this area in 2015 and what are the challenges that remain?**

In 2015 we completed the formation of a Group function to work on emerging products, which was a big step forward, and has allowed us to commit to a clearer strategy and focus. Buying Logic Technology Development LLC, which is the third largest manufacturer of e-cigarettes in North America, further enhances our ability to innovate in this field and to expand our market reach. I was pleased that we could begin initiatives to address the disposal of e-cigarette components in line with

# *“As we make progress, we will make our business practices more responsible and open up opportunities to capitalize on our many strengths”*

our product stewardship strategy, and to strengthen the visibility of risks in our supply chains. Our greatest challenge continues to be the regulatory landscape across the globe, which often limits us from making bigger strides on the development and marketing of emerging products. Therefore, we need to continue to make the case for better regulation that is both proportionate and effective.

### **3. The JT Group takes pride in its employee development programs and believes employees are the cornerstone of its business growth. Why is this, and what were the key developments in this area in 2015?**

A highly motivated and competent workforce is key to sustainable business growth. The launch of our JT Group HR Management Philosophy in February 2016 will allow us to make our commitments in this area much clearer. Among other things, the Philosophy sets out our belief that diversity in the workforce is an accelerator of innovation. This is an area I am personally keen to focus on in the future.

Of course, our pride in our employees means we have to make sure that any operational changes – such as our planned factory closures in Northern Ireland, Belgium, Russia, and South Africa, and the withdrawal from our beverage operations in Japan – are managed responsibly. With the help of trade unions and worker representatives, we have been able to make these changes in a fair and responsible way.

### **4. There were two reported fatalities within the JT Group during 2015 – an employee contracted malaria while on a business trip to Africa, the complications of which contributed to his subsequent death, and a contractor was electrocuted in Sudan. In addition, one third-party death occurred in Tanzania, where a company vehicle collided with a cyclist. What is the JT Group doing to address safety issues in these areas?**

It is a matter of deep personal regret that these deaths have occurred. Following the malaria fatality in 2015, we identified and developed a global pre-travel health assessment process that will be implemented and rolled out in 2016-2017. The principle of

this confidential, online tool is the assessment of individual health status against location health risk. In terms of traffic accidents, we have now made road safety awareness a priority throughout the JT Group, especially for sales employees. We will continue to focus not only on reducing the number of accidents involving employees or contractors, but on eliminating occupational injuries entirely. That will be a hard task in some of the regions in which we operate, where safety culture is weak; but the only acceptable accident rate is zero, and that is what we work toward.

### **5. How did your tobacco leaf strategy create value both for the business and tobacco farming communities in 2015?**

During 2015 we extended the reach of our various initiatives to cover even more countries from which we source tobacco leaf. We also extended our Agricultural Labor Practices to non-directly contracted farmers, which was an important step that will help address social and environmental issues in those farmers' communities and therefore improve the sustainability of our leaf supply. We also implemented our farmer profit model across countries where we directly source tobacco – this will allow farmers and their local communities to make the most of their agricultural activity. I am also proud of what we have achieved through our ARISE program, which in 2015 has taken approximately 26 children out of child labor every day, provided 32,160 people with education about child labor, and given 1,859 households an improved income.

### **6. With the adoption of the Modern Slavery Act in the U.K. in 2015, businesses are now under greater pressure to ensure human rights are upheld in their supply chains. What is the JT Group doing to address human rights, and what are the key insights you've gained so far into this area?**

We are now committed to developing an overarching policy on human rights by seeking input from our stakeholders. We have begun the process of drawing up the policy and, when finalized, we will conduct human rights due diligence across the JT Group. I know there is a real need to collaborate with other stakeholder groups on this, and I am glad that we are now committed to

doing this. The work we have carried out so far on creating a human rights policy has highlighted our potential to make a positive impact on wider society.

### **7. There was increased global interest in environmental, social, and governance investment during 2015. How did the JT Group respond to this?**

We engage with investors who are interested in our sustainability initiatives through a number of channels. In 2015 we had one-to-one meetings with analysts, we talked to investors via our participation in various responsible investment index evaluation processes, and we also spoke to investors as part of our Group-wide materiality assessment. Although the number of such meetings is still small, investor interest in sustainability issues has increased over the past five years, and each engagement helps us to better understand what is expected of us.

One of the questions we are frequently asked is on the management of our supply chain, especially in terms of leaf procurement. We also often field questions on product innovation, corporate governance, and environmental management. I anticipate that we will get further interest in responsible investment in the coming years, partly fueled by global regulatory trends that will require companies to improve their transparency on non-financial performance.

### **8. What is next on your sustainability journey?**

One of our main tasks is to work on the integration of key issues in our strategic and operational plans. That will mean having conversations with various parts of the business on how to take a leading role in the industry. It will also require us to address some of the gaps in our management approach – and that work has already begun. As we make progress, we will make our business practices more responsible and open up opportunities to capitalize on our many strengths. We have lots to do, but I believe we are in a strong position to make further progress.

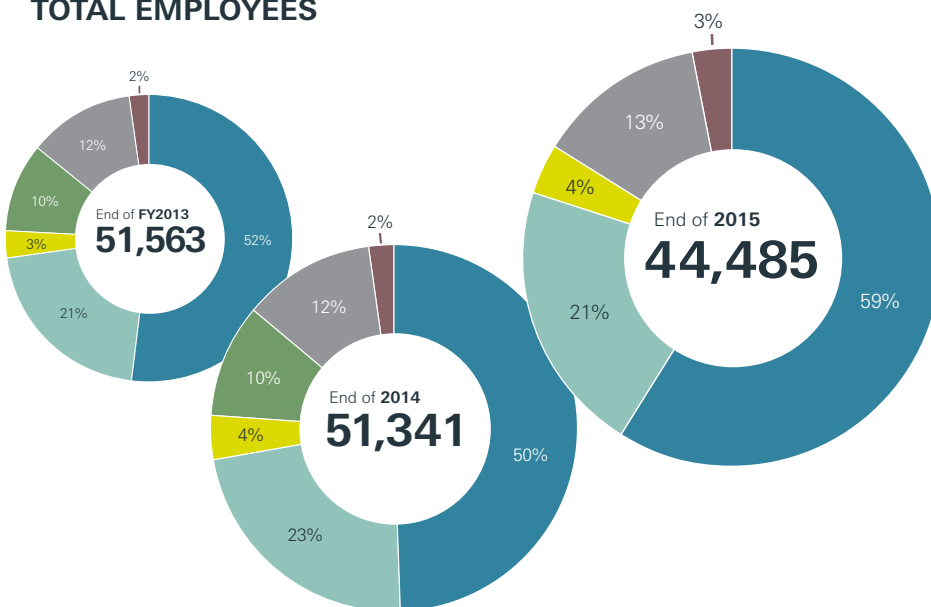
# Corporate profile



*We are a leading international tobacco company, with offices and factories in more than 70 countries. Our products are sold in more than 120 countries, and we own three of the top ten global cigarette brands by sales volume: Winston, Mevius, and Camel. Headquartered in Tokyo, Japan Tobacco Inc. (TSE: 2914) is listed on the Tokyo Stock Exchange.*

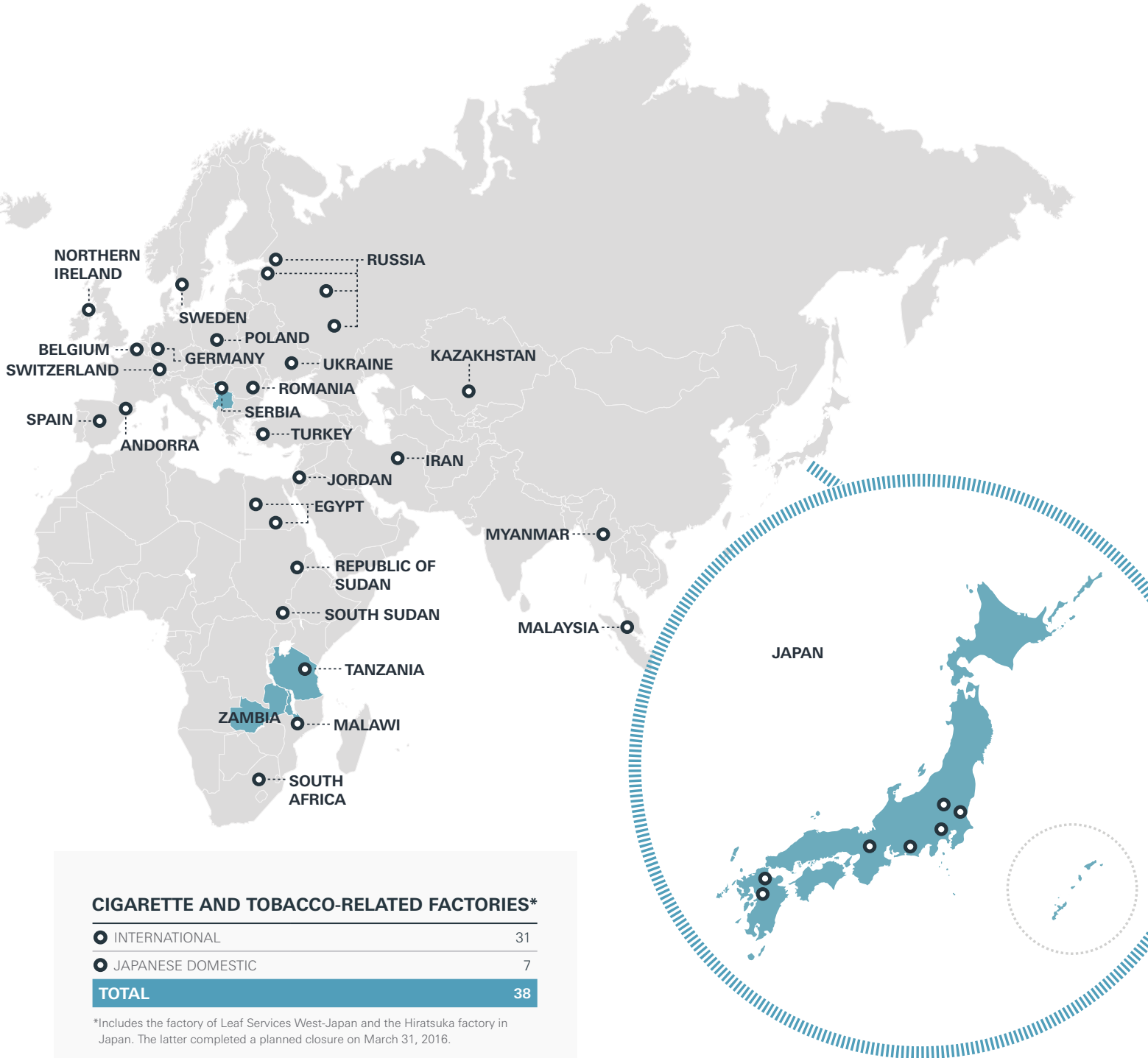
*We operate a pharmaceutical business that researches, develops, produces, and sells prescription drugs, focusing on glucose and lipid metabolism, anti-virus research, and immune disorders and inflammation. We also have a processed food business that manufactures and sells goods such as frozen noodles, frozen and packed cooked rice, and frozen baked bread and pastries. Both of these businesses cater mainly for the Japanese market.*

## TOTAL EMPLOYEES



\*In the middle of 2015 the JT Group withdrew from the beverage business.





### CIGARETTE AND TOBACCO-RELATED FACTORIES\*

● INTERNATIONAL	31
● JAPANESE DOMESTIC	7
<b>TOTAL</b>	<b>38</b>

\*Includes the factory of Leaf Services West-Japan and the Hiratsuka factory in Japan. The latter completed a planned closure on March 31, 2016.

### COUNTRIES IN WHICH WE DIRECTLY SOURCE TOBACCO

■	7
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All figures as of the end of 2015.

REVENUE (BILLION YEN)	FY2013	2014	2015
INTERNATIONAL TOBACCO BUSINESS	1,270.0	1,328.0	1,317.2
JAPANESE DOMESTIC TOBACCO BUSINESS	710.3	687.4	677.3
PHARMACEUTICAL BUSINESS	64.4	65.8	75.6
BEVERAGE BUSINESS*	184.5	-	-
PROCESSED FOOD BUSINESS	156.9	161.2	165.8
OTHER BUSINESS	13.6	16.9	17.0
<b>TOTAL</b>	<b>2,399.8</b>	<b>2,259.2</b>	<b>2,252.9</b>

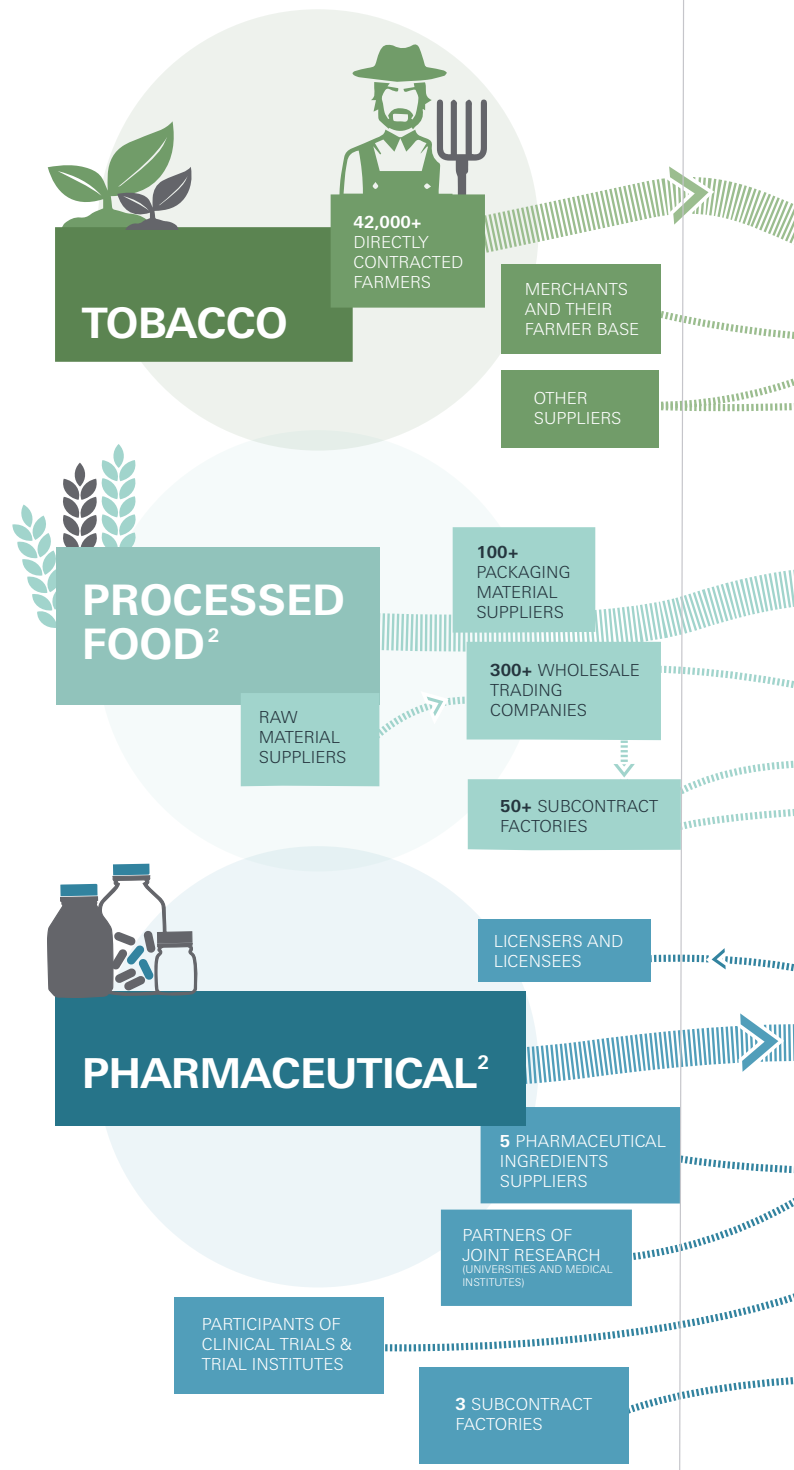
\*In the middle of 2015 the JT Group withdrew from the beverage business. For comparability, 2014 figures in the above table do not include the beverage business.

# Our value chains

*We are a global company and each of our three businesses has a distinct value chain. To make a real difference on sustainability we need to focus on tackling the biggest issues across these value chains, from the starting point where our raw materials are sourced, through to the way we manufacture and distribute our products, to the end point where our products are sold.*

*For more detailed information on our value chains, see pages 59 (tobacco business), 75 (pharmaceutical business), and 79 (processed food business).*

## OUR SUPPLY CHAINS

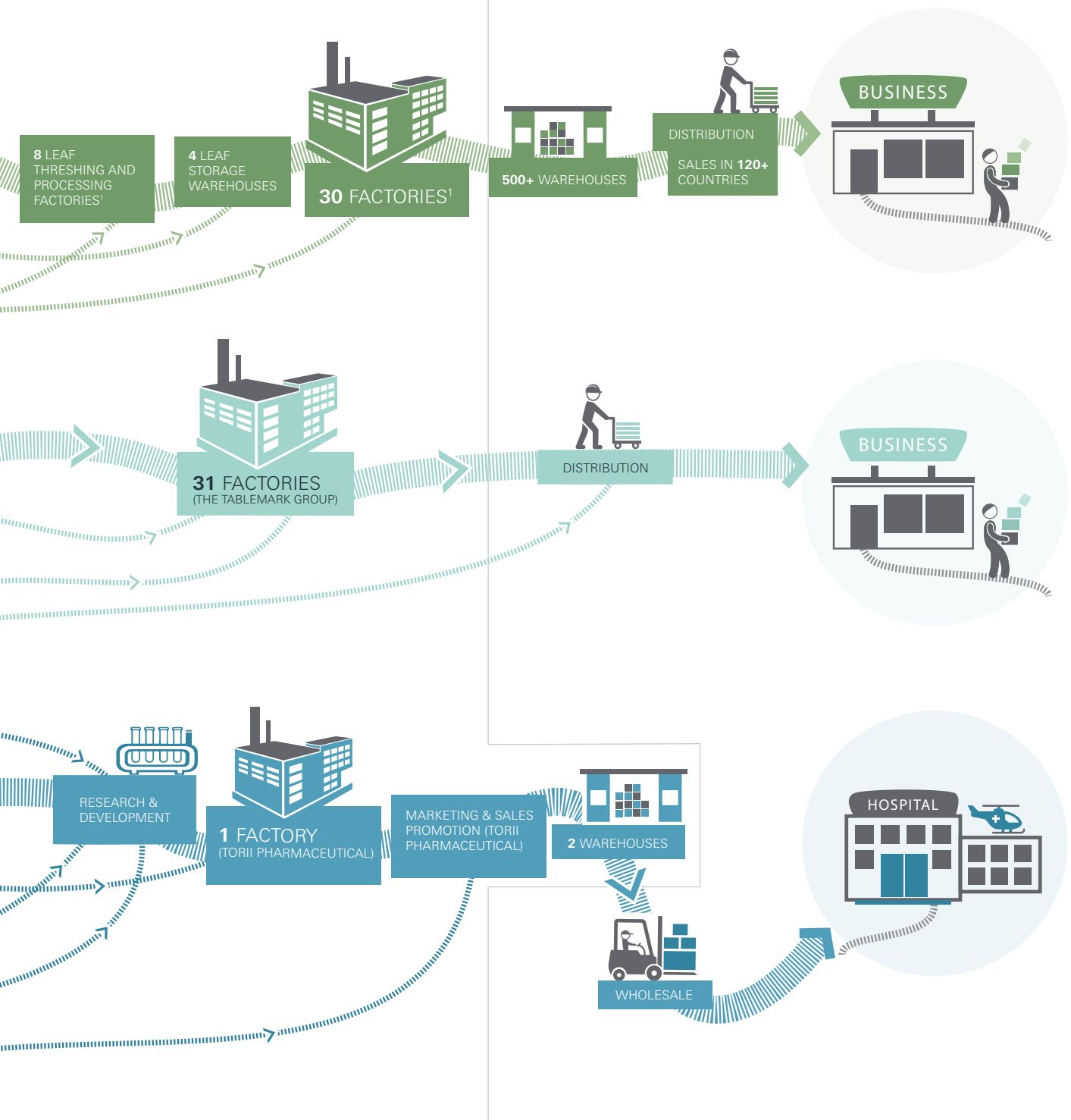


<sup>1</sup> We also own and operate four non-tobacco material processing factories in Japan.

<sup>2</sup> The pharmaceutical and processed food business value chains represent JT<sup>(TM)</sup> and TableMark only and exclude other subsidiaries.

## OUR COMPANY

## OUR CUSTOMERS & CONSUMERS



# Our Group

## Our sustainability journey



### Material issues covered:

Collaborations and partnerships 18

## Our way of doing business



### Material issues covered:

Corporate governance and transparency 23  
Tax practices 26  
Information security 27  
Anti-competitive behavior 27  
Anti-bribery and corruption 28

## Our people



### Material issues covered:

Employee development and talent management 31  
Being a responsible employer 33  
Equality and diversity at the workplace 34  
Workplace health and safety 36

## Our planet



### Material issues covered:

Environment 38

## Our contributions to society



### Material issues covered:

Contributions to society 46

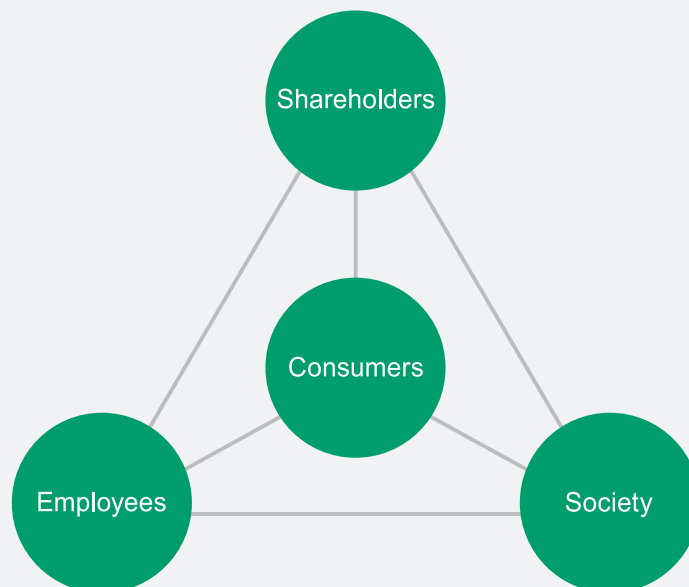


# Our management principles

Our management principles, and our approach to sustainability, are governed by our “4S” model, under which we balance the interests of four stakeholder groups – consumers, shareholders, employees, and wider society. We aim to fulfill our responsibilities toward each group while also striving to exceed their expectations.

We take pride in the strong relationships we have built with the four stakeholder groups, and through our engagement we are able to reflect stakeholder views in our business activities. We believe the “4S” model is helping us to achieve sustainable growth by continually delivering value to our stakeholders.

## THE “4S” MODEL



### OUR VISION

is to become a company committed to global growth by providing diversified value that is uniquely available from the JT Group.



### OUR MISSION

is to create, develop, and nurture our unique brands to meet consumers' needs while understanding and respecting the environment and the diversity of societies and individuals.



### THE JT GROUP WAY

- Fulfill the expectations of our consumers and behave responsibly
- Strive for quality in everything we do through continuous improvement
- Leverage diversity across the JT Group

# Our sustainability journey

*Although we have been tackling sustainability issues in our business for a number of years, we recognize there is much more for us to do, and that many challenges lie ahead. In recent years, and in particular during 2015, we have focused on identifying all material issues for the JT Group. This gives us a clearer view of the challenges we face, and shows us how we can respond to them in a more structured and targeted manner.*

*A good understanding of our material issues also helps us develop relevant policies, plans, and targets to better monitor the progress we are making on sustainability. To implement these, we need to work closely with our stakeholders and collaborate with other organizations.*

## 2015 highlights

Completed our first **GROUP-LEVEL MATERIALITY ASSESSMENT**.

Joined a **CSR TASK FORCE** in Switzerland to provide input into government plans to develop binding rules on CSR.

Engaged our business to ensure we met **GRI G4 'CORE'** Guidelines within our sustainability reporting.

Hosted our first **HUMAN RIGHTS ROUNDTABLE** with external experts as part of our Group Policy development.

Became a **MEMBER OF LBG** and started implementing its measurement model on community investment programs.

# Laying the foundations

In the past years we have concentrated on analyzing stakeholder perspectives so that we can better understand the sustainability opportunities and challenges we face.

2015 was a pivotal year in this process, as we completed a Group-wide materiality assessment. We now have a good foundation to build our Group-wide strategic sustainability plans. Once these plans are finalized, we can move on, in a more concerted way, to monitoring and reporting on performance.

We also achieved our commitment to ensure that our sustainability reporting meets the Global Reporting Initiative's (GRI) G4 'Core' Guidelines.

## 1. ENGAGING STAKEHOLDERS

While continuing to work with stakeholders on a day-to-day basis, in 2015 we engaged in dialogue with 17 Group-wide external stakeholders and 15 members of top management. We also visited 16 countries to speak to more than 100 managers about the specific challenges that exist within the market in which they operate. This exercise gave us a wealth of information that we are using to develop our plans. It will also help us to ensure that whatever is decided at corporate level will actually work in the diverse markets that we serve.

## 2. PRIORITIZING ISSUES

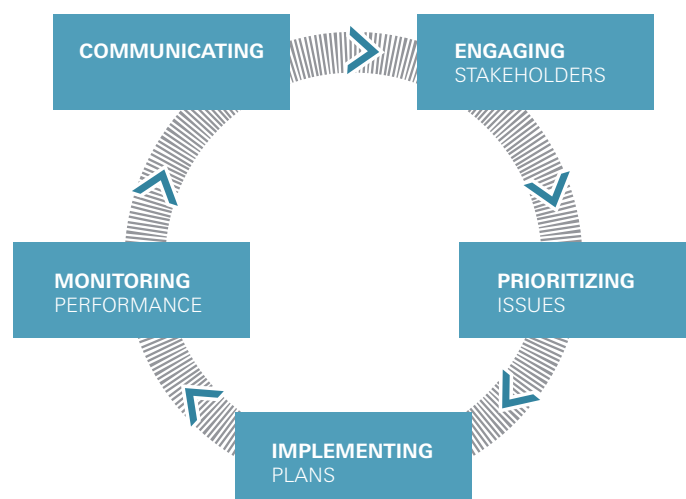
Through stakeholder engagement, we clarified which issues are the most important both to the JT Group and our external stakeholders. See page 21 for the outcomes of our materiality assessment.

## 3. IMPLEMENTING PLANS

We now have a robust foundation on which to build our strategic plans, and will focus on developing these in 2016.

During 2015 we had a particular focus on human rights. Since the acquisition of our tobacco procurement operations in 2009, we have been working toward improving labor and social conditions in our tobacco farming communities (see pages 60-63). However, we also need to ensure that we respect human rights across our entire value chain. In 2015 we began to work on creating a Group-wide human rights policy that will formalize our commitment to identifying and addressing human rights issues in all areas of our business.

## OUR SUSTAINABILITY JOURNEY



As an initial step in our policy development, in September 2015 we hosted a roundtable with a range of external stakeholders to seek feedback on our current practices, and on how we can devise an effective human rights approach in the future. In 2016 we will continue seeking stakeholder feedback to the Policy through various means, including hosting a dialogue between JT top management and external human rights experts.

Outside of human rights, the CSR Division began to engage with key business functions on strategic issues such as talent management, compliance, and health and safety. We also completed the formation of a global team on emerging products.

## 4. MONITORING PERFORMANCE

In 2015 we began gathering baseline data on all key material issues, complementing data that has already been gathered for some time on areas such as environment, occupational health and safety, HR, and compliance. This will provide more insights, helping us to better monitor our performance on material issues and showing us what progress we are making against our management plans.

## 5. COMMUNICATING

This is the third report we have published using the GRI G4 Guidelines and the first to be in accordance with 'Core' level. In 2015 we revamped the CSR section of [www.jt.com](http://www.jt.com) to provide further, and clearer, information for users. We also participated in a number of external platforms on topics such as child labor and business ethics.



# Stakeholder engagement

Under our “4S” model we talk to stakeholders across the JT Group on a daily basis, but also engage with them in special forums. Building on the engagement program conducted by our international tobacco business with 60 external stakeholders in 2014, we carried out 17 further interviews in 2015 at Group level, using the results to shape our future sustainability strategy and to develop this report.



## SOCIETY

### SUPPLIERS

In Japan we work with the Tobacco Growers Association of Japan to help us talk to farmers about quality management and contract compliance. We also employ around 100 farming experts who visit farmers during the crop season to discuss these issues. In 2015 we held workshops for farmers in Japan to explain how their contracts now incorporate the JT Group Principles in Leaf Tobacco Production.

In our international tobacco business, we regularly visit farmers to offer advice and to support them in improving toward our standards and requirements. Farming experts build and maintain strong relationships with directly contracted farmers to help them improve tobacco production and increase their profitability.

Our tobacco businesses hold an annual Partnership Day for suppliers of non-tobacco materials, such as cigarette papers, acetate tow for filters, and packaging, at which we discuss how we can enhance our partnerships and collaborate more efficiently. This has resulted in increased awareness of sustainability issues among our suppliers.

Issues of importance for us to work with suppliers on are labor practices, bribery and corruption, health and safety, and illegal trade. For details on how we have responded to these concerns, see pages 54-55, 59-63, and 68-69.

### GOVERNMENTS AND REGULATORS

We seek an open dialogue with governments and regulators so that we can get across our point of view on regulations that affect our business and society.

When consulted by governments, we are respectful of each country's decision-making process, offer alternative solutions that meet the principles of better regulation, and provide credible evidence substantiating our position.

We believe that open and honest engagement results in better and more informed regulation and is in the best interests of all parties. Unfortunately, there has been an increasing risk in recent years by governments and regulators to restrict the input of the tobacco industry into discussions about regulation – or even to exclude it altogether. This is not a sensible or equitable approach and ignores the benefits of full stakeholder participation. We will continue to argue strongly against any moves to do so.

Areas on which we engage governments and regulators include illicit trade, youth access to tobacco products, and the health risks of smoking. For details on how we have responded to such concerns, see pages 64-73.

### COMMUNITIES

We engage with various stakeholders throughout our value chain, including

employees, retailers, consumers, and public sector specialists. Our holistic partnership approach ensures that our community investment programs are tailored to the needs of local people, and that contributions made provide demonstrable outputs addressing social and environmental challenges in communities where we operate.

### NON-GOVERNMENTAL ORGANIZATIONS (NGOS)

We work with a number of NGOs in various countries - including with the International Labour Organisation (ILO) and Winrock International, a U.S.A.-based organization specializing in agriculture - on our ARISE program aimed at eradicating child labor in tobacco. We also foster partnerships with NGOs that implement social programs in the communities where we buy tobacco, as well as others that support us in delivering our community investment programs.

### RETAILERS

We communicate with retailers in a number of ways, covering a range of topics from preventing youth access to cigarettes to dealing with litter associated with tobacco products.

Our retail engagement programs include seminars for retailers that look at the problems of youth smoking, and provide advice on how to cope with conflict situations that arise when refusing to sell cigarettes to minors. For details on how we have responded to concerns about youth access to tobacco products, see page 67.



## SHAREHOLDERS









One of the main forums for engagement with shareholders is our General Meeting of Shareholders, but we also discuss sustainability issues

at regular and ad hoc meetings with institutional investors. During 2015 we dealt with a number of requests from investors wanting to talk about issues

including tobacco product innovation, supply chain management, and corporate governance.



OUR STAKEHOLDERS ACROSS OUR VALUE CHAIN

	OUR SUPPLY CHAIN	OUR COMPANY	OUR CUSTOMERS & CONSUMERS
 SUPPLIERS			
 GOVERNMENTS AND REGULATORS			
 COMMUNITIES			
 NGOs			
 RETAILERS			
 SHAREHOLDERS			
 EMPLOYEES			
 CONSUMERS			

 **EMPLOYEES**

The key channel for communicating with employees is in their everyday work, including through performance appraisals and face-to-face meetings with line managers. But we also gather staff opinions via the intranet and through our Employee Engagement Survey (EES). Additionally, employees can report concerns about potential violations of our Codes of Conduct through our Reporting Concern Mechanism (RCM).

In our Japanese domestic tobacco business, the 2015 EES scores exceeded the Japanese company standard score in all categories, but revealed that employees had some concerns about the way workloads and responsibilities are allocated.

In our international tobacco business, scores in our 2015 EES improved in ten out of 12 categories. Compared to the prior survey, our employees were somewhat more critical with regards to

the pace of change and the vision of the Group for the future.

Key issues for employees, identified through discussions with stakeholders in 2015, include leadership development, equality and diversity, health and well-being programs, and safety at the workplace.

For further details on how we have responded to some of these issues, see pages 30-37.

 **CONSUMERS**

We communicate with consumers on a daily basis through our sales force and call centers, and often make product improvements based on consumer comments. We also receive feedback via our websites.

The key areas of interest of our tobacco business consumers are the health risks of smoking, responsible marketing, product innovation, illegal trade, and the environmental impact of products. In our processed food business, key consumer concerns are food safety,

high quality, and the provision of value-added foods. For details on how we have responded to these concerns, see pages 64-69, and 80-81.

# Collaborations, memberships, and endorsements

Collaborating with others helps us to address our sustainability challenges. It also fosters innovation and bridges any differences in opinion there may be between us and our stakeholders.

## PRODUCT SAFETY AND PRODUCT RESPONSIBILITY

In Japan we have formed Youth Smoking Prevention Councils with representatives of local government, police, the Tobacco Retailers Association, and other tobacco companies.



## CORPORATE GOVERNANCE AND TRANSPARENCY

We are a member of the U.K.-based Institute of Business Ethics and CEB Compliance & Ethics Leadership Council. We are also a member of the Business Ethics Research Center in Japan, which helps corporations consider ethical issues in the workplace.

## RESPECTING HUMAN RIGHTS



We are a member of the Industrial Federation for Human Rights, Tokyo. Members of our human resources department participate in discussions and training sessions on human rights held by the federation. The JT Group is a member of the Eliminating Child Labour in Tobacco Growing (ECLT) Foundation, and in 2014 signed the ECLT Foundation's Pledge of Commitment and Minimum Requirements on combating child labor. Our international tobacco business is also a member of the UN's Child Labour Platform, a multi-sector, multi-stakeholder forum for sharing experiences and lessons learned in eliminating child labor. We support Human Rights Watch in its efforts to improve legislation and bring higher standards of protection to farm workers in the U.S.A. We are also a member of the U.S.A.-based Farm Labor Practices Group, a multi-stakeholder organization that focuses on improving conditions for farm workers in the U.S.A.



## LAWS AND REGULATIONS

Our international tobacco business is a member of BusinessEurope, a group that campaigns on issues affecting businesses in Europe. We sit on multiple working groups, including one on the European Union's Tobacco Products Directive and another on plain packaging of tobacco products.

In 2015 our international tobacco business became a full member of the International Chamber of Commerce (ICC). We now sit on two of ICC's policy commissions – one on intellectual property and another on marketing and advertising. Through ICC we exchange ideas with other businesses that may be faced with similar regulatory challenges.

## ENVIRONMENT

The JT Group has been reporting its Group-wide greenhouse gas (GHG) emissions and climate change information to CDP since 2012, and water information to CDP since 2015. In 2015 our international tobacco business invited 30 suppliers to disclose information through the CDP supply chain initiative.



## EMPLOYEE DEVELOPMENT AND TALENT MANAGEMENT

Our international tobacco business now has the highest level certification from the Top Employers Institute. The Global Top Employer status is given to organizations that demonstrate the high standards of HR practices and employee offerings across the globe.

## RESPONSIBLE MARKETING

Our Japanese domestic tobacco business is a key member of the Tobacco Institute of Japan and complies with the institute's self-regulatory marketing standard.

## WORKPLACE HEALTH AND SAFETY

Our international tobacco business is a member of the European Council on Health and Safety and the Network of Employers for Traffic Safety (NETS). During 2015 our international tobacco business received the NETS Road Safety Achievement Award in recognition of 'advancing road safety.'



## OTHER SUSTAINABILITY-RELATED MEMBERSHIPS

In 2015 our international tobacco business became a member of a CSR task force in Switzerland led jointly by two business federations, Economiesuisse and SwissHoldings. Our role on the task force is to

represent members of Groupement des Entreprises Multinationales (GEM), a Geneva-based association that brings together more than 85 multinationals to present their views to governments and authorities on topics such as tax,

business development, sustainability, and employment. The task force aims to have an input into Swiss government proposals to develop action plans and binding rules on CSR.

# Sustainability governance

Our sustainability performance is discussed regularly by a group of Board members and Executive Officers, along with the CEO and the Senior Vice President for CSR, assisted by our CSR Division. However, businesses and corporate functions have ultimate responsibility for planning and implementing their own sustainability initiatives.

## SUSTAINABILITY GOVERNANCE



### TOP MANAGEMENT COMMITTEE

Consisting of Executive Officers, including our CEO and Senior Vice President for CSR, this body regularly discusses Group-wide sustainability issues.



### CSR DIVISION

This unit develops an understanding of global CSR trends, conducts gap analyses on approach and performance, makes recommendations to the Top Management Committee, and helps different parts of the business incorporate sustainability practices into their day-to-day activities. It is also responsible for sustainability reporting and communications.



### BUSINESSES AND CORPORATE FUNCTIONS

With help from the CSR Division when necessary, each business and corporate function plans and conducts sustainability-related initiatives based on its own strategies and priorities.



# Our material issues

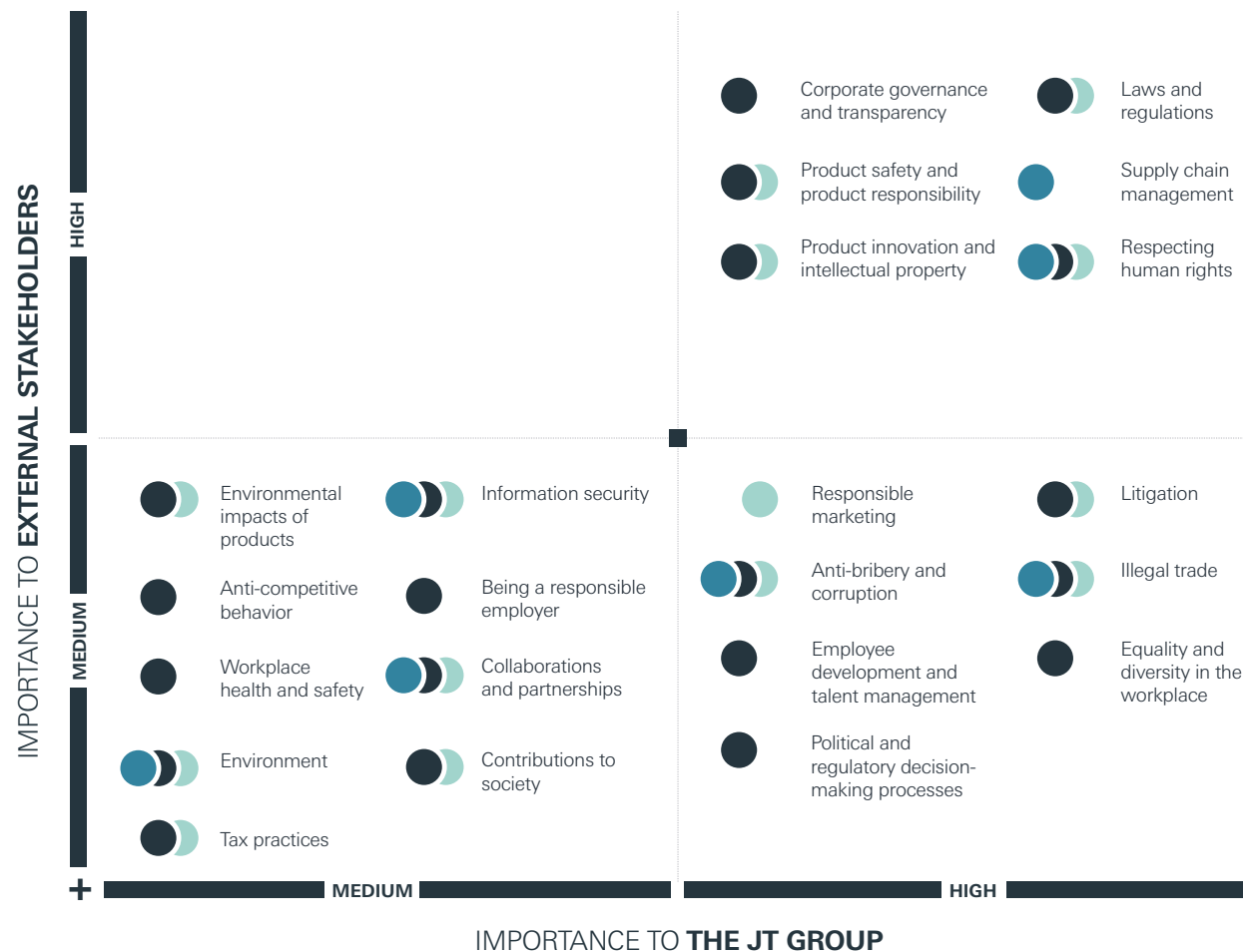
In 2015 we carried out our first materiality assessment covering the entire JT Group, building on the work done by our international tobacco business in 2014. The process began by conducting a media and peer review, which generated 31 sustainability topics of relevance. These were then calibrated through discussions with operational managers in the business.

We then carried out interviews with 15 of the top executives of the JT Group, including our CEO, followed by talks with 17 external stakeholders who included suppliers, investors, trade unions, NGOs, and industry organizations. Finally, we held a workshop with our 15 top executives to validate the materiality assessment results.

This process allowed us to arrive at a final list of 22 material issues, which stakeholders ranked as medium and high level of importance to the JT Group and our external stakeholders – see matrix below.

In future we will regularly carry out a materiality assessment with stakeholders. This will help us to monitor any changes in materiality and to update the list if necessary.

## JT GROUP MATERIALITY MATRIX



VALUE CHAIN BOUNDARIES

- SUPPLY CHAIN
- OUR COMPANY
- OUR CUSTOMERS AND CONSUMERS

OUR GROUP

# Our way of doing business



*All operations and employees within the JT Group must comply with the high standards of integrity laid down in our Codes of Conduct, which underpin how we do business. Our Codes also outline our responsibilities to stakeholders, which include preventing bribery and corruption, avoiding discrimination, respecting human rights, environmental protection, data privacy, and fair competition.*

*Employees are trained on our Codes, and there are communication channels for them to report concerns about potential breaches or violations.*

## 2015 highlights

2015

# 3.9%

of reported concerns were related to bribery and corruption.

2014

# 1.7%

2015

# 99.7%<sup>(\*C)</sup>

of employees trained on the JT Group Code of Conduct.

2014

# 99.5%<sup>(\*C)</sup>

The **JT GROUP ANTI-BRIBERY POLICY** was made public on our website in 2015.

In 2015 we launched **JT GROUP SUPPLIER STANDARDS** that set out the behavior we expect from all suppliers, globally.

# Corporate governance and transparency

The JT Board of Directors holds ultimate responsibility for administration and supervision of our activities, and is supported by a governance structure that includes bodies such as the JT Group Compliance Committee and the Compensation Advisory Panel. In 2015 our Board of Directors consisted of eight Directors, two of whom were independent. Five members of the Board also served as Executive Officers and three were non-executive, including the JT Group Chairman. The separate Audit & Supervisory Board consisted of four members, two of whom were independent. Results of audit and risk management exercises are reported regularly to the Board. Our Annual Report provides further details on our governance structures.

In February 2016 we established the JT Corporate Governance Policy to take account of Japan's Corporate Governance Code. As part of the rules of the Tokyo Stock Exchange, listed companies must comply with the new Code, which came into force in June 2015, or explain why they have not done so.

## RISK MANAGEMENT

Our approach to addressing key financial and business risks is detailed in our Annual Report. These risks are reported to, and discussed with, the Board of Directors at least every three months. Internal audits are conducted by a division independent from the business and other operational functions, reporting directly to the President of JT. We also have crisis management and disaster control systems in place. Identification and mitigation of sustainability risks is incorporated into our Group risk management approach. Key Group-wide sustainability risks include instability in the procurement of key materials, pressure from illegal trade, and natural disasters.





## CODE OF CONDUCT



The JT Group Code of Conduct outlines our responsibilities toward consumers, shareholders, employees, and society, and defines our legal and ethical obligations. Our international tobacco business and our pharmaceutical subsidiary have their own Codes of Conduct, based on the JT Group Code but reflecting their respective operational circumstances.

We view these Codes as essential to achieving our business goals while acting with integrity and in compliance with the law. They cover key material issues in our business (see page 21). They also reflect the high standards of ethical behavior we aspire to in all our business dealings, and which we expect from all our business partners.

Copies of our Codes of Conduct are provided to all employees, while shareholders and other interested parties can access them via our websites.<sup>1</sup> Annual training on the Codes is given to employees, supported by

internal communications campaigns where senior executives reinforce our company's strong commitment to the principles and values laid out within the Codes.

All the Codes are reviewed and updated as necessary, and the latest revision of the JT Group Code took place in 2015. It now features a refreshed section highlighting our "4S" model, and new sections on fair and appropriate accounting, respect for diversity, and prohibition of bribery.

Compliance training for employees on the JT Group Code of Conduct is provided face-to-face, online, or on the job. During 2015, 99.7%<sup>(\*)</sup> of employees who are required to adhere to the JT Group Code of Conduct participated in compliance training.

<sup>1</sup> Visit [www.jt.com](http://www.jt.com) and [www.jti.com](http://www.jti.com) to access our Codes of Conduct.

## COMPLIANCE WITH THE CODE OF CONDUCT



EMPLOYEES  
RESPONDED  
TO THE 2015  
**COMPLIANCE  
SURVEY**

**94.0%**<sup>(\*)</sup>

In our Japanese domestic tobacco, pharmaceutical and processed food businesses, each division assesses the risk of employees failing to comply with our Codes, and submits plans to address those risks. An annual compliance survey feeds into each division's action plans for addressing compliance risks, and each division must hold an employee meeting at least once a year. Approximately 24,500 employees (94.0%<sup>(\*)</sup>) responded to the compliance survey. As a result of the survey, we are looking into strengthening our various initiatives that will reduce long working hours. The survey also showed that we need to do more to publicize our Reporting

Concern Mechanism (RCM), which allows employees and business partners to report possible breaches of our Codes. We will therefore provide additional material for line managers about RCM and will devise a new campaign targeted at overseas subsidiaries in our processed food business.

We reported the outcomes of the 2015 survey to Executive Officers, who were encouraged to deliver compliance-related messages to employees and to participate in employee meetings.

We encourage employees to speak up about potential violations of our Codes

of Conduct, and we make it clear that anyone who reports concerns will be protected from any form of retaliation. This is fundamental to building a fair environment where we address any wrongdoing with integrity. In 2015 our international tobacco business produced a video as part of its annual communication campaign on the Code of Conduct that featured messages from its CEO and senior executives, aimed at reassuring employees of the company's commitment to supporting those who speak up about misconduct.



## REPORTING CONCERNS

If an employee is concerned about a potential violation of our Codes, he or she can contact their line manager, human resources lead, a member of the Compliance team, or use our RCM.

We follow up on all reports across the JT Group and, where necessary, launch investigations that may lead to corrective action. In 2015 we received 408 reports across the JT Group, up from 402 in 2014.

Employees are informed on how to use the RCM through various channels, including a leaflet distributed to all employees that explains how to use the RCM and a JT Group intranet Compliance site that has links to the RCM. In 2015 we issued a DVD of case studies illustrating different sections of the Code of Conduct and explaining RCM procedures.

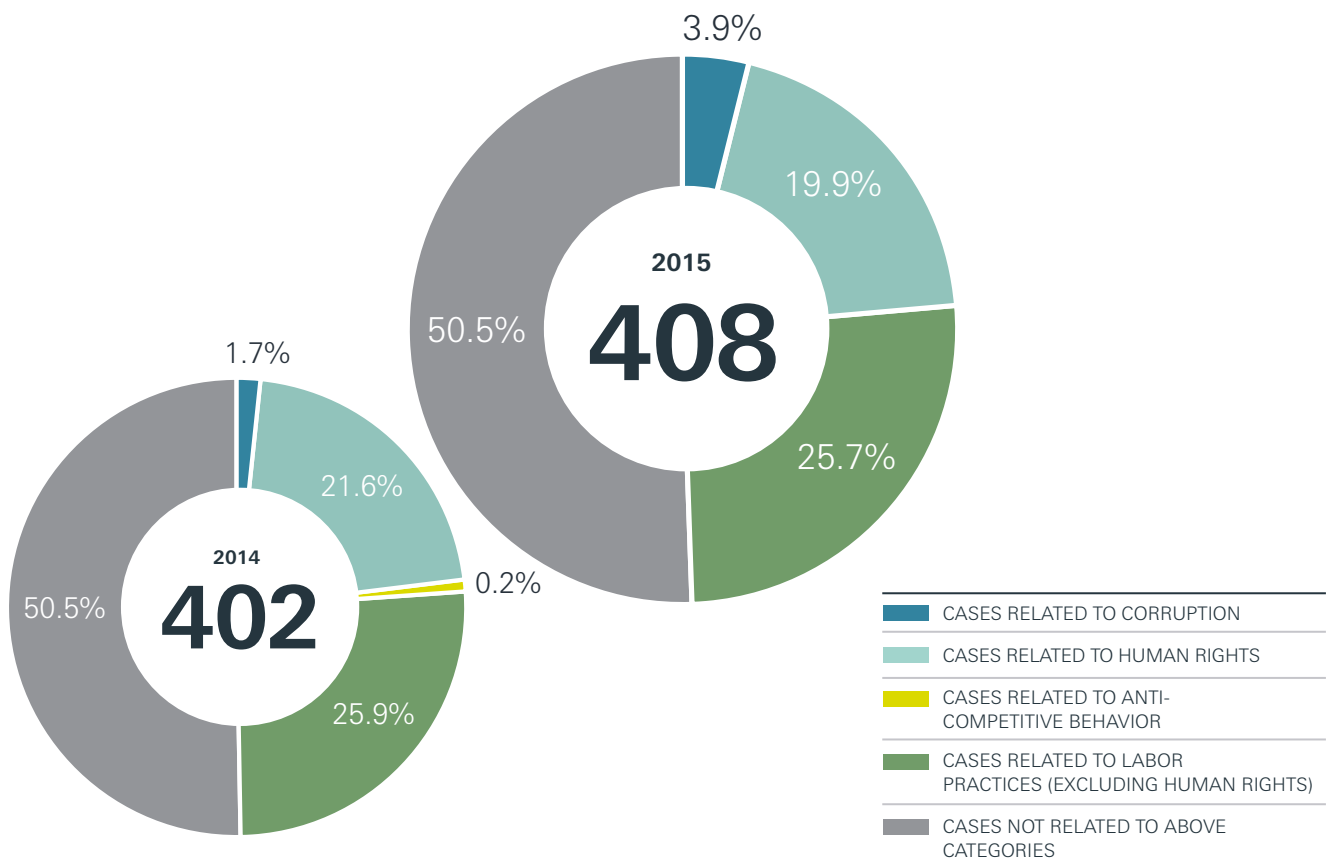
All new employees and anyone who has been newly promoted to a managerial position in JT and Japanese domestic Group companies <sup>(\*)</sup> receive face-to-face training on compliance including

the RCM. In our international tobacco business, new employees are given a copy of the Code of Conduct in which clear reference is made to the RCM process. In addition, in certain locations/entities, employees receive an induction program that incorporates compliance issues including the RCM. In all of the JT Group, RCM contact persons go through regular refresher training to ensure they have the skills to respond to RCM reports in an appropriate manner.

Aside from employees, customers, distributors, and suppliers are also able to report violations of our Codes of Conduct via our Reporting Concern for Business Partners website. In addition, in our international tobacco business, business partners may contact Corporate Compliance directly through [jti.com](http://jti.com), and our suppliers may contact Corporate Compliance through an e-mail link [onebehavior@jti.com](mailto:onebehavior@jti.com) as published in our Supplier Standards brochure.



## BREAKDOWN OF REPORTED CASES



## PROCUREMENT PRACTICES



Tens of thousands of suppliers provide us with the products, services, and materials needed for our tobacco, pharmaceutical, and processed food businesses. We expect all suppliers to uphold the high standards of integrity, quality, and safety that are referred to in the JT Group Responsible Procurement Policy.

In 2015 we launched JT Group Supplier Standards that set out the behavior

we expect from suppliers, globally. These Standards build on the ones we have been applying in our international tobacco business and, in conjunction with our Responsible Procurement Policy, will help us to work with suppliers to identify and resolve any issues that may occur.

We are also considering the implications of the 2015 U.K. Modern Slavery Act.

## OUR TAX PRACTICES

We believe that taxes are both necessary and desirable, and we are committed to paying levels of taxation that are not only firmly within the letter and spirit of local laws but are in accordance with our responsibilities to all stakeholders in our “4S” model. We do not engage in aggressive and artificial tax planning or tax avoidance schemes, and never use legal entities for tax purposes only.

In 2015 we paid a total of 132,027 million Yen in corporate tax across the JT Group.

Our approach to tax is guided by an integrated Global Tax function that works across the JT Group to provide advice on tax issues and ensure appropriate payment of taxes. This function also manages a yearly

compliance process in which business units must issue a detailed report, signed off by the Finance Director, to show they are meeting their local tax obligations.

We aim to be as transparent as possible on taxation, and to foster good relationships with tax authorities in order to reduce uncertainty or misunderstanding on both sides.

One of our key challenges is that tax legislation and practice in some territories, particularly in emerging markets, is often less clear than we would like it to be. This can easily translate into differences of opinion with authorities over the interpretation of tax regulations. We always try to solve these disagreements through active engagement.

## REGULATORY LANDSCAPE

An important topic for the JT Group over the next few years will be the OECD’s Base Erosion and Profit Shifting (BEPS) Project, which aims to clamp down on tax planning strategies that artificially shift profits to low-tax or no-tax locations and reduce taxable base. Because we earn income only in countries where we have substantive business operations, we are confident that the JT Group is paying its fair share of taxes. However, we are still digesting the latest recommendations of the BEPS Project in order to understand the potential implications on the JT Group.



## INFORMATION SECURITY

The JT Group’s information security risks lie in the damage or leakage of three types of key information:

1. Information we hold on customers, consumers, suppliers, and employees.
2. Information on our business strategy.
3. Engineering and experimental data, including results from our research.

To prevent confidentiality breaches, we must deter those who might want to compromise confidentiality, prevent

possible incidents, detect breaches, and, if necessary, recover data as swiftly as possible.

We have laid down policies and procedures, including manuals, guidelines, and incident response processes, that help employees reduce risk, protect information, and respond to any attacks. And we regularly update and enhance our information security policies and procedures to take account of the rapidly changing landscape in this area.

Attacks on information security often occur because of carelessness, so we periodically conduct training to refresh information security knowledge defined in policies and procedures. And we update employees with advice on good practice so that we are able to prevent information security violations.

In addition, we make use of the latest technology, including monitoring and alert systems, to prevent and detect information security breaches. We also carry out periodic reviews of our information security technologies.

## INFORMATION SECURITY



## ANTI-COMPETITIVE BEHAVIOR



Fair competition is covered by our Codes of Conduct, which forbid employees from discussing business operations with competitors. In our international tobacco business, if an employee is in a conversation with a competitor and sensitive commercial information is discussed, they must end the conversation, express disagreement with discussing such topics, leave immediately, and report the matter to our legal department. We have employee guidelines on anti-trust and competition law policy, and all employees in our international tobacco

business are required to attend annual training on anti-competitive behavior. We have no cases pending for alleged anti-competitive behavior.

In 2015, following an out-of-court settlement, the Tanzanian Fair Competition Commission withdrew all claims against one of our subsidiaries relating to a complaint of alleged anti-competitive behavior filed in 2008. Both parties agreed to refrain from pursuing any future claims against each other and to keep the terms of the agreement confidential.

# Anti-bribery and corruption

Our Codes of Conduct set out a zero tolerance approach to corruption in our operations. The JT Group has an anti-bribery and corruption policy that takes into account legislation such as the Unfair Competition Prevention Act of Japan, the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, and anti-bribery laws in China.

In 2015 this policy was made available publicly for the first time on our website. Our top management has issued clear messages to the employees that bribery and corruption are unacceptable and the adherence to the JT Group Anti-Bribery Policy is mandatory.

In 2015, 99.7% <sup>(\*)</sup> of employees completed Code of Conduct training that included modules on anti-bribery and corruption. In addition, around

1,500 employees working in functions where bribery and corruption is a key issue were provided with e-learning. We also held a face-to-face seminar for 27 Compliance Committee members and Executive Officers, delivered by a legal expert in the field, which included a focus on anti-bribery practices outside of Japan. On-site interviews with employees were also conducted in high-risk functions. Based on the findings of these conversations, additional controls,

including due diligence of third-party agents, are being implemented as and when necessary.

Our international tobacco business will deploy their own full anti-bribery and corruption policy in 2016, which will be supported by appropriate communication and training.

EMPLOYEES TRAINED ON THE JT GROUP CODE OF CONDUCT, INCLUDING ANTI-BRIBERY, IN 2015 <sup>(*)</sup>	EMPLOYEE CATEGORY	NUMBER OF EMPLOYEES	% OF EMPLOYEES
	MANAGEMENT	2,482	99.9%
	NON-MANAGEMENT	10,647	99.6%
	TOTAL	13,129	99.7%





## GIFTS, HOSPITALITY, AND ENTERTAINMENT

We do not proactively encourage a culture of exchanging gifts, hospitality, and entertainment (GHE). The giving and receiving of GHE must always be reasonable, proportionate, transparent, and in line with local legislation. If not, this may damage our reputation. We believe the purpose of GHE should be to promote healthy business relationships, while not to seek preferential treatment in return. As a rule, approval must be sought for all GHE exchanges for any JT Group company, including those with government and public officials. Based on our Gifts and Entertainment Guidelines, each department sets thresholds on the amount of each exchange.

In our international tobacco business, all GHE exchanges with non-governmental third parties above US\$250 must receive prior approval. For government and public officials, all requests, regardless of amount, must be approved. The number of GHE requests in 2015 fell to 738 <sup>(\*E)</sup>, from 772 in 2014.

Users of the GHE software must take part in specialized online training on GHE. In 2015, 927 <sup>(\*E)</sup> employees underwent such training, compared with 304 in 2014.

### GHE REQUESTS IN 2015

**738** <sup>(\*E)</sup>

### COMMUNICATION OF GHE POLICIES AND PROCEDURES TO EMPLOYEES IN 2015 <sup>(\*E)</sup>

EMPLOYEE CATEGORY	NUMBER OF EMPLOYEES	% OF EMPLOYEES
EXECUTIVE OFFICER	17	100%
MANAGEMENT (EXCLUDING EXECUTIVE OFFICERS)	1,019	100%
EMPLOYEES (EXCLUDING MANAGEMENT AND EXECUTIVE OFFICERS)	19,052	76%

### EMPLOYEES UNDERWENT GHE TRAINING IN 2015

**927** <sup>(\*E)</sup>



# Our people



*Our employees are critical to the success of our business, and are a key stakeholder group in our “4S” model. To provide global guidance across the JT Group, we defined the following JT Group HR Management Philosophy:*

*“In order to contribute to the Company’s sustainable growth, and with the recognition that highly skilled, talented and diverse people are the foundation of its success, JT Group Management strives for the highest level of employee satisfaction with a long-term view.*

- 1. Treat all employees fairly and respectfully*
- 2. Ensure transparency of rules and standards*
- 3. Provide all JT Group employees with growth opportunities”*

## 2015 highlights

2015	2014
<b>2</b>	<b>5</b> <sup>(*D)</sup>
fatalities	

2015  
**11.4%**  
of management positions were held by women.



For 2015 our international tobacco business was once again certified as Global Top Employer for our consistent high-quality work environment as one of only eight employers worldwide. We were recognized by the Top Employers Institute in 35 countries around the world, and we were the number one employer in Asia Pacific and number two in Europe.

2015	2014
<b>5</b>	<b>8</b>
alleged cases of workplace discrimination.	

2015  
**98.4%** <sup>(\*D)</sup>  
of management positions were filled by internal hires.

# Employee development and talent management

A highly motivated and competent workforce is key to sustainable business growth. We therefore need to create and maintain a work environment that motivates people and nurtures excellent performers.

We continuously review and redesign our HR strategies and programs so that we can match the aspirations of our employees with the needs of our business, and so that we can prepare our workforce for future challenges. While we believe that on-the-job learning is central to the development of our employees, we also invest in training, and each of our companies runs its own employee development and training programs.

## ATTRACTING TALENT



Across the JT Group we have a clear idea of what 'talent' means for us: most of all we value positive attitudes and behaviors, and we search for people who exhibit our values.

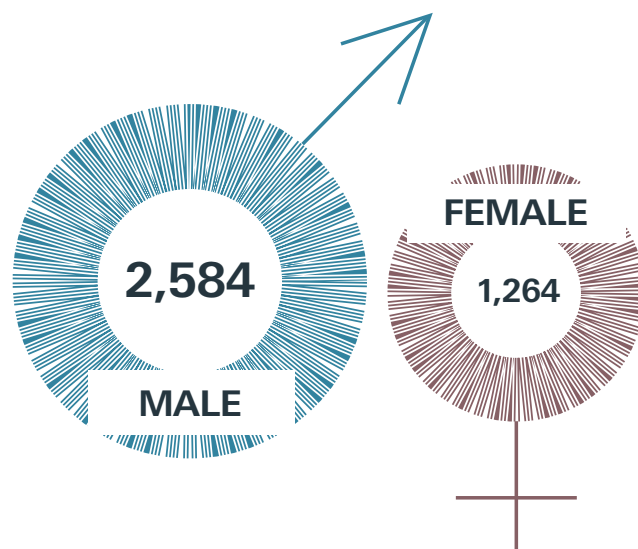
Our international tobacco business has a global internship program, called JUMP, which aims to attract high-potential students to join the company and help them gain experience and realize their potential. In addition, there are several regional graduate programs in place, focusing on high-profile graduates with the potential to become future leaders. This has been a particular focus in Japan.

To attract the best, we offer good career development opportunities, various training, and highly competitive salaries and benefits. In 2015 our international tobacco business outlined a new Employer Value Proposition:

a set of key attributes that makes us unique as an employer. These are Long-term Success, Care and Respect, and our commitment to Invest in People. Along with this Employer Value Proposition, key qualities that make people successful in the company have been streamlined, and targeted talent profiles have been shaped. From 2016 we will make sure the new 'Employer Value Proposition' is spread globally and is an integral part of the DNA of the company.

We made 3,848 hires in 2015 across the globe – by leveraging modern ways of talent attraction, including social media such as LinkedIn, Glassdoor, and Facebook. The number of followers on LinkedIn more than doubled in 2015, from 30,000 to more than 70,000, making ours the fastest-growing LinkedIn company profile in the tobacco sector.

### NEW HIRES BY GENDER, 2015





## DEVELOPING AND RETAINING TALENT

We aim to offer a work environment that allows employees to express their potential and provides them with the most effective development opportunities.

Our development programs take account of employees' needs and future career opportunities, as well as requirements of the business. These programs include training, assignments, international experience, special projects, coaching, and mentoring. We have a global training catalog that covers key competences required to be a successful JT Group leader, such as effective communication and strategic thinking. Partnering with eight business schools and executive education institutes, we also provide top-class development opportunities. In 2015 about 250 employees took part in executive education programs.

We also run the JT/JTI Talent Partnership Program that allows people to move between our Japanese domestic and international tobacco businesses. As of December 31, 2015, 205 employees took part in these exchanges. Partly as a result, half of our managers in the corporate and tobacco business headquarters in Tokyo have international experience.

As part of the Program, we run an Exchange Academy that helps young employees learn and network together, turning them into better future global leaders.

Performance appraisals are an important way of developing employee potential. In 2015, 76% of our workforce had appraisals that checked on their performance and made recommendations for improvement.



Employees set their own targets, with progress confirmed periodically and a formal evaluation at the end of the fiscal year. Each stage is performed with line managers; in this way we can help employees meet both their personal objectives and those of the business.

We believe employees should have ownership of and manage their career development, and in JT, for example, we provide training at specific points of each employee's working life. Developing talent not only helps retain employees, but it also helps our succession planning by filling open management positions with internal candidates whenever possible - 98.4% <sup>(\*)</sup> in 2015.

Providing competitive compensation is also key to attracting and retaining talent. As part of the JT Group HR Management Philosophy, we commit to treat all employees fairly and respectfully, and based on this each of our businesses designs its own compensation policy. For example, our international tobacco business strategically positions its compensation levels at 75th percentile versus premier companies with which we compete for

talent. In 2015 it expanded its employee share purchase plan offer to 11 new countries, following the pilot program that was introduced in Switzerland one year earlier.

Across our businesses, according to geographical location, we offer benefits such as healthcare, defined contribution pension plans, life and disability insurance, and parental or nursing care leave. In JT we have a parental scheme that provides for up to two years of leave for all employees - above the Japanese legal requirement of 18 months.

We run our Employee Engagement Survey to understand what is important for our employees, how to better engage with them, and identify areas where we need to do better. The 2015 Employee Engagement Survey in our international tobacco business showed improved scores in 10 out of 12 categories compared with 2012, when the survey was last carried out. The one area in which scores declined by 1% was on organizational direction and change, where employees had some concerns about the pace of change and the Group's vision for the future.

## MAKING THE MOST OF OUR TALENT PARTNERSHIP PROGRAM

Shigetaro Suzuki joined JT in 1997 as a tobacco sales representative in Tokyo, rising to become a brand manager for Caster cigarettes in 2002. As part of our Talent Partnership Program, he participated in our Exchange Academy in 2007 to gain international experience, then from 2008 to 2010 he undertook an assignment in the U.S.A. as a portfolio development and performance manager in our international tobacco business.

Shigetaro's two-year spell in New Jersey allowed him to work on pricing strategy and portfolio development, as well as on brand management for our Mild Seven cigarettes brand. After his assignment, he returned to Japan, where he took his newly learned skills into our Tobacco Business Planning Division as an emerging product manager. In 2012 he moved to the Mild Seven brand group, where, as senior brand manager, he led its rebranding under the new name of Mevius.

"The Talent Partnership Program was a great way to develop my international career," says Shigetaro, who now works as a brand manager for Mevius and Sobranie in Geneva. "It allowed me to get to know so many people, functions, and ways of doing international business. I also learned lots of new skills along the way, especially in the area of marketing. And on a personal level it helped me to improve my English, to get a better understanding of different cultures, and to enhance my presentation skills."



# Being a responsible employer

We regard good communication as a vital part of our commitment to being a responsible employer. Across our businesses we have an open dialogue with employees, making use of everything from notice boards and face-to-face meetings to web-based channels and electronic communications. All such engagement takes place whether or not a trade union is in place.

## WORKING WITH TRADE UNIONS

We aim for open and constructive relations with trade unions and works councils, and are supportive of freedom of association and the right to collective bargaining. Even in territories where there are no legal requirements, we view freedom of association and the fostering of good relations with employee representatives as a minimum.

Fifty-six companies have a union in our Group and 92.3%<sup>(c)</sup> of eligible employees are covered by collective bargaining agreements. Trade unions or local works councils represent our workforce in 23 countries.

Our European Works Council, which consists of employees and managers, operates as an employee information and consultation body and meets several times a year. The council has been at the heart of discussions with employees over planned closures of our factories in Wervik, Belgium, and Lisnafillan, Northern Ireland,

announced in 2014. The closures are scheduled to take place between 2016 and 2018, affecting around 1,100 jobs.

In February 2015 we decided to cease the manufacture and sale of JT brand beverages and this was completed by the end of September 2015. Following discussions with trade unions, affected employees – with the exception of those in our beverage vending operation subsidiary, which was acquired by another company – could remain within the JT Group if they wished. This offer was taken up by 119 people.

In July 2015 we announced that our Moscow factory will close in mid-2016, affecting 573 jobs. Following discussions with employee representatives, staff members who lose their jobs will receive compensation significantly above that required by Russian legislation. In October 2015 we announced that we were considering closing our Wadeville

factory in South Africa. Eighty-four employees will potentially be affected by this decision. We consulted with employee and union representatives in accordance with South African employment law to discuss all alternative solutions to best support the workforce.

In general, employees affected by closures are given as much notice as possible, which exceeds minimum notice periods required by law, so that meaningful discussions with staff representatives can take place and arrangements can be made to help people move internally or find jobs elsewhere.

## NON DISCRIMINATION

### REPORTED CASES OF DISCRIMINATION IN 2015

# 5

Our Codes of Conduct guide the way we deal with discrimination in the workplace.

We are determined to foster work environments that are free from all forms of unfair discrimination. We do not allow age, gender, disability, ethnic origin, marital status, nationality, race, religion, beliefs, or sexual orientation to influence decisions about the career progression of employees, nor to be a factor in areas such as recruitment,

compensation and benefits, or succession planning.

Despite this, there may be incidents of alleged workplace discrimination that need addressing. In 2015 five such alleged incidents were reported by employees. We reviewed all cases, of which three required corrective action and were closed in 2015, and the other two were closed in 2016 with no corrective action required.

## LOCAL LABOR PRACTICES

The hiring of local talent contributes to the economies of countries and regions in which we operate, and is a part of our corporate responsibility to those communities. While we have no Group-wide policy on the hiring of

local employees, and our approach is to recruit and assign 'the right person in the right position at the right time', we are mindful of our responsibilities in this area.

All our businesses conform with legally set local minimum wage levels, and in many cases are well above these levels due to our policy of offering pay and benefits that are highly competitive. This also applies to part-time employees.

# Equality and diversity at the workplace

Having a diverse workforce provides us with different perspectives and outlooks that feed positively into our business, suggesting new ways of doing things and making us more competitive in the marketplace. In 2015 we employed people from more than 100 countries. Beyond national diversity we value diversity of opinion, allow people to express their own personalities, and create a work environment that fosters equality, creativity, and innovation. Our commitment to equal opportunity and anti-discrimination is reflected in our Codes of Conduct and in the JT Group HR Management Philosophy.

## GENDER DIVERSITY



We adopt a gender-neutral approach to recruitment and to create workplaces that are attractive to, and supportive of, women. We are also committed to raising awareness among employees of the importance of gender diversity to the health of our business. While 27.3% of our employees are women, only 11.4% of our management (excluding Executive Officers) is female. We have therefore set targets to increase this proportion.

In JT we have a Diversity Development Department that promotes respect for diversity of employees and opinions, as well as equal opportunities for men and women. We provide gender diversity awareness-raising workshops for all managerial employees, hold seminars on female empowerment in the workplace, and have a section on our intranet site that focuses on promoting diversity. In 2015 additional gender diversity workshops were held for all

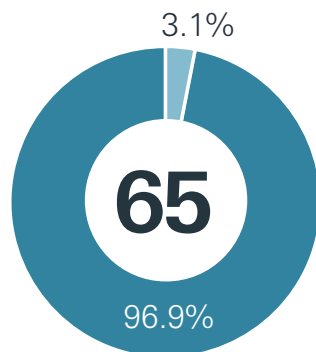
managers to discuss ways to create an environment that encourages work-life balance for all employees.

Female representation within management in JT increased from 2.6% at the end of 2014 to 4.0% at the end of 2015, against our aim of reaching 10% by 2023.

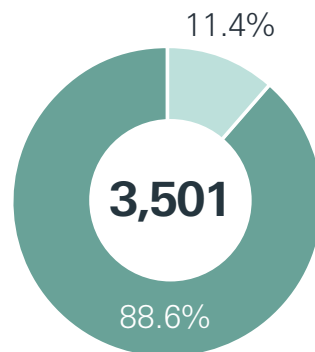
Our international tobacco business is aiming to have 30% female Directors by 2020, with longer-term aspirations to have equal representation at Vice President and Executive Committee level. At the end of 2015, 27.6% of Directors were women, up from 27.0% in 2014.

In 2015 our international tobacco business launched a talent development program aimed at preparing 20 employees for senior leadership roles with significantly higher accountability and complexity. Fifty percent of the pilot group were women.

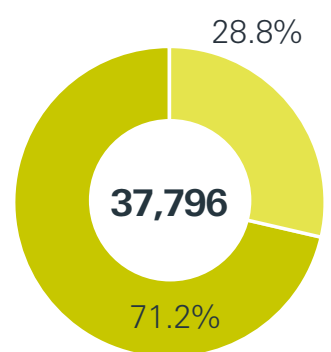
### EMPLOYEES BY POSITION AND GENDER AT THE END OF 2015



**EXECUTIVE OFFICER**  
 FEMALE MALE



**MANAGEMENT (EXCLUDING EXECUTIVE OFFICERS)**  
 FEMALE MALE



**EMPLOYEES (EXCLUDING MANAGEMENT AND EXECUTIVE OFFICERS)**  
 FEMALE MALE

## GENERATIONAL DIVERSITY AND WORK-LIFE BALANCE

We believe that generational diversity is as important as gender diversity, as it ensures that different perspectives and experiences feed into our business. We promote a culture that values intergenerational learning and experience sharing. We do not discriminate on the basis of employee age or generation and adopt ways of working that are appropriate to all generations represented in our workforce.

One way of doing this is to ensure a good work-life balance. To help achieve this, each of our companies run their own initiatives that take into account local regulations, cultures, and work environments.

For example, in JT during 2015 we expanded childcare and family care programs that allow employees to work in more flexible ways, and we enhanced schemes that help

employees to pay for nursery schools or care for elderly relatives. In 2015 we also piloted telework and early bird working schemes in the JT head office as part of a 'Work Style Reinvention' program aimed at determining whether flexible working routines can have a positive effect on employee effectiveness. We will continue to run and assess this program during 2016.

BREAKDOWN OF EMPLOYEES BY GENDER AND AGE GROUP	FEMALE	MALE	TOTAL
UNDER 30	2,425	4,597	7,022
30-50	7,268	19,171	26,439
OVER 50	1,591	6,265	7,856



## EQUAL REMUNERATION FOR WOMEN AND MEN

We are committed to gender diversity and equality, and we do not make decisions about our employees' pay on the basis of diversity characteristics such as gender. Salary structures in most of our operations across the JT Group are set up to take into account only a position's significance and responsibilities. This system is designed to ensure equal pay for equal positions, allowing some variability driven only by merit and performance over time but not gender.



# Workplace health and safety

Providing a safe and healthy workplace environment for our employees is fundamental to our business. It is also an important way to support sustainable growth, not least because a healthier workforce contributes more fully to our business.

Our standards on health and safety usually exceed legal requirements and their scope extends beyond our employees to cover contractors and visitors in our operations. Well-being programs often also include family members of employees.

WORKPLACE HEALTH AND SAFETY DATA*	FY2011	FY2012	FY2013	2014	2015	TARGET
NUMBER OF EMPLOYEE FATALITIES	1	1	1	2	1	0
NUMBER OF EMPLOYEE LOST-TIME INCIDENTS (LTIs)	N/A	N/A	N/A	113	154	N/A
EMPLOYEE LTI RATE (NUMBER OF LTIs PER 200,000 HOURS WORKED)	0.31	0.28	0.26	0.32	0.36	N/A
NUMBER OF CONTRACTOR FATALITIES <sup>(E)</sup>	0	0	0	3	1	0
NUMBER OF CONTRACTOR LTIs <sup>(E)</sup>	N/A	N/A	N/A	12	17	N/A
% OF CIGARETTE AND TOBACCO-RELATED FACTORIES CERTIFIED TO OHSAS 18001 <sup>(D)</sup>	90.0%	89.7%	85.4%	81.0%	78.9%	100%
NUMBER OF VEHICLE ACCIDENTS <sup>(E)</sup>	1,757	1,508	1,362	1,341	1,108	N/A
VEHICLE ACCIDENT FREQUENCY RATE (ACCIDENT PER MILLION KILOMETERS) <sup>(E)</sup>	8.4	7.1	6.1	5.9	4.8	N/A

\*Unless otherwise specified, 2015 safety data covers the entire JT Group, while previous years cover scope \*D.

## SAFETY

We aim to create safe workplaces by building upon three interlinked components: safety culture, safe workplaces, and safety competence.

There is a uniform understanding of the importance of safety throughout the JT Group, and we maintain robust management systems and assessment procedures that identify workplace risks. Of our tobacco-related factories, 78.9% are certified to the OHSAS 18001 safety management standard, and our target is 100%.

The highest safety risks across the JT Group are associated with operating vehicles for company-related activities, working at height, and with slips, trips, and falls.

Working with machinery is also a concern, and in 2015, in our international tobacco business, we developed a set of global standards for safe operations on machines and equipment, against which each

production site was surveyed in order to address any areas of non-compliance.

We regret to say that in 2015 there were two occupational fatalities in our international tobacco business. One of our employees contracted malaria while on a business trip to Africa, the complications of which contributed to his subsequent death, and a contractor was electrocuted in Sudan. In addition, one third-party death occurred in Tanzania, where a company vehicle collided with a cyclist.

Our lost-time incident (LTI) rate increased in 2015 from 0.32 to 0.36, partly due to an increased number of incidents within our tobacco procurement operations, and we will target resources to address these issues. There was a significant reduction in the vehicle accident frequency rate, from 5.9 <sup>(E)</sup> to 4.8 accidents per million km.

Safety policies, standards, training, and focused campaigns are all key to instilling a strong and sustainable safety culture. In our international tobacco business in 2015, we:

1. Revised our Global Fleet Safety Policy, extended our Fleet Safety Program and road traffic safety awareness to motorcycle riders, and continued running driver safety training.
2. Ran training sessions and awareness workshops for managers and employees to help them better understand all safety risks and their role in managing safety.
3. Introduced additional training programs for our contractors.



## HELPING BIKERS RIDE SAFER



For many of our tobacco farming experts, a motorcycle is the only vehicle enabling visits to remote tobacco leaf farms. In 2015 more than 500 motorcycles were in use in our international tobacco business.

However, riding a motorcycle can be dangerous, especially in areas where roads are bad and weather conditions are unpredictable. To address this issue we provide a specially designed motorcycle risk management program.

The program is designed to reduce risks by riding defensively, and also focuses on the proper maintenance and inspection of a motorcycle. It emphasizes the necessity to wear proper protective equipment, such as helmet, gloves, and high-visibility jackets.

Selected motorcycle operators also undertake specialized train-the-trainer sessions that enable them to deliver training to other motorcycle users.

*“Before this training I didn't know about cornering; I didn't know about proper braking techniques. With the new skills I've learned I'm going to teach my colleagues what I know, and at the same time I'm going to keep practicing what I've learned, to improve myself even further.”*

**GREENWELL MBEWE**  
AGROFORESTRY TECHNICIAN

## EMPLOYEES' HEALTH



In our international tobacco business, in 2015 we finalized a framework that will provide us with a more consistent way to assess employee exposure to health hazards such as noise and dust. We ran site-based workshops during 2015 to validate the global application of the framework, and data gathering will begin in 2016. Once results are in, we will target sites shown to have the greatest risks and will set targets for exposure reduction.

In 2015 we developed an ergonomic risk assessment tool that will provide

our operations with a system for assessment, avoidance, or control of musculoskeletal problems, which are one of the main causes of absence from work. We created a bespoke system to help manage data, communication, and storage of potentially dangerous substances. We also identified and developed a global pre-travel health assessment process that will be implemented and rolled out in 2016-2017. The principle of this confidential, online tool is the assessment of individual health status against location health risk.

In JT during 2015 we updated our occupational health and safety policy and established a dedicated site on our intranet to enhance awareness of health issues among employees. We have medical staff of 14 doctors and 36 public health nurses across 11 office locations in Japan, offering a health promotion program for the prevention of diseases and consultations on lifestyle issues. They undertake face-to-face interviews with all full-time employees based on the result of each medical examination, providing advice on exercise and diet.

We provide all employees in Japan with annual mental health checks. Anyone found to have high stress levels is offered a consultation with one of our doctors. We also run seminars for managers on the prevention of stress.

Employees in Japan who have had long periods of sick leave can take advantage of a program designed to help them get back to work, including by working shorter hours.



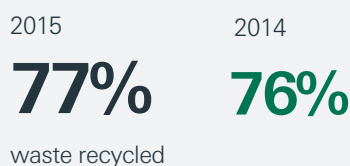
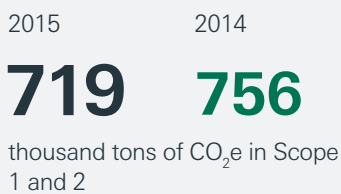
# Our planet

*Protecting the environment is a crucial part of our responsibility to society, and key to the sustainability of our business. We work to reduce environmental impacts because it is the right thing to do, but also because it delivers benefits such as cost reductions and an enhanced reputation.*

*We actively identify opportunities to reduce environmental impacts across our value chain, from procurement of raw materials to production, distribution, and sales. We aim to make progress in four areas: greenhouse gas (GHG) emissions reduction, sustainable water use, waste reduction and recycling, and conserving biodiversity.*

*One new challenge for us is to identify and manage environmental issues in our supply chain relating to emerging products.*

## 2015 highlights



# Environmental management

The three main drivers behind our commitment to reducing environmental impacts are our responsibility as a corporate citizen, our business performance, and regulatory requirements.

As a responsible business we recognize that we have an obligation to protect the environment so that future generations can have the same opportunities that we benefit from today. But by reducing our environmental impacts, we can also reduce costs, conserve resources that we are reliant upon, improve our overall performance, and enhance our reputation.

Our company standards always conform with, and often exceed, relevant regulatory requirements.

Our environmental management approach is laid out in our Environment Charter, which requires that

wherever practicable we reduce our environmental impacts in all the countries in which we operate, and across our entire value chain. The Charter is supported by the JT Group Long-term Environment Plan 2020, which sets out our environmental

objectives and targets. Responsibility for environmental management rests with our Executive Deputy President and with the Group Executive body monitoring performance.

For our Environment Charter visit: [www.jt.com/csr/environ/management/index.html](http://www.jt.com/csr/environ/management/index.html) and for historical data on our environmental performance, please visit [www.jt.com/csr/environ/data/index.html](http://www.jt.com/csr/environ/data/index.html).

## ENVIRONMENTAL MANAGEMENT SYSTEM

We have a formal environmental management system (EMS), based on the ISO 14001 standard, that ensures a consistent approach across the business. All our manufacturing sites are encouraged to obtain ISO 14001 certification, while other facilities, such as distribution centers, can either seek certification or customize their own ISO 14001-based EMS. Smaller sites and offices can also do this on a more simplified level, allowing them to take account of the nature and scale of their operations. In 2015, 100% of our Japanese domestic tobacco business factories and 77% of our international tobacco business factories were ISO 14001 certified.

In 2015 ISO 14001 was revised, and we are in the process of ensuring our systems align with this revised ISO 14001:2015 standard. Where we identify gaps between our EMS and the revised standard, we will address these to ensure continued compliance.

We are also making sure that environmental impacts, resulting from our development of emerging products, are managed in line with the JT Group expectations and are captured within our EMS. We are collecting information in this area relating to carbon emissions, waste management, and raw materials procurement and use.

## JT GROUP LONG-TERM ENVIRONMENT PLAN 2020

We strive to harmonize our corporate activities with the environment by focusing on four areas:



**MINIMIZE OUR CONTRIBUTION TO GLOBAL WARMING**  
TARGET FOR 20% REDUCTION OF GHG EMISSIONS AND INTENSITY BY 2020



**PROTECT WATER RESOURCES**  
THROUGH SUSTAINABLE USE OF WATER



**PREVENT WASTE, PROMOTE RECYCLING, AND OPTIMIZE RESOURCE USE**



**CONSERVE BIODIVERSITY THROUGH PROMOTING SUSTAINABLE STEWARDSHIP OF THE NATURAL ENVIRONMENT**



# GHG emissions

Climate change is one of the biggest environmental challenges the world faces today. It can have a negative impact on growing patterns and crop yields, as well as on the production of many of the non-tobacco materials found in products and packaging across our supply chain.

Given the close links between climate change, GHG emissions, and energy use, it is in our interest – as well as part of our corporate responsibility – to reduce fossil fuel energy use and GHG emissions. As we expand existing operations and develop into new business areas, this is sometimes challenging – for instance because local energy generation is heavily reliant on fossil fuels.

## MANAGING OUR OWN GHG EMISSIONS

Our sites with significant GHG emissions are required to develop quantified emission reduction targets and action plans. This helps us to focus on GHG performance and to identify opportunities for improvements.

We have a target of reducing our absolute GHG emissions – both those that we are directly responsible for

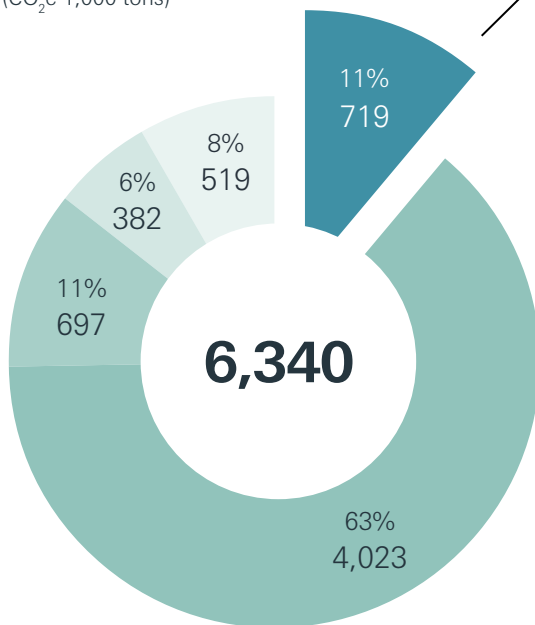
(Scope 1) and those resulting from our consumption of third party-produced energy such as electricity (Scope 2) – by 20% between FY2009 and 2020. We aim to deliver on this target through efficiency programs, including those identified by ongoing energy surveys in our production facilities. We are also examining ways to replace existing energy sources with renewable energy,

which can have a significant impact on GHG emission levels.

In 2015 we reduced Scope 1 emissions by 4.5% and Scope 2 by 5.3% over 2014. Savings were largely achieved by continued site-level implementation of energy action plans, which focus mainly on energy efficiency improvements.

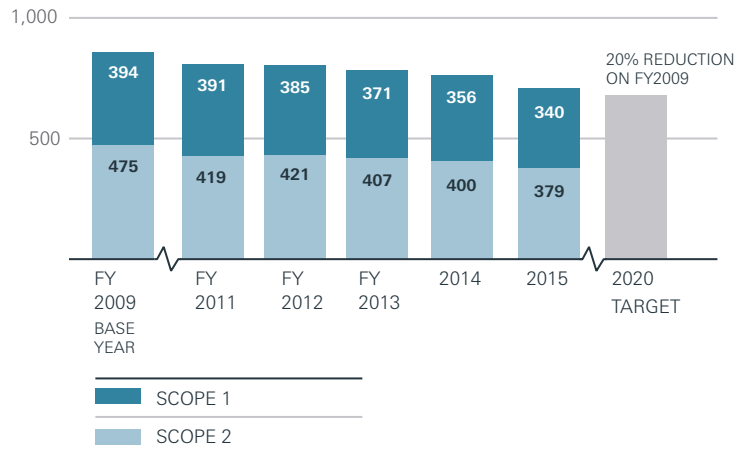
### GHG EMISSIONS IN OUR VALUE CHAIN IN 2015

(CO<sub>2</sub>e 1,000 tons)



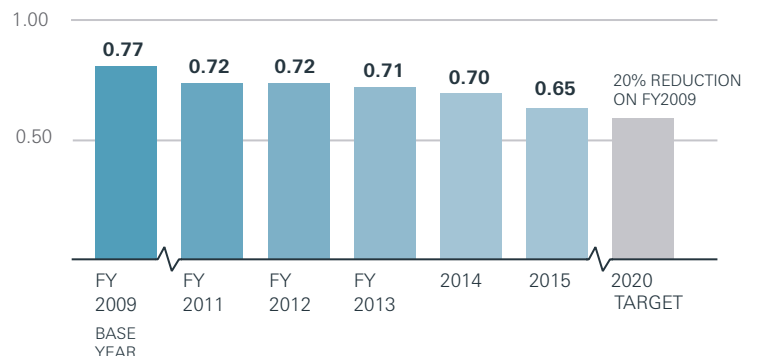
### COMBINED SCOPE 1 AND 2 GHG EMISSIONS

(CO<sub>2</sub>e 1,000 tons)



### GHG EMISSIONS INTENSITY FOR TOBACCO BUSINESS

(CO<sub>2</sub>e tons/million cigarettes equivalent)





## INITIATIVES TO REDUCE OUR OWN GHG EMISSIONS

In Japan during 2015 we replaced the use of heavy oil with city gas for a boiler in the production of frozen foods at our factory in Ipingshang Foods Corporation, reducing GHG emissions by about 600 tons per year.

In our international tobacco business we extended our Energy Opportunities Scheme across all of our factories. The Scheme, which helps to identify and implement low-cost ways of

saving energy, generated over 70 energy saving opportunities during 2015, leading to a reduction of around 27,700,000 MJ of energy over the year – with an associated carbon reduction of approximately 2,820 tons of CO<sub>2</sub>e.

The use of compressed air was one energy-intensive area on which we particularly focused during 2015. Through effective capital investment as well as behavioral and process

changes, factories in our international tobacco business made significant reductions in compressed air use. For example, through a combination of compressor replacement, system improvement, and leak elimination, our Turkey factory reduced its energy use by approximately 6,560,000 MJ per year, with an associated CO<sub>2</sub>e reduction of around 875 tons per year.

## MANAGING GHG EMISSIONS IN OUR VALUE CHAIN

As well as our own emissions, we address Scope 3 GHG emissions that are outside our immediate control.

Since 2011 the JT Group has been using life cycle assessments to better understand and assess carbon emissions associated with the production of tobacco leaf, which is

our main raw material. In 2015 we collected more detailed life cycle data, which gives us a clearer picture of how leaf growing, processing, selection, and specification can be used to influence and potentially reduce Scope 3 emissions. We are also seeking to better understand Scope 3 emissions in our supply chain for emerging products.

In our international tobacco business we are working with logistics partners to look at ways of reducing emissions associated with transportation of materials and products, and with non-tobacco material suppliers on how to reduce emissions from the production of materials such as paper and cardboard.

## CDP UPDATE

The JT Group has been reporting its Group-wide GHG emissions and climate change information to CDP since 2012. In 2015 our disclosure score was 100 out of 100, while our performance score was B. These scores put us in the top quartile of CDP reporters worldwide.



## REDUCING SCOPE 3 EMISSIONS

In Japan we have replaced wrapping paper of bundling tobacco products with film. This would reduce GHG emissions by about 1,200 tons per year, mainly because the wrap film that we source from suppliers needs less energy to produce.

# Resource efficiency – water and waste

Overconsumption of resources – leading to the creation of waste and excessive use of water – can be a cost to business that reduces earnings and shareholder returns. It also has impacts on the environment and can have a negative effect on the communities within which we operate. It therefore has the potential to damage both our reputation and our relationships with stakeholders.

## MANAGING WATER



Many of our operations, in particular those in our processed food business, are water intensive. Although our factories are located in relatively water-rich areas, we nonetheless implement measures to use water efficiently. This mitigates water risks both for our business and for the communities within which we operate.

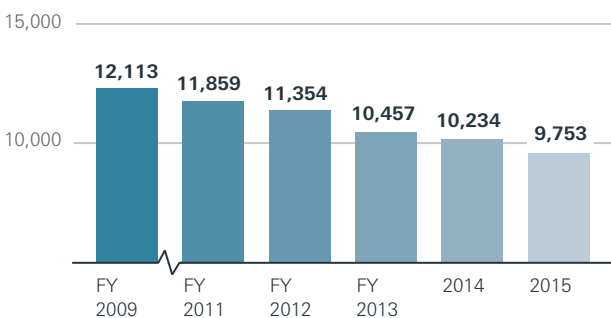
We record and report water withdrawal and wastewater discharge at our sites and locations, and take into consideration the framework on water reporting set out by CDP. Our Long-term Environment Plan 2020 prioritizes efficient use of water. In 2015 overall water withdrawal decreased by 4.7% from 2014.

In 2015 our international tobacco business invited 30 suppliers to disclose information relating to water management through the CDP supply chain initiative. This data allows us to build up a better picture of water use among our suppliers.

We continued the piloting of water risk assessments, which we began in 2014, at more than 10 sites across the JT Group. We will use feedback from the pilots to develop a water risk assessment methodology that will be rolled out across our businesses in the following years.

Our water risk assessment methodology will take account of physical water risks such as flood and drought, which can be exacerbated by climate change, and will also look at water quality and availability. Physical water risks can have impacts at key stages of tobacco cultivation, as the wrong quantity of water at the wrong time can significantly affect crop quality and yield. They can also impact on our ability to bring materials and products in and out of sites.

### WATER WITHDRAWAL (1,000 m<sup>3</sup>)





## REDUCING WATER CONSUMPTION

In 2015 our CRES Neva factory in Russia began to use recycled wastewater in its emissions scrubbers, which filter out particulates and odor from manufacturing operations. Allied to the installation of additional filtration devices at its wastewater treatment plant, this move helped to reduce overall water consumption at CRES Neva by almost 10% per year.

## MANAGING WASTE

Our Long-term Environment Plan 2020 prioritizes waste management according to the 'Reduce, Reuse, Recycle' waste hierarchy. By taking steps to reduce waste we conserve natural resources, reduce our environmental impacts, and cut waste disposal costs.

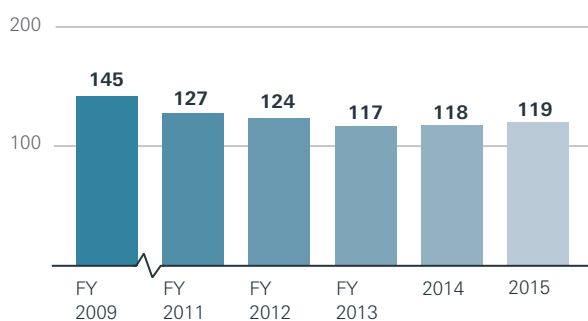
We have been recording waste data since 1995 and have programs aimed at improving our waste management practices, particularly in our factories, where most of our waste is generated. We recycled 77% of the waste we generated in 2015, compared with 76% in 2014.

Waste is also created throughout our value chain, including by producers of raw materials and by consumers when they dispose of our products. We work with farmers to help them reduce their waste, and we have schemes to educate consumers about the recycling of e-cigarette components (see page 73).

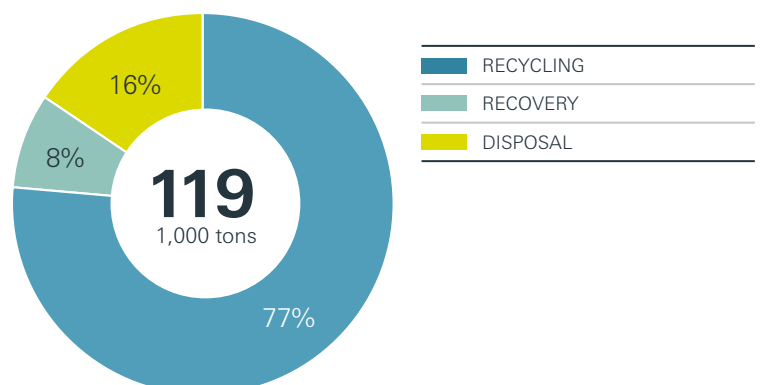
Our total waste generation in 2015 increased by 0.8% over 2014.



### WASTE GENERATION (1,000 tons)



### BREAKDOWN OF WASTE GENERATED IN 2015 (%)





# Biodiversity

Biodiversity plays a key role in the provision of ecosystem services. It reflects on the availability and quality of natural resources that are fundamental for environmental conservation and also for enhanced agricultural productivity. For instance, our farmers need a healthy and balanced environment to produce tobacco, which is usually grown in biologically diverse areas. We work with farmers to maintain this diversity and to help them understand the importance of efficiently managing natural resources and the environment.



## MANAGING BIODIVERSITY

Our Long-term Environment Plan 2020 outlines our commitment to assess the impact of our worldwide operations on biodiversity. In 2015, in conjunction with the Society for Wildlife Research and Environmental Education in Brazil, we developed an approach to assessing biodiversity on tobacco farms that we are currently piloting with small-scale tobacco farmers in the state of Paraná. Once the results of this pilot have been analyzed, we will consider extending the model to other tobacco growing areas.

Our international tobacco business has programs to encourage farmers to maintain biodiversity through the adoption of environmentally responsible farming practices, including soil conservation and water-use reduction. Our agronomy experts see biodiversity as a fundamental aspect of tobacco production, which they build into a crop management approach that considers, among other things, the environmental and ecosystem services provided by biodiversity (i.e. water quality and soil condition, pollination, pest control, climate balance, and wood resources).

They also pay particular attention to complying with all environmental laws on protected areas and natural reserves. Engagement with farmers on these topics is crucial to achieving success in managing the environment and conserving biodiversity.

We also work with universities and NGOs to help us with research on the fauna and flora in tobacco growing areas and to provide advice on restoration and conservation projects, for example in Brazil and Zambia.



## BIODIVERSITY INITIATIVES

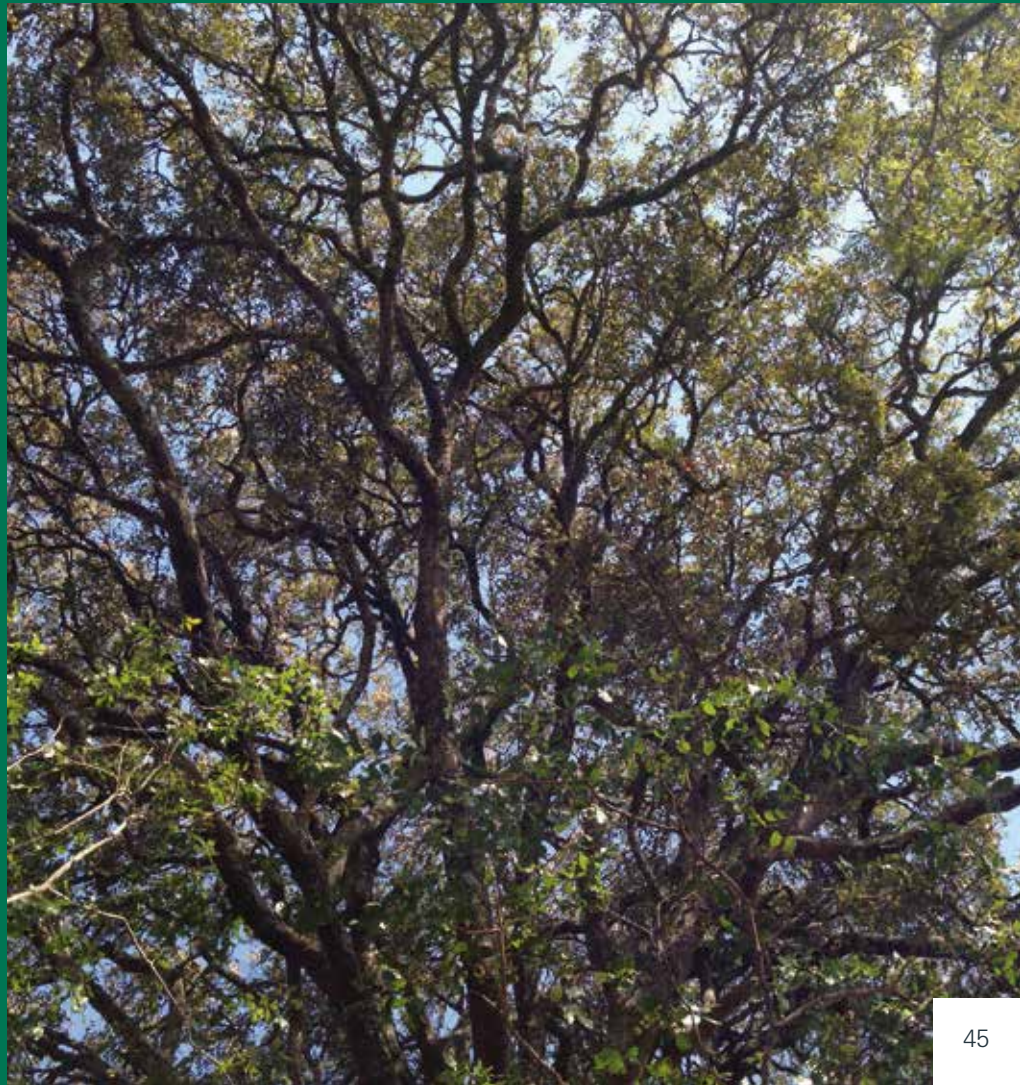
Our international tobacco business is carrying out a variety of biodiversity projects around the world.

In our Agronomy, Development, Extension, and Training (ADET) center in Brazil, for example, we are preserving 68.5 hectares of remnants of the Atlantic Forest in Santa Cruz, and have been carrying out studies of fauna and flora in conjunction with a local university. We are also looking at alternative biological pest control methods in Brazil, and at promoting a wider diversity of beneficial insects through organic farming.



## MIOMBO WOODLAND NATURAL REGENERATION PROJECT

In Western Zambia we are starting to promote the rehabilitation of degraded Miombo woodland areas by engaging with national stakeholders and local communities in a specific project. We are pursuing the introduction of sustainable management practices and harvesting regimes that will contribute to maintain and/or enhance the conservation of the Miombo woodland in areas where we have tobacco growing communities.





OUR GROUP

# Our contributions to society



Photo: K. Miura

## 2015 highlights

2015

# 8,967

million Yen contributed to society, representing 1.6% of our profit before income taxes.

2015

# 64

countries in which we have community investment programs.

2015



In the U.K. we were awarded the **CommunityMark** for excellence in community investment by Business in the Community. We are one of only 36 current holders.



# Refining our approach

It is our choice as a corporate citizen to contribute to the communities in which we operate. We do this through financial investments, employee volunteering, and the endowment of a charity, the JTI Foundation ([www.jtifoundation.org](http://www.jtifoundation.org)). We are guided in this area by the JT Group Corporate Citizenship Activity Policy, which focuses on four areas: social welfare, arts and culture, environmental protection, and disaster management.

In 2015 we increased our focus on measuring the impact and value of our contributions to society, and on how to manage our programs more effectively. To help us do this, we became a member of LBG ([www.lbg-online.net](http://www.lbg-online.net)), the global standard for measuring corporate community investment. As part of a phased approach, in 2015 we initially supplied figures to LBG only for our international tobacco business, covering contributions made during 2014. But within the next five years we expect to have captured the full picture of our global contributions to society.



## EXTERNAL RECOGNITION

We received national awards for our community projects in Belarus, where we support Japanese cultural heritage, art programs, and programs aiming to improve adult education, and in Kyrgyzstan, for our support of the Equal Opportunities social rehabilitation center for people with disabilities. In South Africa we won awards for our backing of the Building Blocks Foundation, which improves public sanitation in the city of Alexandra, and for our support of the Johannesburg Philharmonic Orchestra.



## EMPOWERING WOMEN IN TURKEY



As part of our efforts to support equal opportunities, in 2015 our international tobacco business developed a program in Turkey to help women set up their own small businesses.

The initiative, called My Inspiration Is My Future, is based around a 12-day training provided by Bogazici University Life Long Learning Center, with support from the endorsement of the Turkish government. The training concentrates not just on developing business knowledge but also on building up interpersonal skills.

A total of 90 women, from economically disadvantaged communities in Gaziantep, Izmir, and Kastamonu, took part in the first year of the program, and each will be provided with follow-up support as their new companies develop.

The program will be expanded to other cities in Turkey in the following years.

Pelin Pelis, a graduate of the initiative who subsequently set up a training and activity center for children, stated that she would not have been able to do so without the support she received.

"It gave me inspiration and it helped me build up the courage to start out on my own," she says. "As a result, I think I've set a good example for other women around me, and some of my friends have now started to set up their entrepreneurial projects." The Women Entrepreneurs Council of the Union of Chambers and Commodity Exchanges of Turkey selected My Inspiration Is My Future as one of the six best programs implemented in Turkey.



## RECOGNITION FOR OUR COMMUNITY WORK IN RUSSIA

In 2015 we were recognized to be providing the best projects for socially disadvantaged groups in Russia – for the second year running. The Best Social Projects in Russia award – run by the government of Moscow, the Agency for Strategic Initiatives, and the Moscow Department for Environmental Management and Protection – praised our international tobacco business for

its six-year-long charitable program. This has enabled 120,000 elderly people to take part in activities such as attending the theater, learning computer skills, and learning first aid. More than 35,000 people have been provided with home appliances and groceries, and 600 have been provided with accommodation. In 2015 we also received a special prize from

Russia's Leaders of Corporate Charity organization in recognition of the robust way we evaluate the effectiveness of our social programs. The prize was awarded by PwC alongside the Vedomosti business newspaper and the Russian association of grant-making organizations, Forum Donorov.



## SUPPORTING FLOOD VICTIMS IN SERBIA

The scale of flooding that swept through the Balkans in 2014 was extremely high, and the damage was so extensive that clean-up efforts continued for many months.

In Serbia, the JTI Foundation initially supported these efforts by providing dewatering pumps and protective suits for emergency workers. Then, in the city of Sabac, it supported a program implemented by Covekoljublje to help 40 farming families restart food production, by providing seeds and greenhouses. In partnership with the Belgrade-based NGO Housing Center and the city of Sabac, the JTI Foundation also helped to rebuild a soup kitchen that had been badly damaged by the floods, benefiting more than 1,000 vulnerable residents by securing them one hot meal on five days of the week.

The Foundation's programs in Serbia were all completed by June 2015.



© TANJUG



# Bruno Duguay

**SENIOR VICE PRESIDENT**  
COMPLIANCE AND CSR  
JT INTERNATIONAL

*“The JT Group often operates in areas of the world where human rights may be at risk. We can make a difference in these regions by making sure that the highest standards of behavior are upheld within our value chain.*

*We have made significant progress on some specific areas of human rights, including by working to prevent child labor in tobacco farming communities. But more generally we have aimed to send out a strong message by recognizing the importance of human rights in our Codes of Conduct, and, by developing a human rights policy with input from external subject matter experts, that expresses our commitment to the UN Guiding Principles on Business and Human Rights that we plan to launch in 2016. By taking these steps we believe we can reduce the risk of infringing on the human*

*rights of our stakeholders, and can make a positive impact on the communities within which we operate. At the same time we hope to reduce risks to the company that can occur through exposure to human rights violations.*

*We know, however, that there is still much to do. While the human rights policy will be an important foundation for our activities in this area, we know that only by applying an appropriate level of due diligence will we take the next steps to implementing it thoroughly.”*

*In focus*

RESPECTING  
**HUMAN**  
**RIG**



# Klara Skrivankova

EUROPE PROGRAMME AND  
ADVOCACY CO-ORDINATOR  
ANTI-SLAVERY INTERNATIONAL



AN  
HTS

## ABOUT KLARA SKRIVANKOVA

Klara leads the Programme and Advocacy work of Anti-Slavery International in Europe. She specializes in business accountability, migrant rights, labor rights, anti-trafficking responses and addressing forced labor in supply chains. She has held various advisory posts at the UN, EU and the Council of Europe. She is also a Programme Adviser to the Joseph Rowntree Foundation and a co-founder of the UK Trafficking Law and Policy Forum.

*“Complex globalized economy with value chains stretching across countries and continents brings with it human rights challenges. Under the UN Guiding Principles on Business and Human Rights, businesses have the duty to respect human rights. When it comes to grave violations like slavery, the duty goes beyond. If a risk of slavery is identified within a supply chain, businesses need to act to remedy the situation and prevent it from occurring in future. The risk here is more than just human suffering and brand reputation – no law abiding business can condone serious crimes, such as forced labor and human trafficking, within their business operation.*

*Modern slavery is one of the most serious issues that concerns global businesses today. It is estimated that over 21 million people in the world are affected, with most people in slavery being in Asia. While industries such as agriculture, fishing or garment production are most commonly cited as those where the risk is the*

*greatest, no industry or a company can safely say that their supply chains are slavery-free, wherever in the world they operate. Recent legislation, such as the California Transparency in Supply Chains Act, the U.K. Modern Slavery Act 2015 and the amendment to the US Tariff Act in February 2016, reflect that slavery is a serious issue in supply chains.*

*Transparency and open acknowledgement by businesses that these challenges exist in their supply chains is becoming a benchmark of leadership. First step to achieving this is working with others to reach greater visibility along supply chains and address the salient human rights risks to those working within these chains or affected by a company’s operations. Working with others – including with civil society organizations – should be fundamental to the business model of any modern, responsible business. Having embraced this collaborative model of working, tobacco businesses are on course to demonstrate this leadership.”*



## STRENGTHENING OUR FOUNDATIONS

We already focus on addressing human rights issues in several areas, for instance within our own workforce and in terms of good labor practices among our farmers. But to broaden our understanding of where risks might lie elsewhere across our Group and in our supply chain, in 2015 we interviewed more than 100 executives in our international tobacco business across 16 countries, asking them about what they perceived to be the biggest human rights risks and how our business might prevent and mitigate such risks. We carried out a similar exercise in Japan, where we engaged with 20 different parts of the business to better understand potential human rights risks.

In 2015 we began work on drafting a JT Group Human Rights Policy that will align with the UN Guiding Principles on Business and Human Rights. The Policy, which is being developed in consultation with stakeholders, will formalize and detail our commitment to respect human rights within our operations and in our value chain and will be launched in 2016.

In 2015 we carried out research on potential human rights risks related to our stakeholders. The results of this work will guide the development of our human rights due diligence process, which includes the identification, management, monitoring, and reporting of key issues.



## RESPECTING WORKPLACE RIGHTS

Our Codes of Conduct lay out our responsibilities toward respecting human rights in the workplace. We respect the rights of our employees to freedom of association and collective bargaining, and we do not tolerate discrimination in any form (see page 33).

In 2015 we received 81 alleged cases of human rights violations in the workplace, six less than 2014. We have reviewed and closed 74 of them, with 48 requiring the implementation of a remediation plan, such as termination of employment, written and verbal warnings, training, and general messages issued in the workplace to prevent similar cases occurring. The remaining seven are still in the process of investigation. There were no pending cases from 2014.



## IMPROVING OUR SUPPLY CHAIN

Given that we work with so many suppliers in so many different countries, it is important that we are aware of all the human rights risks in our supply chain. This allows us to manage our supply chain responsibly.

Our work on human rights risks associated with directly contracted farmers, who make up 50% of our tobacco leaf supply chain, has been carried out primarily through our Agricultural Labor Practices (ALP) program run by our international tobacco business. This program provides transparency around the issues within our supply chain and allows us to better target our improvement investments in social programs such as health and safety trainings, Grower Support Programs (see page 62), and the activities of the ARISE program (see page 55). In 2015 we expanded ALP to the leaf merchants from whom we buy the other 50% of our tobacco leaf supply.

We also built on this work by developing a draft framework for screening all key non-leaf suppliers in our international tobacco business against sustainability criteria that include a number of human rights issues (see page 59). Beyond this initiative, human rights impacts in the wider supply chain will be a key element of our due diligence process as it is extended to each country in which we operate.

## IMPLEMENTING OUR AGRICULTURAL LABOR PRACTICES

We participate in the Social Responsibility in Tobacco Production (SRTP) program, an industry initiative that aims to address good agricultural practices and social and environmental issues associated with growing and processing tobacco.

In 2013 we decided that the SRTP program, which is based on self-assessment by leaf suppliers, does not in itself provide enough data or transparency. We therefore created our ALP program, which has complemented SRTP and has helped us make progress towards understanding and addressing human rights risks associated with our directly contracted farmers.

While we are encouraged by the increased transparency we have brought about through ALP, we recognize that effecting serious change is a long-term journey – one we remain fully committed to. However, bringing about even a gradual shift in cultural norms,

## DEVELOPING DUE DILIGENCE

As part of our business strategy we occasionally buy other companies or set up joint ventures, often in emerging economies. To be able to better assess any human rights issues related to such arrangements, in 2015 our international tobacco business began formalizing a more detailed set of human rights criteria within the due diligence process for joint ventures and acquisitions, and the resulting criteria will gradually expand to cover all of our relevant transactions in the future.



established across generations, requires a culturally sensitive and rigorous approach.

Our ALP clearly defines the standards expected of our directly contracted farmers in terms of preventing child labor, respecting workers' rights, and maintaining adequate health and safety measures. The way we define child labor, and our approach to dealing with it, was developed together with the ILO. Our practices follow ILO Conventions C138, C182, C184, and R190.

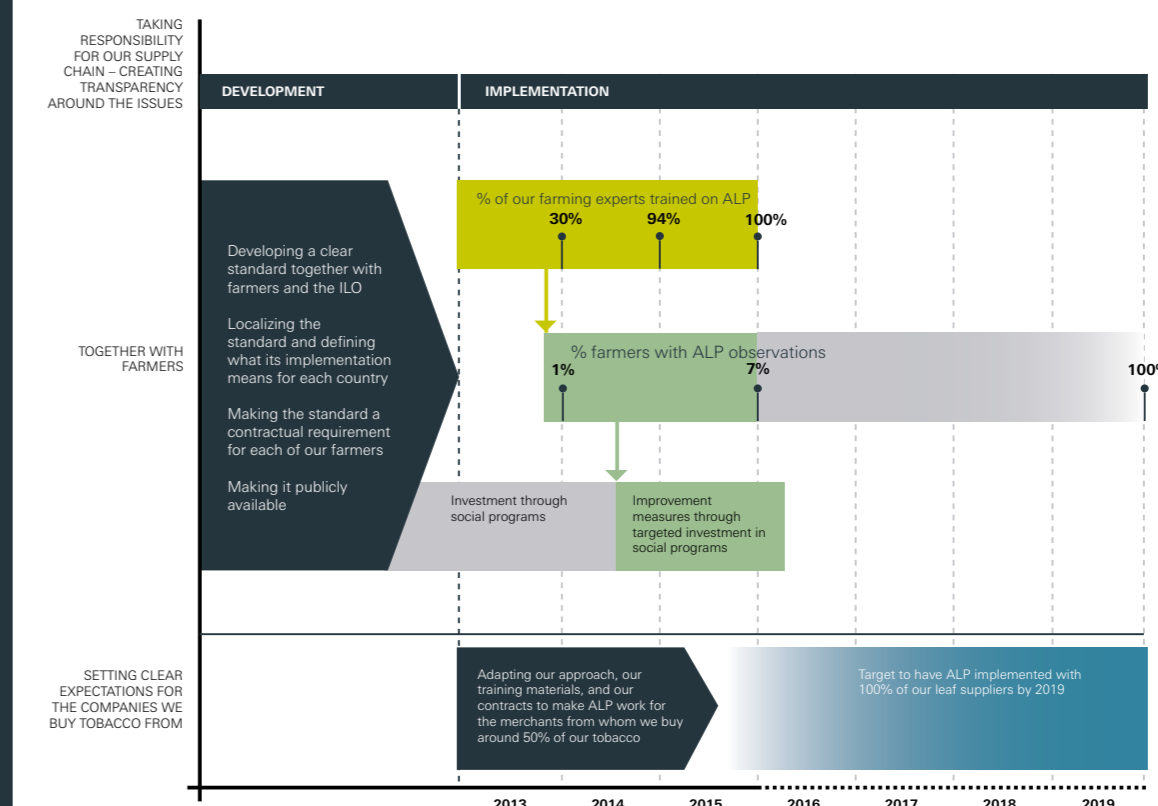
All directly contracted farmers have signed up to ALP clauses in their contracts with us. To make sure that ALP standards meet local circumstances in which the farmers operate, we have localized versions in each country from which we directly source tobacco leaf.

One of our main focus areas to date has been on training our farming experts on ALP so that they can adequately observe labor practices during farm visits and provide advice on making the necessary improvements. We have now managed to train 100% of our farming experts, who have started to observe 7% of our directly contracted farmers in the crop seasons ending in 2015. Based on these observations we will be able to develop tailored improvement programs for farmers in the near future. We also expect the number of observations to increase over the next few years and remain on track to achieve our target of covering 100% of our farmers by 2019.

In 2015 we asked merchants who supply us with tobacco leaf to begin to implement ALP among the farmers they source from. We expect this implementation also to be complete by 2019.



## AGRICULTURAL LABOR PRACTICES – HOW WE ARE SETTING THE STANDARD AND IMPLEMENTING IT IN A MEANINGFUL WAY



## PREVENTING CHILD LABOR

In addition to our work with all directly contracted farmers through ALP, we have the ARISE program, which aims to address root causes of child labor in tobacco growing. This was developed in partnership with Winrock International (an NGO that specializes in agricultural development) and the ILO.

The program, which covers Brazil, Malawi, Zambia, and, from 2015, Tanzania, tackles social and economic factors that tempt farmers to employ children. ARISE engages with agricultural communities through the distribution of educational materials, after-school tutoring, and mentoring or vocational training for older children. In this way we aim to improve understanding of the value of education as well as the prospects and prosperity it can bring. When children move from working for their family into education, ARISE enables parents or guardians to replace any lost income through our Family Support Scholarships.

In 2015 ARISE took approximately 26 children out of child labor every day, provided 32,160 people with education about child labor, and gave 1,859 households an improved income. Results in Malawi were particularly improved as we extended the reach of ARISE during 2015, and in Zambia we began to realize the cumulative benefits of entering into the third year of the program. As more children are taken out of child labor, the focus tends to switch to

fewer, more stubborn, cases. While progress is being made through ARISE, the job of changing cultural perceptions that underpin child labor in remote rural communities is long-term.

ARISE also provides wider support to communities where child labor may be prevalent, including through nutrition programs and water irrigation systems. As a direct result, more than 20,000 children were benefiting from three or more meals per week by the end of 2015, and irrigation systems had been established across 80 hectares of land.

## OUR ARISE PROGRAM HAS IMPROVED THE LIVELIHOODS OF

# 1,859

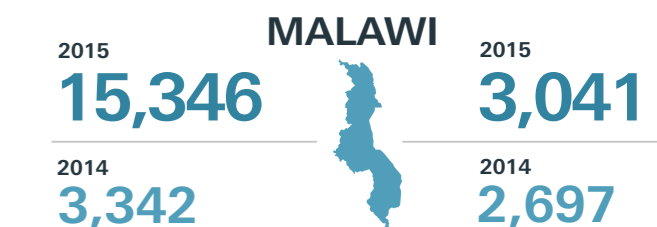
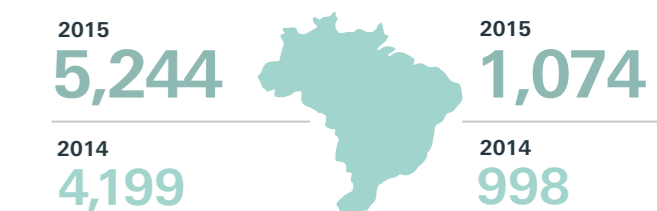
HOUSEHOLDS IN BRAZIL, ZAMBIA AND MALAWI IN 2015

## ARISE: OUR CONTRIBUTION TO PREVENTING CHILD LABOR

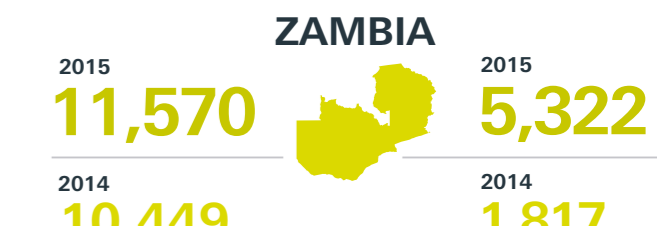
### COMMUNITY MEMBERS EDUCATED IN CHILD LABOR ELIMINATION



### CHILDREN OFF FARMS AND INTO SCHOOLS



### CHILDREN OFF FARMS AND INTO SCHOOLS



### CHILDREN OFF FARMS AND INTO SCHOOLS



## BRINGING CHILDREN BACK TO SCHOOL BY DRILLING BOREHOLES IN TANZANIA

One of the key aspects of fighting child labor in the tobacco farming communities is to tackle the circumstances that prevent children from going to school, thereby making them more vulnerable to being used as workers in the fields. In the semi-arid Tabora Region of Tanzania, some children are unable to get to school because they spend many hours of the day collecting water for their families. Water is scarce in most villages, and wells can be miles away. To help with this problem, our international tobacco business has drilled seven boreholes in five Tabora villages, supporting 4,672 households. This will cut down journey times and enable children to get back to their education.



## Our tobacco business



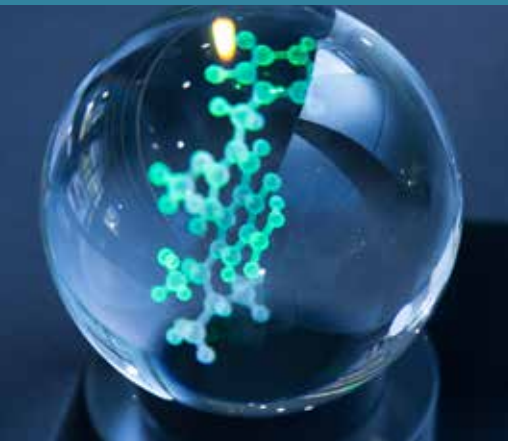
Our tobacco business manufactures and sells cigarettes, cigars, cigarillos, snus, roll your own, pipe and water pipe tobacco, e-cigarettes, and other tobacco-based products. We sell these products in over 120 countries, and our main markets are France, Italy, Japan, Russia, Spain, Taiwan, Turkey, and the U.K.

At the end of 2015 we had 38 cigarette and tobacco-related manufacturing facilities around the world – seven in Japan and 31 elsewhere. Tobacco leaf is sourced directly from about 42,000 farmers in seven countries.

Our global flagship cigarette brands include Winston, Camel, Mevius, LD, Benson & Hedges, Glamour, Silk Cut, and Sobranie, while our Japanese key brands include Seven Stars and Pianissimo.

Total sales volume across our tobacco business amounted to 503.1 billion cigarettes in 2015, with a turnover of 1,994.5 billion Yen.

## Our pharmaceutical business



Our pharmaceutical business conducts research and development (R&D) through the Central Pharmaceutical Research Institute (three sites in Japan) and our subsidiary, Akros Pharma Inc. (one site in the U.S.A). We largely focus on three therapeutic areas: glucose and lipid metabolism, anti-virus, and immune disorders and inflammation. In Japan, our subsidiary Torii Pharmaceutical Co., Ltd. is responsible

for sales of our products, including Riona Tablets (hyperphosphatemia), Remitch Capsules (anti-pruritus), and Truvada Combination Tablets and Stribild Combination Tablets (anti-HIV). Outside Japan, we license our products to other pharmaceutical companies and thus have no sales force. Annual turnover in 2015 was 75.6 billion Yen.

## Our processed food business



Our processed food business focuses primarily on the Japanese market and is operated by TableMark group of companies. Key brands are Sanuki Udon (frozen noodles and frozen rice), Takitate Gohan (packed cooked rice), and Bakers Select (frozen baked bread

and pastries). We produce our goods in 31 of our own factories and in over 50 subcontracted factories around the world. Turnover in 2015 was 165.8 billion Yen.

### INTERNATIONAL TOBACCO BUSINESS IN 2015

<b>SALES</b> <b>1,317.2</b> BILLION YEN	<b>EMPLOYEES</b> <b>6,642</b> <b>16,435</b> FEMALES MALES
<b>SALES VOLUME</b> <b>393.9</b> BILLION CIGARETTES	<b>CIGARETTE AND TOBACCO-RELATED FACTORIES</b> <b>31</b>

### JAPANESE DOMESTIC TOBACCO BUSINESS IN 2015

<b>SALES</b> <b>677.3</b> BILLION YEN	<b>EMPLOYEES</b> <b>1,267</b> <b>8,203</b> FEMALES MALES
<b>SALES VOLUME</b> <b>109.2</b> BILLION CIGARETTES	<b>CIGARETTE AND TOBACCO-RELATED FACTORIES</b> <b>7</b>

#### THE MATERIAL ISSUES FOR OUR TOBACCO BUSINESS ARE:

SUPPLY CHAIN MANAGEMENT	59
PRODUCT SAFETY AND PRODUCT RESPONSIBILITY	64
LAWS AND REGULATIONS	66
POLITICAL AND REGULATORY DECISION-MAKING PROCESSES	66
RESPONSIBLE MARKETING	67
ILLEGAL TRADE	68
PRODUCT INNOVATION AND INTELLECTUAL PROPERTY	70

### PHARMACEUTICAL BUSINESS IN 2015

<b>SALES</b> <b>75.6</b> BILLION YEN	<b>EMPLOYEES</b> <b>347</b> <b>1,492</b> FEMALES MALES
<b>PRODUCTION SITES</b> <b>1</b>	

#### THE MATERIAL ISSUES FOR OUR PHARMACEUTICAL BUSINESS ARE:

PRODUCT SAFETY AND PRODUCT RESPONSIBILITY	76
PRODUCT INNOVATION AND INTELLECTUAL PROPERTY	76
RESPONSIBLE MARKETING	77

### PROCESSED FOOD BUSINESS IN 2015

<b>SALES</b> <b>165.8</b> BILLION YEN	<b>EMPLOYEES</b> <b>2,674</b> <b>3,124</b> FEMALES MALES
<b>PRODUCTION SITES</b> <b>31</b>	

#### THE MATERIAL ISSUES FOR OUR PROCESSED FOOD BUSINESS ARE:

SUPPLY CHAIN MANAGEMENT	79
PRODUCT SAFETY AND PRODUCT RESPONSIBILITY	80



# Our tobacco business

*Our tobacco business has two parts. Our Japanese domestic tobacco business makes and sells tobacco products primarily in Japan, and owns brands such as Mevius and Seven Stars. Our international tobacco business makes and sells brands such as Winston and Camel in certain parts of the world, with the main markets being France, Italy, Russia, Spain, Taiwan, Turkey, and the U.K. Together, these businesses manufacture and sell cigarettes, cigars, cigarillos, snus, roll your own, pipe and water pipe tobacco, e-cigarettes, and other tobacco-based products.*

*Regulatory landscapes are challenging, and we must respond quickly to new consumer trends and demands.*

*Our sustainability issues include product safety and responsibility, responsible marketing, and the need to develop innovative and reduced-risk products. We must also combat the illegal trade, work with governments and society, and manage social and environmental supply chain issues.*

## 2015 highlights

In 2015 we ran our test purchases program in around 3,500 U.K. shops **TO CHECK IF ID IS BEING REQUESTED BY RETAILERS.** The program won Retail Newsagent magazine's Supplier Initiative of the Year Award.

**OUR ANTI-ILLICIT TRADE TEAM GAVE 709 TIP-OFFS** to law enforcement agencies (down from 850 in 2014), leading to the seizure of more than **1 billion** illegal cigarettes.

**WE LAUNCHED A NEW BRAND** of E-Lites – E-Lites Curv – in the U.K. and Ireland, bought Logic Technology Development LLC, the third largest maker of e-cigarettes in North America, and acquired full rights to market Ploom worldwide.

2015

**7%**<sup>(\*E)</sup>

of our directly contracted farmers are observed on implementing our Agricultural Labor Practices.

In Japan we have responded to more than

**16,000**

requests for advice and assistance, and have helped set up more than

**6,000**

smoking facilities to create a better environment for smokers and non-smokers since 2004.

# Supply chain management

Our tobacco supply chain is large and complex, and we recognize that we need to work with our partners within it. All suppliers to our tobacco businesses are expected to uphold the standards set out in the JT Group Responsible Procurement Policy, the JT Group Principles in Leaf Tobacco Production, and our new JT Group Supplier Standards.

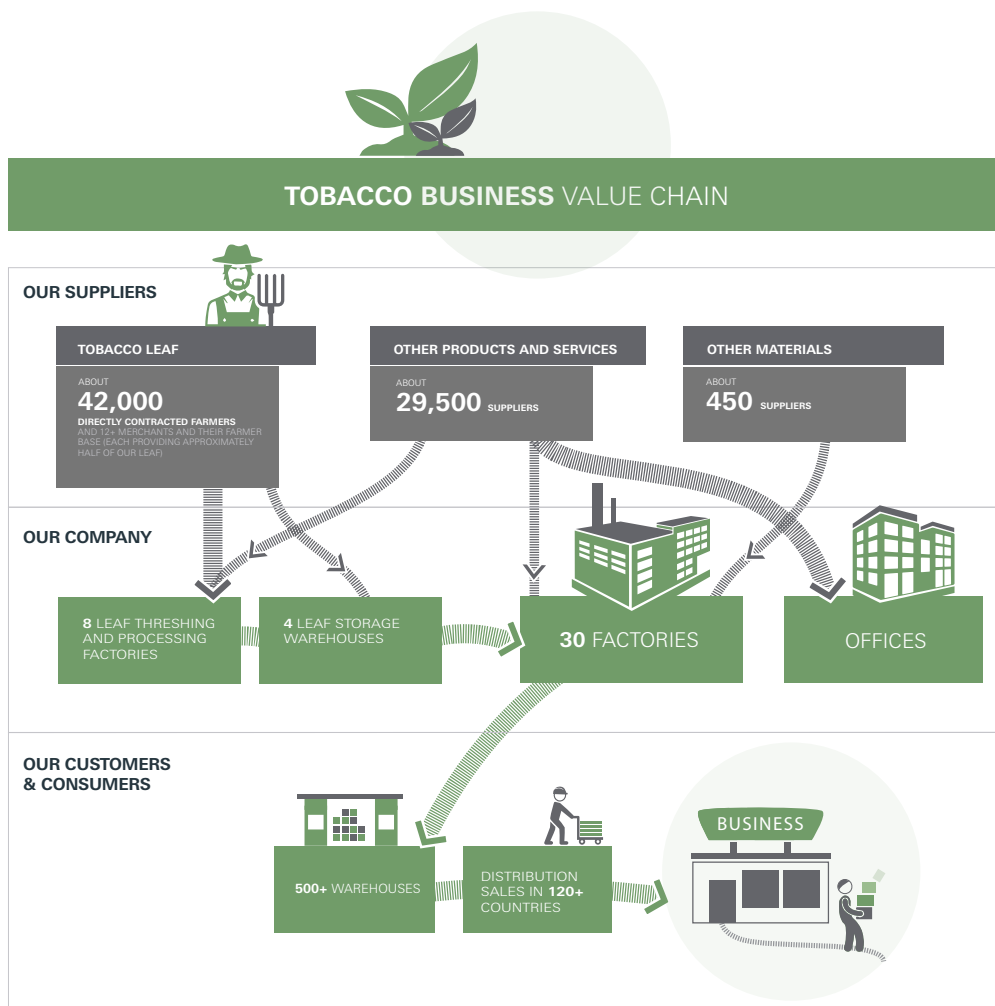
In 2015 our international tobacco business began work on developing an IT-based supplier life cycle management system that will enable assessment of all our non-leaf suppliers for the first time, with different levels of certification based on supplier risk profiles. We believe this system, which we expect to be ready for implementation in 2017, will lead to a better understanding of the risks and challenges our suppliers face, and will allow us to help them to increase their capacity to uphold our standards.

Directly contracted tobacco farmers – as well as the merchants that we buy processed tobacco from – are a key component of our supply chain. In our international tobacco business we monitor these farmers through our Agricultural Labor Practices program (see page 52).

In 2015 we conducted a review of our Know Your Supplier policy in our international tobacco business and adjusted its scope to focus on logistics suppliers, including transportation and warehousing service providers. We

believe this will provide us with a better risk management focus while allowing us to exceed our European Union requirements in this area.

In 2015 the JT Group Principles in Leaf Tobacco Production, which have been in place since 2013, were incorporated into all contracts with tobacco farmers in Japan. This commits farmers, and the JT Group, to abide by the Principles and to take remedial steps if non-compliance is found during visits by one of our 100 farming experts.



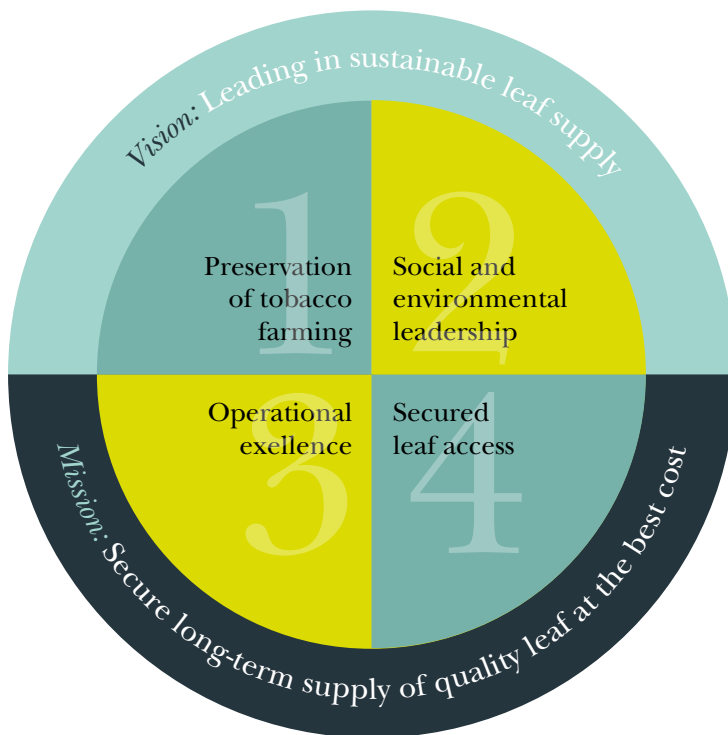


# Tobacco supply chain strategy and approach

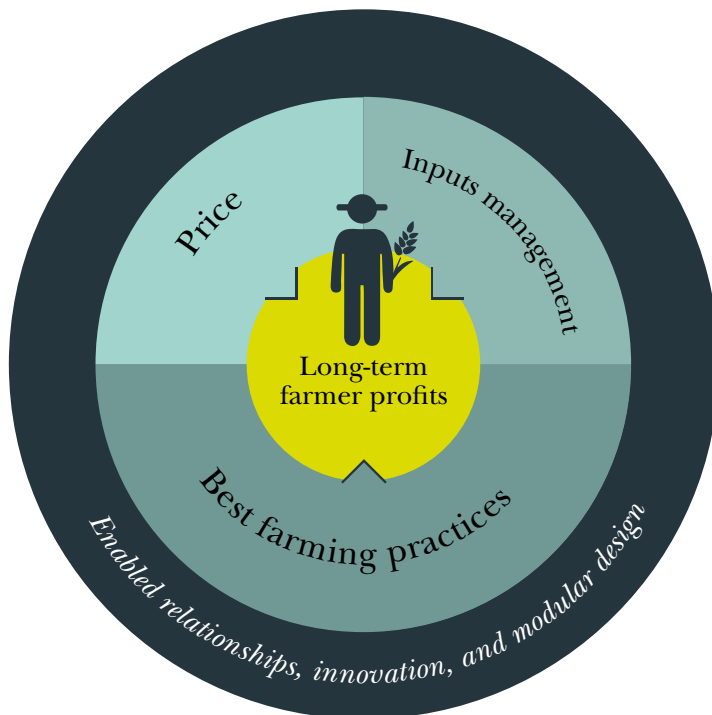
The foundation of our tobacco supply chain strategy is to maintain a supply of quality tobacco leaf over the long term, thereby creating value both for the JT Group and for tobacco farming communities. Our vision for sustainable international tobacco procurement is to 'lead in sustainable leaf supply' and is underpinned by four key strategic goals:

1. Preservation of tobacco farming
2. Social and environmental leadership
3. Operational excellence
4. Secured leaf access

## LEAF STRATEGY



## PRESERVATION OF TOBACCO FARMING



Our business will not succeed unless the farmers who supply us make a profit and can continue to grow the tobacco we need. Some factors that feed into profitability – such as the weather – are outside of our control. However, we can influence areas such as cost of production, yield, quality, and price. To do this, we take a ‘modular design approach’ rather than a one size fits all solution, adapting our methods to local situations.

We have implemented a farmer profits model in all countries where we directly source tobacco leaf outside of Japan. Under this model, we work with farmers to ensure they have access to the right growing materials and that they use the best methods to maximize the quality and yield of leaf. We also encourage crop rotation to provide an alternative income, improve food security, and promote soil preservation.

### MANAGING DIRECT RELATIONSHIPS WITH FARMERS

Our local farming experts build and maintain strong relationships with our directly contracted farmers in order to help them improve tobacco production techniques and increase their profitability. Across Brazil, Malawi, Serbia, Tanzania, and Zambia, in 2015

we had 382 farming experts in place. During 2015 we began to buy tobacco leaf directly from farmers in Tanzania, and had 44 farming experts in operation there.

### MODELING SUSTAINABLE FARMER RETURNS

In Brazil, Malawi, Serbia, the U.S.A, and Zambia, we have a farmer returns tool that helps us to settle on a price that we agree with farmers each year. The tool – which takes into account factors such as local conditions, costs, risks, and quality of tobacco – also allows us to check that average prices paid over multiple crop cycles provide a sustainable profit for farmers and do not expose them to wild fluctuations in income from year to year. The farmer returns tool will be introduced into Tanzania in 2016.

### SUPPORTING PRODUCTION COST SAVINGS

We help farmers save money and increase profits by enabling them to become more efficient in the way they grow, harvest, and cure tobacco leaf – for instance through more efficient use of fertilizers and agrochemicals. We also buy many input materials in bulk and pass the savings onto our farmers.

### INNOVATION AND BETTER FARMING PRACTICES

Our Agronomy, Development, Extension, and Training (ADET) centers in Brazil and Zambia explore ways of improving quality and productivity in tobacco farming. Both carry out trials on topics such as crop management, soil fertility, improvements in curing-barn efficiency, production cost savings, mechanization, and agroforestry. The results of research are passed on to farmers, including through training – with the aim of continually working toward best farming practices. In our Brazil ADET center during 2015 we set up a laboratory to examine the DNA of tobacco plants, which we hope will help us to better predict which kind of varieties are likely to show the best growing characteristics. Outside of our ADET program, our farming experts also hold training days at farms where a local farmer has been recognized for particular skill and commitment – allowing other farmers to learn from their example. For example, by the end of 2015 we had 189 such ‘model farms’ in Zambia, up from 108 in 2014.

We developed comprehensive minimum agronomic standards in 2010, and since then have worked with all our farming experts to ensure they are adopted. Supporting materials have been tailored to the needs of different countries.



## SOCIAL AND ENVIRONMENTAL LEADERSHIP



We can contribute to improvements in social conditions in tobacco farming communities not just by helping farmers to maintain profitability in the long term but by making targeted social investments that enhance the quality of life in their communities. We can also help them improve the natural environment in which they live and work, notably by supporting initiatives that move toward providing a sustainable supply of wood.

### SOCIAL

Through our Agricultural Labor Practices program (see page 52), we work to promote the rights and safety of tobacco farmers and those who work on their farms. In addition, our social programs strive to enhance living conditions and livelihoods through our Grower Support Programs, and to eliminate child labor through our ARISE program (see pages 54-55). In 2015 our social programs reached around a third of directly contracted farmers in Brazil, Malawi, Tanzania and Zambia.

#### Grower Support Programs

Our Grower Support Programs (GSPs) deliver community projects focused on school, education, water, and community well-being. In 2015 we ran 132 programs benefiting 207 communities: 16 in Brazil, 8 in Malawi, 13 in Tanzania (with a special focus on water), and 95 in Zambia.

In 2015 we carried out impact assessments of the benefits of GSPs in Malawi and Zambia. These found that the GSPs had significant positive impacts on local communities, especially in terms of improved education and access to water. We are now developing a formal three-year framework for monitoring and evaluation of GSPs.

### ENVIRONMENTAL – SUSTAINABLE WOOD

Wood is used for tobacco curing in many regions, both as a fuel and for building barns. A sustainable supply of wood is therefore key to ensuring a long-term supply of tobacco leaf. We work with tobacco farmers to educate them on the environmental and economic value of wood, helping them to use less of it and to replenish forestry stocks.

We encourage our farmers to establish woodlots to fulfill their needs of a sustainable supply of wood resources. Through dedicated agroforestry programs, we also provide inputs, training, and extension services to farmers seeking to achieve the establishment of good-quality woodlots, which will help them maintain a sustainable supply of wood. In 2015, 1.6 million trees were planted in Brazil and Zambia. In Zambia we developed and are implementing the Matope curing barn, a new design that is four times more efficient in terms of wood

consumption compared to conventional barns.

#### Barn construction techniques

Wood is often used to build barns for curing. We encourage farmers to build 'live barns' by planting trees that grow to form the main structure of a curing barn within three years. This avoids the need for maintenance and a continuous supply of wood for construction, reducing wood consumption by 70%. New live barns are being planted every year in Malawi and Zambia, in areas where we grow Burley tobacco.

We will achieve 100% cumulative live barn coverage by 2016 in Eastern Province of Zambia, meaning that when the trees planted reach maturity stage, there will be one operational live barn per each hectare of tobacco grown.

#### Reforestation

The JT Group has invested in reforestation and community support programs in Malawi, Tanzania, and Zambia. From 2011 to 2014, in a partnership with Washington State University and the NGO Total LandCare, we supported the planting and regeneration of nearly 28 million trees. From 2015 onwards, the focus has been on reforestation elements (tree planting, natural regeneration, and optimization of wood usage for domestic consumption), aiming at minimizing deforestation impact by improving the economic use and management of natural resources.



## OPERATIONAL EXCELLENCE



We need to make sure our operations are well equipped to support our supply chain. To help us do this, we have a set of key performance indicators covering product quality and yield, cost, capital, and employees' health and safety. These indicators give us a real-time overview of our performance and provide a way to manage the unexpected, allowing us to deliver on our business commitments. We use custom-made enterprise resource planning (ERP) software to help us collect and interpret tobacco growing and processing data that are essential to determining yields and quality. ERP software also allows us to monitor health and safety performance in our leaf threshing and processing plants and labor practices in the fields. This in turn enables us to ensure an uninterrupted supply of quality tobacco.

## SECURED LEAF ACCESS

By working in close partnership with our farmers, we put ourselves in a better position to address the economic, social, and environmental factors that influence the long-term supply of tobacco leaf. We therefore build up direct relationships with farmers and, wherever possible, purchase tobacco directly from them, rather than from traders on auction floors. This helps secure access to high-quality tobacco leaf in a responsible manner. We also form partnerships with NGOs, leaf merchants, governments, and other stakeholders to help us responsibly tackle potential issues in our tobacco supply chain.





# Smoking and health

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. These risks distinguish tobacco from most consumer goods and place a particular responsibility upon us, our industry, and public authorities.



## OUR APPROACH

Our tobacco business principles commit us to being open about the health risks of smoking and transparent about our products. This is what consumers demand, and by providing them with the necessary information, we help them to make informed decisions on whether to smoke or not.

### A SCIENTIFIC APPROACH

We take a scientific approach to understanding the quality, health risks, and development of our products. To help us do this, we apply global standards developed by ISO and/or by scientific societies such as the industry-supported Cooperation Centre for Scientific Research Relative to Tobacco (CORESTA). Where relevant standards do not exist, we follow common industry practice that is based on validated and robust methodology. We also review emerging science to ensure all standards we apply are updated and adapted to new findings and techniques.

We constantly monitor scientific publications, and other information, on the health effects of tobacco products, and look into new issues or claims once they appear.

### ASSESSING THE HEALTH IMPACTS OF TOBACCO PRODUCTS

Public health authorities in many countries independently assess the health risks associated with tobacco products by reviewing long-term epidemiological research published by scientists working in the field.

All ingredients go through toxicological assessments with a view to ensuring that they do not increase the inherent toxicity of any of our tobacco products. Regulation in various countries requires us to submit details of ingredients to the authorities, sometimes on an annual basis or occasionally before a product launch.

### PRODUCT TRANSPARENCY

The JT Group believes everyone should be informed about the health risks of smoking. We explain our positions on smoking and health on our websites, and respond to consumer demands to know about product ingredients. The number of countries in which the JT Group provides voluntary disclosure of ingredients has risen from 30 in 2010 to 54 in 2015. The scope of products includes cigarettes, roll your own tobacco, and snus. We provide information on a dedicated website by tobacco product type, brand, and location, including materials and ingredients such as cigarette papers, filtration materials, adhesives, inks, and flavorings.

## GOING FORWARD

Our main priority is always to maintain compliance with arising tobacco product regulation on the production, labelling, and packaging.

One of our key global focuses in the medium term will be on the further evolution of the World Health Organization's Framework Convention on Tobacco Control (FCTC), notably on the development of the policy recommendation on product regulation and disclosure, including e-cigarettes.

We will be closely monitoring the developments at the next FCTC Conference of the Parties in 2016 and beyond, and will continuously seek opportunities to engage in a constructive and transparent dialogue with governments and other relevant parties, to provide the necessary expertise, and to offer evidence-based solutions on tobacco regulation.

In Europe we will be preparing for implementation of the new EU Tobacco

Products Directive. This will require planning in some countries (such as Norway) where the same legal framework will be enacted.

Our third priority area for planning will be around tobacco product regulations adopted by the Eurasian Customs Union (incorporating Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia) that will become effective in May 2016.

## INNOVATION IN OUR TRADITIONAL PRODUCTS

Innovations in brands, blends, and packaging are important to the JT Group, as they underpin growth and profitability. The driving force behind innovation in traditional products is to respond to the evolving demands of

consumers. We monitor market trends so we can spot new technologies and concepts that meet consumer demand and may give us a competitive advantage with existing adult smokers. We also take account of industry

analysis, market data, and changes in the regulatory landscape to help define the focus of our product research and development.



## ENVIRONMENTAL TOBACCO SMOKE

Environmental tobacco smoke (ETS), also known as second-hand smoke, is a mixture of smoke from the burning end of a cigarette and exhaled smoke from smokers nearby. Compared to the smoke that a smoker inhales, ETS is aged and highly diluted. In poorly ventilated areas, ETS can irritate eyes, noses, and throats. It may also worsen respiratory tract infections, as well as asthma. However, based on scientific evidence, we do not believe it is a

cause of diseases such as lung cancer, coronary heart disease, emphysema, and chronic bronchitis.

We promote ways of avoiding ETS, such as properly ventilated smoking facilities in public spaces, and our international tobacco business has worked with airport authorities to develop more than 205 smoking facilities in 13 international airports. In Japan, where outdoor smoking is banned by law

in some municipalities, we support the equipment of smoking facilities that create a better environment for smokers and nonsmokers alike. We have responded to more than 16,000 requests for advice and assistance from municipalities and private businesses on providing such facilities, and have helped set up more than 6,000 in Japan since 2004.

# Political and regulatory landscape

Due to the health risks associated with tobacco products, we firmly believe that regulation of the tobacco sector is both necessary and right.

However, we argue that regulation should be framed in a way that does not lead to unintended negative consequences for business and wider society, including high additional costs, damage to competition, and new barriers to entry into markets.

We are therefore supportive of the promotion of 'better regulation' that achieves its aims in a proportionate manner and is based on full consideration of evidence gathered from all stakeholders, including those in the tobacco industry.

It is also important that all possible effects of new regulations are properly understood before implementation. In Australia, for example, plain packaging has not only failed to achieve the government's objective of reducing smoking but has led to a number of negative consequences. There has been downtrading by consumers from premium to value brands and, following the introduction of plain packaging and excise tax increases, illegal trade has increased showing that consumers are increasingly looking for cheaper alternatives.



*"We support proportionate and evidence-based regulation as a way of addressing society's concerns about tobacco products. But we strongly believe that any new laws must be drafted with proper consideration for their potential effects. That is why we welcome any opportunity to put forward our views on how to achieve better regulation."*

**MICHIEL REERINK**

GLOBAL REGULATORY STRATEGY, VICE PRESIDENT, JT INTERNATIONAL

## OUR APPROACH

We welcome any opportunity for constructive dialogue with governments to ensure that regulations are based on sound evidence, will achieve their desired effect, and will not disproportionately affect the R&D, packaging, and placement of our products. When we engage with governments, we aim to be respectful of each country's decision-making process and to provide credible evidence that substantiates our positions.

The key focus of our regulatory engagement in 2015 was on plain packaging of tobacco products. On this issue we provided a response to a consultation carried out by Norway's Minister of Health and Care Services, and submitted our views to a Senate inquiry in Australia, which is the only

country so far to have implemented plain packaging. In both cases we pointed out the negative and costly consequences of plain packaging measures to society and our business. We also provided evidence, gleaned from the implementation of plain packaging regulations in Australia, to the consultants for Australia's department of health, which is holding a review of the effectiveness of its legislation.

In the U.K. we welcomed the opportunity to give oral evidence to the Health and Sport Committee of the Scottish Parliament regarding possible new restrictions relating to e-cigarettes.

We were invited to do so after we submitted a written response to the

committee about smoking in public places.

In the interests of transparency, we publish our key regulatory submissions on our website.

We have clear guidelines for political engagement in the international tobacco business and an anti-bribery and corruption policy embedded within our Codes of Conduct. We comply with all requirements pertaining to our relationships with governments, for example with the U.K. Bribery Act and the EU Transparency Register. We were one of the first tobacco companies to sign up to the latter and have been in compliance since signing.



# Responsible marketing

We market our tobacco products to adult smokers in order to maintain brand loyalty and to encourage smokers of competitor brands to switch to our products. We do not market tobacco products to minors, nor do we encourage anyone to take up or discourage anyone to quit smoking. We support regulation on the responsible marketing of tobacco products, providing it is evidence-based, practical, effective, and proportionate – and that it allows us to communicate with adults who use our products. We are opposed to regulatory proposals that would affect our ability to differentiate our products by restricting the use of brand names, or would reduce our ability to communicate distinctions and attributes of different products and product types to adult smokers.



## OUR MARKETING STANDARDS

In 2015 we began to update a set of global marketing principles, covering both international and Japanese domestic tobacco businesses, which will be published in 2016.

Our international tobacco business complies with all local laws and regulations affecting tobacco product marketing, and applies internal Global Marketing Standards across every country in which we operate. These cover all aspects of marketing, including print, billboards, electronic media, promotional events, and brand sponsorship. They also cover health warnings on packaging. In 2015 we updated these internal standards, which for the first time now include emerging products.

Our Japanese domestic tobacco business is a key member of the Tobacco Institute of Japan and complies with the institute's self-regulatory marketing standard, as well as all national laws and regulations.

## COMPLIANCE

The Code of Conduct in our international tobacco business requires all employees, agencies, and suppliers to comply with its Global Marketing Standards.

Marketing programs have to be reviewed and approved, and compliance checks are carried out internally to ensure we not only meet regulatory obligations but properly apply our internal marketing standards. If our standards are stricter than national laws and regulations, then we always follow our standards.

In 2015 our international tobacco business launched an internal web portal, for use by corporate affairs employees, that contains all documents relating to marketing compliance and advice on best practice, including in relation to our internal marketing standards.

## PREVENTING YOUTH ACCESS

The JT Group believes minors should neither smoke nor be able to obtain tobacco products. We do not market to minors, and we support measures that prevent them from obtaining tobacco products, including fines or licensing restrictions on retailers who sell to minors. We also back the criminalization of proxy purchasing by adults, and promote 'proof of age' programs.

In our Japanese domestic tobacco business, we have worked with the Tobacco Institute of Japan and the Japanese Vending Machine Manufacturers Association to ensure all tobacco vending machines are equipped with an adult identification system. In Japan we also regularly discuss issues around youth smoking prevention with retailers, and with the Tobacco Retailers Association have formed a number of Youth Smoking Prevention Councils in conjunction with representatives of local government, police, and other tobacco companies.

In 2015 our international tobacco business set up a task force to review progress made by our youth access prevention programs. Although the

principles that guide us in this area remain the same, the task force has been reassessing the effectiveness of these programs, looking at the best strategic approach, and examining how this can be delivered globally, regionally, and on a country-by-country basis. It has also reviewed the guidelines applied to our youth access prevention programs and has re-examined the way in which the programs are monitored. Actions arising out of the task force's conclusions will be implemented progressively from 2016 onwards.

## WORKING WITH RETAILERS

We support retailers in their efforts to prevent minors from buying tobacco, through initiatives such as the U.K.'s No ID, No Sale! program, which we initiated with other tobacco manufacturers. In our international tobacco business we focus activities on Responsible Retailing programs, which educate retailers on how to refuse tobacco sales to minors.

In 2015 we began to introduce a program of test purchases in shops across the U.K. to check if ID is being requested. The program, which is run by an independent organization, was established after a pilot involving 2,500 retailers that increased the percentage asking for ID from 48% to 54% between autumn 2013 and spring 2014. Around 3,500 retailers were tested in 2015 and the program won Retail Newsagent magazine's Supplier Initiative of the Year Award. The program will be fully rolled out across the U.K. by mid-2017.

# Illegal trade

The JT Group takes a stand against the illegal trade in tobacco, which undermines legitimate tobacco businesses and their suppliers, has an adverse impact on society, reduces excise revenue for governments, and fuels terrorism and organized crime. The illegal tobacco trade is a multifaceted problem, with criminals evolving their tactics to try to stay one step ahead of industry and regulatory controls and policing.

Euromonitor estimates that more than 500 billion illegal cigarettes were consumed globally in 2014. The main drivers behind the illegal trade have been steep increases in taxes on tobacco products, large tax differentials between countries, and the relatively low risk of prosecution for those involved.

We work closely with law enforcement agencies and governments on three main priorities:

1. To prevent genuine JT Group products from being diverted by criminals into illegal channels.
2. To prevent 'illicit whites' – cigarettes produced legally by smaller manufacturers but destined for the illegal tobacco market – from competing with our legitimate brands.
3. To prevent the counterfeiting of our brands.

Our international tobacco business has signed 46 agreements with government authorities in 34 countries to counter illegal activity internationally. These agreements include a 15-year European Union 'Cooperation Agreement' and a similar deal with the federal government and provinces of Canada.



November 25, 2015 an international law enforcement agency said:

*"JTI was the most helpful tobacco company who provided more information to [law enforcement authorities] than the other three tobacco manufacturers combined. ... The cooperation with JTI is quite remarkable."*

## OUR APPROACH

Our international tobacco business has a global Anti-Illicit Trade (AIT) team devoted to fighting illegal tobacco. The 50-strong team, which includes people with backgrounds in police work, law, customs, and intelligence, cooperates with governments, law enforcement authorities, and the wider tobacco industry.

Members of the team offer information and evidence to law enforcement agencies that leads to arrests and prosecutions. In addition, they provide assistance with forensic examinations, analyze seizures, identify trends through studies such as empty pack surveys, and help to train law enforcement officials on counterfeit product recognition.

The AIT team provided more than 709 tip-offs to law enforcement agencies in 2015, leading to the seizure of over 1 billion illegal cigarettes. In Russia, where illegal trade was a particular problem, we have helped to reduce seizures of genuine JT Group products from 24.7 million cigarettes in 2010 to less than one million in 2015.

We have had consistently positive feedback from law enforcement agencies about our efforts, and in 2015 our international tobacco business was publicly thanked on several occasions by law enforcement officials for our support in this area.

Aside from investigative work, the AIT team educates governments and other

stakeholders about the drivers of the illegal tobacco trade, raises awareness of the impacts of illegal tobacco, and suggests new ways to stop its flow.

Our international tobacco business also runs a legitimate market demand program under which we carefully calculate the legitimate demand for tobacco products in each of our markets and then sell only in amounts that are commensurate with these calculations. This reduces the risk that surplus product leaks out into illegal trade. Additionally, our sales activities are governed by strict Know Your Customer and Anti-Money Laundering programs.

## USING TECHNOLOGY TO FIGHT CRIME

We invest heavily in developing technology to combat illegal trade, including the industry's 'Codentify' track and trace system, through which we mark our products with a unique identifying code that helps to show whether they have been diverted from their intended route by criminals.

This technology has helped our AIT Diversion and Seizure Investigations unit to develop a backtrack investigation program that looks at patterns of illegal diversion across the tobacco industry, providing insights into weak points in the system and allowing us to design preventative measures to address them.

We feed this analysis in to law enforcement agencies, which use the information to stay on top of the latest trends in criminality.

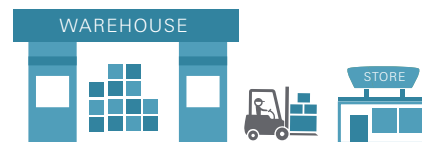
### TRACK & TRACE

#### MANUFACTURING SERIALIZATION & AGGREGATION



Serialization and aggregation of products throughout the manufacturing process using Codentify, to embed unique information

#### DISTRIBUTION & RETAIL TRACKING



Track the movement of the products through the supply chain, from manufacturing, warehouse storage to retail sales



#### GLOBAL TRACK & TRACE CENTRAL REPOSITORY

#### CUSTOMS AND AUTHORITIES TRACE



Customs can trace the products back to their last known location by accessing the data in the Track & Trace central repository using the AIT portal or mobile app

Authorities work with the JT Group's AIT team to prevent smuggling



*In focus*

# EMERGING PRODUCTS

## OUR APPROACH

As a reflection of the increased importance of emerging products within our business, in 2015 we brought together the JT Group's know-how on emerging products into one global, Group-level team. This team aims to maximize our use of resources in this area and to bring emerging products to market in the best manner possible. It does this by working across four areas:

1. Strategic insights: examining consumer expectations and industry trends in emerging products to develop a pipeline of innovative future offers.
2. Commercialization: working with our research and development teams to create new products.
3. Brand development: marketing and branding of emerging products once they have been placed on the market.
4. Corporate scientific and regulatory affairs: making sure products comply with standards and regulations, and advocating for better regulation when necessary.

We work on developing emerging products in three categories: e-vapor (such as e-cigarettes), t-vapor (tobacco-based products such as Ploom), and 'next generation products' that do not conform to either of the other two categories. We are committed to innovating in a way that will produce new products that fulfill consumer expectations and fall within regulatory parameters.

We have developed internal standards for emerging products, including rigorous chemical studies that examine not only what goes into a product but what comes out of it. In addition, we have a quality control manual that we use to reinforce our standards with contract manufacturers. Aside from requiring ingredient and materials disclosures from suppliers, we carry out toxicological risk assessments of key materials and assess them for compliance with applicable regulations. Our product stewardship also extends to the later stages of a product's life cycle – for instance, in terms of battery recycling.

### Commitment to the development of reduced-risk products

While we continue to develop emerging products that may reduce health risks – such as products that heat tobacco and e-cigarettes – we do not currently make any health claims. To determine whether the use of a particular product is less hazardous to health than smoking would require extensive scientific studies, including obtaining long-term clinical data. We remain committed, however, to the development of reduced-risk products, and will keep our stakeholders informed as this develops further.

*“Emerging products are becoming an increasingly significant part of our business. We have grown our product portfolio in 2015 with the acquisition of Logic, a major e-cigarettes company in the U.S.A., and with the launch of our E-Lites Curv brand in the U.K. and other parts of Europe. The biggest challenge we face in this exciting new space is to ‘future proof’ our portfolio as the EU, the U.S.A., and other regions begin to create and implement regulatory frameworks for these new products.”*

**YASUHIRO NAKAJIMA**  
VICE PRESIDENT,  
EMERGING PRODUCTS  
JT INTERNATIONAL

## DEVELOPMENTS IN 2015



In 2015 we acquired full global intellectual property rights to market Ploom worldwide.

During 2015 we also bought the U.S.A.-based company Logic Technology Development LLC (Logic), the third largest (by share of value) e-cigarettes company in North America. This is our first move into the U.S.A. e-cigarettes market – the largest in the world and where we intend to grow Logic's market share.

We have also launched a new brand of E-Lites – E-Lites Curv – in the U.K. and Ireland. E-Lites Curv, which was developed in-house, has a new shape, a longer-lasting and quicker-charging battery, and high-quality e-liquid made to our own quality control requirements at a third-party pharmaceutical plant in Switzerland. In September 2015 it was judged as the U.K.'s 'best e-cig' by the Gizmodo website.

The E-Lites Curv launch was supported in the U.K. with a television advert designed to raise brand awareness and to persuade existing e-cigarette users to migrate to our products. The advert conformed to the U.K.'s Committee of Advertising Practice Codes and was screened after the 9 p.m. watershed with appropriate warnings.

## E-VAPOR

A battery-powered device that heats a special nicotine-containing liquid, creating an inhalable vapor. The e-liquid is available in different flavors to meet consumer preferences.



## T-VAPOR

Ploom is a battery-powered device that directly heats a tobacco-containing pod, creating an inhalable vapor. Ploom TECH is a battery-powered device that heats a non-nicotine-containing e-liquid,

creating vapor that is then drawn through a tobacco-containing capsule. Both devices provide a distinct tobacco taste with no ash or smoke smell.



Ploom TECH was only launched in March 2016.

## REGULATORY LANDSCAPE



One of our main priorities on emerging products is to keep up with, and anticipate, consumer expectations. In addition, we look to monitor the regulatory landscape, anticipate changes, and ensure our products comply with new regulations; but developments are often so fast-moving that this is extremely challenging.

In particular, we are monitoring movements in the European Union, where a forthcoming update of the Tobacco Products Directive (2014/40/EU) (TPD II) will cover e-cigarettes and 'novel tobacco products' for the first time. We are concerned that updated regulations may stray beyond what is strictly necessary – which is to ensure product safety – and may severely impact not only on costs to consumers but also on the ability of manufacturers to innovate and bring out new products in this area.

In the U.S.A. the Food and Drug Administration is looking at extending tobacco regulations to cover e-cigarettes, with the possibility of similar or more stringent regulatory limitations than in TPD II. Potential

policy recommendations may come out of the seventh session of the World Health Organization's Framework Convention on Tobacco Control (FCTC) Conference of the Parties in 2016, where electronic nicotine delivery systems will be on the agenda.

In some markets e-cigarettes are banned altogether and in others – notably Hong Kong and Macau – there is a debate as to whether bans should be introduced. We will monitor developments in these territories and advocate against such bans.

We believe it is in the common interests of public authorities that manufacturers continue to develop emerging products for adult smokers who wish to try an alternative to conventional tobacco products. There is a legitimate debate around emerging products and their potential to provide a possibly safer alternative to combustible tobacco, and this debate needs to be balanced, fair, and based on sound evidence. It is therefore important that tobacco companies are allowed to contribute to discussions about the development of regulations and product standards.

A number of bodies have recently invited us to take part in discussions about standards, including in France, where in 2015 the national standardization body, Association Française de Normalisation (AFNOR), asked our international tobacco business to provide input to a drafting committee for the country's first national standard for e-cigarettes. We were also invited in the U.K. to provide views to the British Standards Institution ahead of its publication of a specification on e-cigarettes. We provided similar input to authorities in the UAE, which are developing a UAE standard on e-cigarettes, and to the European Committee for Standardization (CEN), which is looking at drafting a European standard. We also provided feedback to the European Commission as part of the consultation process on the draft Commission Implementing Decision on technical standards for the refill mechanism of e-cigarettes.



# ENVIRONMENTAL ISSUES



E-cigarettes present challenges around the disposal of batteries and of cartridges that contain e-liquid. We have been working with partners and suppliers in the U.K. to improve the E-Lites collection program, which provides consumers with two free cartridges for every 20 returned and one free battery for every 10 returned. More than 1,505 people take part in our rewards scheme, which saw the return of 5,245 batteries and 408,844 cartridges in 2015.

The collected cartridges are processed by a specialized third company, and mixed materials are disposed through a process that generates power for the grid and avoids any waste going into landfill. We will continue to investigate if there are more efficient methods of disposal.

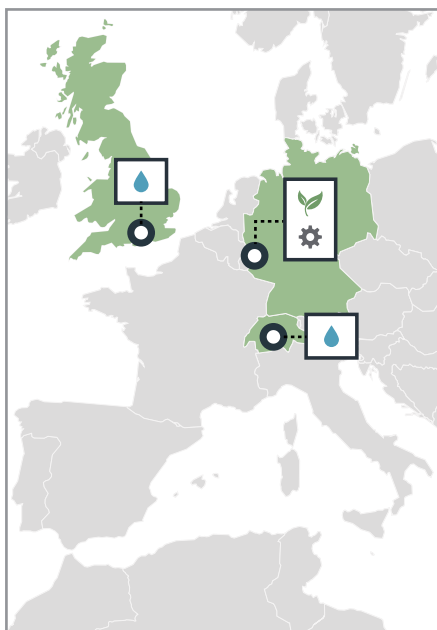
# EMERGING PRODUCTS SUPPLY CHAIN

Our supply chain for emerging products is complex, and involves the shipping of various materials around the world. One associated risk is to security of supply, but there are other important issues, including potential concerns around labor practices in China. To take account of these risks, we are developing business-continuity plans for our emerging products supply chain, allied to a robust sourcing strategy.



## OUR E-CIGARETTES SUPPLY CHAIN

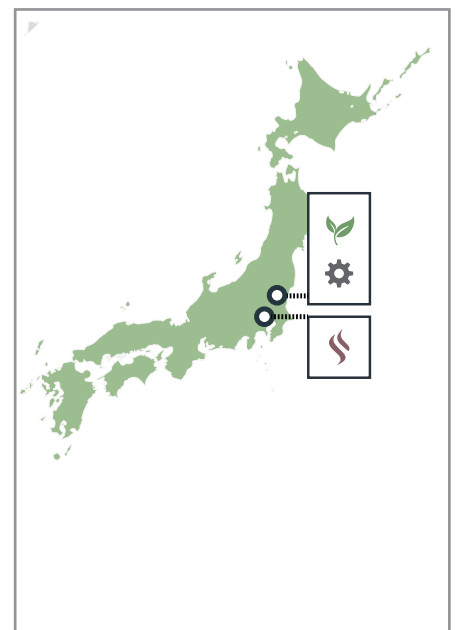
### EUROPE



### CHINA



### JAPAN



**Legend**



Device manufacturing and assembly



Flavor



Liquids



Tobacco

OUR  
BUSINESSES

# Our pharmaceutical business

*Research and development in our pharmaceutical business is guided by a strong sense of responsibility and ethics, including areas such as clinical trials of new drugs, animal testing, and management of chemical ingredients.*

*We are transparent about the way in which we cooperate with other organizations on drug development, and we aim to take a responsible approach to how we sell and market our pharmaceutical products – functions that are carried out by our subsidiary, Torii Pharmaceutical.*

## 2015 highlights

2015

**30.7** billion Yen  
spent on R&D, compared to

**28.9** billion Yen

in 2014

2015

We hosted **30** executives

at **WORKSHOPS**  
in Japan to better understand  
**PATIENTS' NEEDS.**

2015

Our subsidiary, Torii Pharmaceutical, gained **APPROVAL IN JAPAN TO MARKET A NEW DRUG, MITICURE®**

House Dust Mite Sublingual Tablets,  
for house dust mite allergy.

# Overview

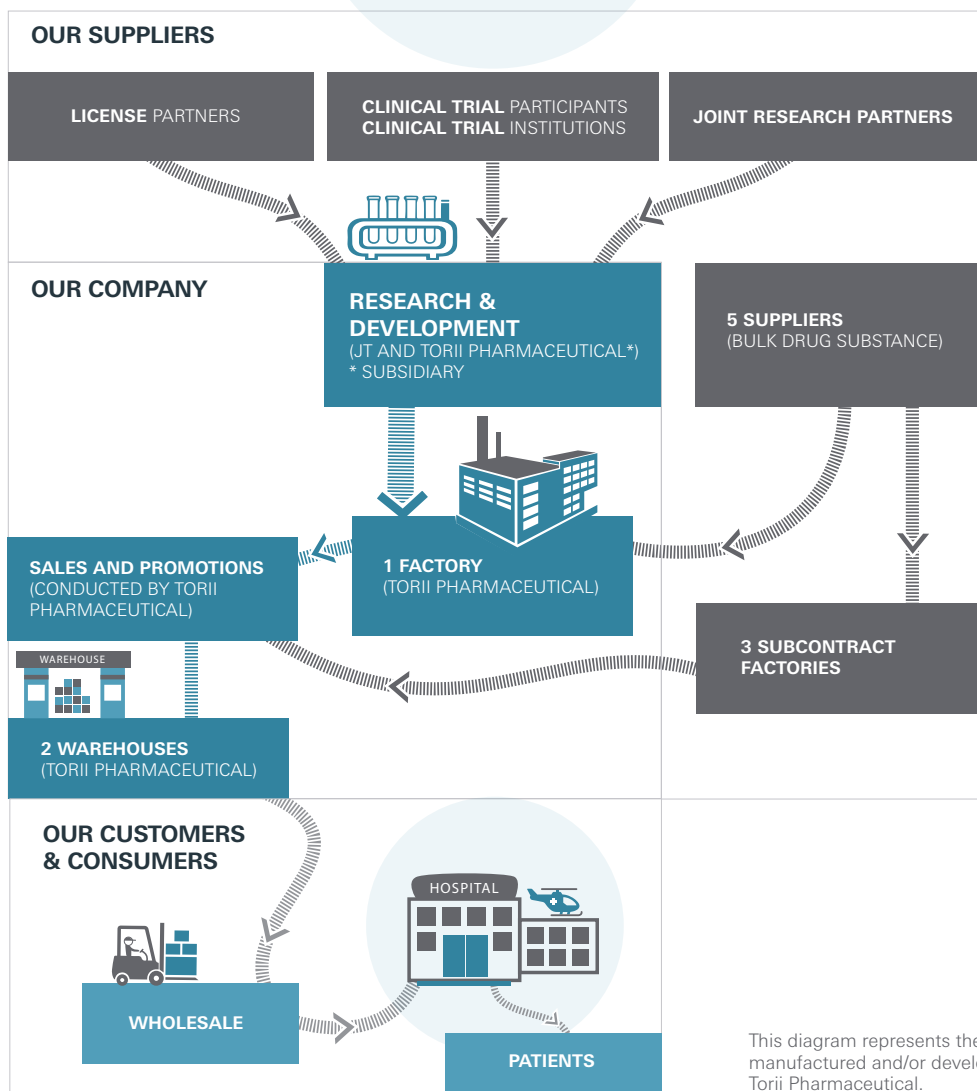
Our pharmaceutical business has a mission to create, through world-class research and development, innovative drugs that tackle diseases in a safe and secure manner.

We carry out our research and development in-house, but also work with license and joint research partners to help us bring drugs to market more quickly.

It is important that we observe rigorous standards across the value chain to ensure the efficacy and safety of our products, which we must market in a responsible fashion.



## PHARMACEUTICAL BUSINESS VALUE CHAIN



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

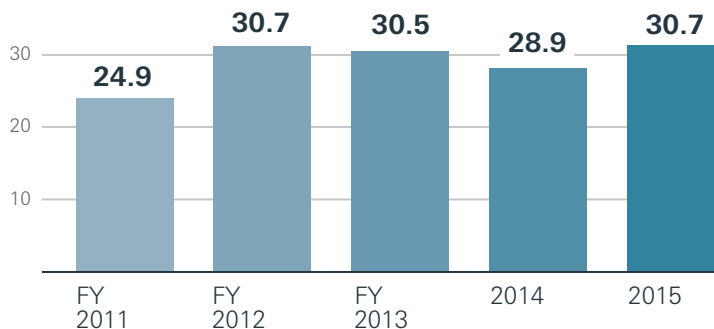


# Approach to product responsibility

We focus research and development (R&D) mainly on three areas: glucose and lipid metabolism, anti-virus research, and immune disorders and inflammation.

During 2015 we spent 30.7 billion Yen on R&D. During the year our subsidiary, Torii Pharmaceutical, gained approval from the Ministry of Health, Labour and Welfare in Japan to market a new drug, MITICURE® House Dust Mite Sublingual Tablets, an immunotherapy tablet treatment for rhinitis brought on by house dust mite allergy.

PHARMACEUTICAL R&D EXPENDITURE (BILLION YEN)



## RESPONSIBLE RESEARCH AND DEVELOPMENT

Our pharmaceutical business has a direct impact on human life, and therefore our R&D is guided by a strong sense of responsibility and ethics. Any divergence from this path could result in loss of life or damage to health – as well as diminished trust in the business. Our research activities are carried out in an ethical manner and comply with all laws, regulations, and industry standards.

## ETHICAL CONSIDERATIONS

To ensure appropriate conduct and care of laboratory animals in animal testing, our in-house standards are based on relevant government legislation. We have established the Institutional Animal Care and Use Committee that reviews animal testing and ensures it is conducted in accordance with the '3R' concept: replacing laboratory animals with other research materials where possible, reducing the number of animals used, and refining tests so that animals do not suffer unnecessary pain. Our animal testing management practices are certified regularly by an external authority.

We have an Ethics Review Committee that is based on the Japanese Ethical Guidelines for Medical and Health Research Involving Human Subjects. This committee examines the ethical justification and scientific validity of research utilizing human tissue samples.

# 3R

**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

## COMPLYING WITH PHARMACEUTICAL REGULATIONS AND STANDARDS

We have a rigorous system of checks in place to ensure that drug development complies with all relevant laws, regulations, and industry standards. In-house audits make sure we follow the procedures as laid out in our own manuals, and that we control our drug development and trials safely. We also collect data to monitor the efficacy and side effects of drugs.

### TRANSPARENCY ON COOPERATION WITH INSTITUTIONS

Cooperation with research institutes, universities, medical institutions, and organizations for patients is essential if we are to realize our mission. We are transparent about financial contributions to these

bodies and disclose such payments online. We follow guidelines in this area that have been set out by the Japan Pharmaceutical Manufacturers Association (JPMA).

## 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. We have a system for carefully managing these risks, from the point where we take delivery of chemicals through to their storage, use, and eventual disposal. We encourage employees who are working in our laboratories to acquire Class A hazardous materials engineer licenses,

after which they attend regular lectures to receive updates on new legislation and learn lessons from serious accidents that have occurred in other companies.

Torii Pharmaceutical separates chemicals into categories requiring different levels of management, and has specific rules and procedures according to the characteristics and safety risks of each category of chemicals.

## RESPONSIBLE MARKETING

We are members of the JPMA, and we comply with its Code of Practice, which promotes high ethical and transparency standards in the marketing of prescription drugs.

Torii Pharmaceutical also has its own Code of Practice. This is supported by training programs that ensure employees – including our 512 medical representatives who sell and promote drugs to healthcare professionals – comply with its requirements.

Torii Pharmaceutical has created a medical compliance department to enhance the way product information is managed and to educate employees on compliance with standards on the promotion of prescription drugs.

Outside Japan we license drugs to other pharmaceutical manufacturers and do not have a sales function.



## TAKING A PATIENT-FOCUSED VIEW

To develop better medicines we need to understand the views and experiences of people who are affected by some of the conditions that we aim to treat. Doing so gives us a clearer sense both of what they require and where we should be focusing our efforts in drug development.

Since 2013 we have been running workshops and discussion sessions on how we can continue to adopt a more 'patient-focused' corporate

attitude. We also visited health professionals including doctors, nurses, and pharmacists to understand what innovative drugs are truly needed in the medical field.

We believe this helps us to adopt a position where future strategy and development is based more on our essential mission: we shall create epoch-making drugs in the shortest possible time in a safe and secure manner.





OUR  
BUSINESSES

# Our processed food business

*The product portfolio of TableMark, our processed food business in Japan, includes frozen noodles, frozen and packed cooked rice, frozen baked bread, pastries, and seasonings. Frozen foods account for around three-quarters of our processed food business's turnover.*

*Most of the key sustainability issues are in our supply chain, particularly in terms of ensuring food safety and quality.*

## 2015 highlights

2015

# 100%

frozen food factories certified to ISO 22000

2014

# 100%

2015

# 1,837

people went on tours of our Uonuma Mizunosato factory as part of efforts to communicate with consumers.

2015

We launched a rice tray that uses

# 11%

less plastic while holding the same amount of rice.



# Overview

Within TableMark’s frozen food business, we work with more than 400 suppliers, which include trading firms and contract factories. Of these, approximately 100 supply us with packaging materials and approximately 300 wholesalers provide raw materials. We do not deal directly with raw materials producers such as farmers, as they have relationships only with trading firms or contract factories.

Although we do source packaging materials, within our frozen food supply chain our main focus is on the raw food ingredients that go into our products. Therefore, the key issue in our supply chain is food safety.

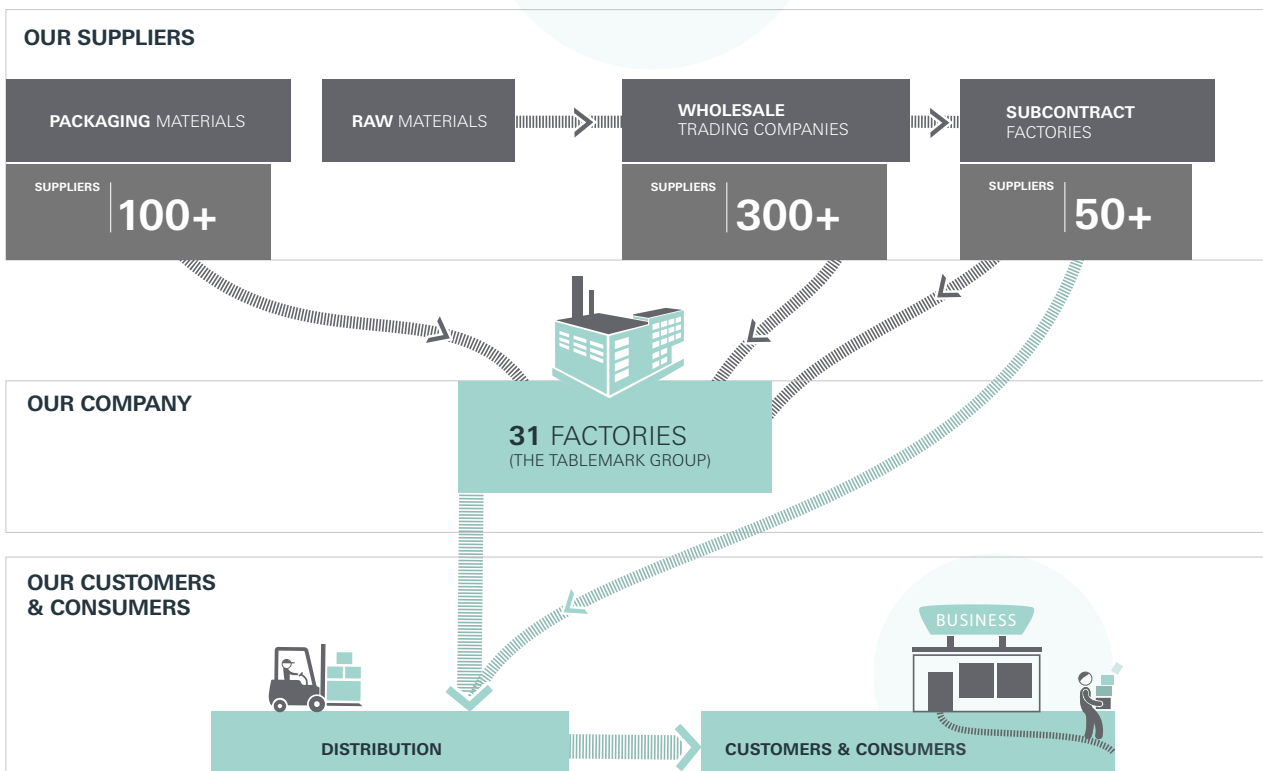
TableMark has its own sourcing policy on food safety. This aims to meet

consumers’ needs – and preserve our good reputation – by providing the highest-quality, safest, and best-tasting products. The policy includes a commitment to annual monitoring of first-tier suppliers, with the scope of such monitoring depending on key issues identified at each location. We expect all ingredients sourced

from suppliers – including second-tier suppliers such as farmers and fishers – to be produced in accordance with the policy. While we need to achieve a sensible balance between the cost of ingredients and the safety, quality, and reliability of supply, we will never sacrifice safety for the sake of cost.



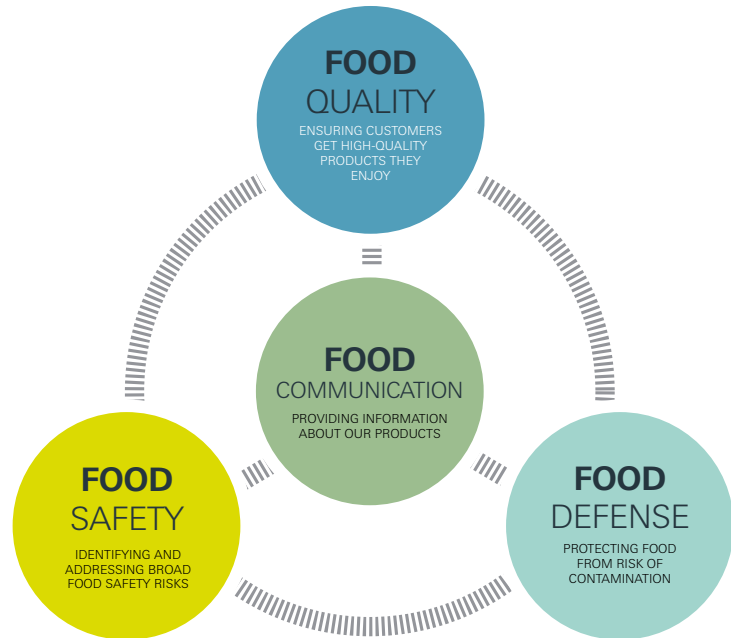
## PROCESSED FOOD BUSINESS VALUE CHAIN



This diagram represents TableMark Co., Ltd. only.

# Delivering safe, high-quality products

We have a rigorous quality and process control system focused on four areas: food safety, food defense, food quality, and food communication. This aims to guarantee safety in all parts of our processed food business, from the buying of raw materials to manufacturing and distribution. A panel of external advisers guides our approach across these four areas. We regularly review our procedures to ensure our products are produced and delivered in the safest possible manner.



## FOOD SAFETY

Our processed food business has a division to control food safety, and holds a quarterly meeting to review food safety initiatives and share best practice. We analyze product-specific safety risks and conduct inspections and audits in line with these risks.

All of our own frozen food factories, as well as those owned by third-party frozen food contractor factories, are certified to the ISO 22000 food safety management system. Six of our own factories have also certified to the FSSC 22000 food safety management system. We inspect the food safety systems of our contracted partners ourselves.

Unfortunately, there were two voluntary recall incidents in 2015, which both involved a small fraction of a plastic machine part found in our frozen food product. We have enhanced our machine maintenance processes and procedures so that similar events will not happen in future.

## FOOD DEFENSE

Food defense is about protecting our manufacturing processes and our products from intentional contamination. TableMark has robust food defense guidelines that are applied throughout the supply chain, to factories and to distribution centers as well as contract manufacturers. We use these guidelines in our annual audits and provide direction to contractor factories as necessary.

**100%**

**FROZEN FOOD FACTORIES ACHIEVED ISO 22000 CERTIFICATION**



## FOOD DEFENSE GUIDELINES

TIGHT CONTROL OF FACILITIES, WATER SOURCES, AND TOXIC SUBSTANCES

RESTRICTED AREAS FOR BOTH EMPLOYEES AND VISITORS

RESTRICTIONS ON PERSONAL BELONGINGS IN FACTORIES

## FOOD QUALITY



We ensure food quality through certification to ISO 22000 or FSSC 22000, but TableMark also has a quality improvement committee that responds to consumer opinions. In 2015, for instance, such feedback led us to provide more comprehensive thawing instructions for our frozen baked bread. Our consumer complaints management system is compliant with ISO 10002, the international standard for customer satisfaction and complaints handling.

## FOOD COMMUNICATION

We always disclose the factory where food products are made, as well as the country of origin of main ingredients. We record farm origin details and can trace back our products. We offer toll-free numbers on product labels so consumers can request additional information.

One way of communicating with consumers is by allowing them to visit our Uonuma Mizunosato frozen noodle and packed cooked rice factory, where we explain our approach to production. In 2015, 1,837 people – mainly students

– went on tours of this factory. Fifty-one shareholders were also invited for factory visits for the first time in 2015.

We also place emphasis on communicating internally as a way of building capabilities and understanding. Since 2008 we have used the expertise of three independent food safety advisers to help us develop our approach to food safety and to help with audits in factories. In 2015 we asked these experts to present separate lectures to TableMark employees at which they provided

food safety tips and shared their thoughts on the importance of food safety. Among attendees were quality control personnel from TableMark, and representatives from subcontractor companies.

The advisers are Kenji Isshiki, of Japan Food Research Laboratories, Nobuko Hiwasa, of Yokohama City Consumers Association, and Kunio Morita, of Japan Meat Science and Technology Laboratories.

## DEVELOPING NEW PRODUCTS

We are aware of growing consumer demand for healthier and more nutritious food options. We use 'healthier' ingredients in products where we can. For example, in 2015 we launched a packed cooked rice product that contains higher levels of fiber.



## ENVIRONMENTAL IMPACTS OF PRODUCTS



There are ways in which the design, distribution, and manufacture of our food products can be adjusted to reduce environmental impacts, including by reducing packaging and by cutting energy used both in manufacture and in use by consumers.

In 2015, for instance, we developed a compact tray for our packed cooked rice that uses 11% less plastic while

holding the same amount of rice. We also produced a new range of 'natural thaw' products that can be defrosted without the use of a microwave oven – thereby reducing energy consumption by the consumer.



# About this report

We report annually on our sustainability activities and performance and have been publishing environmental or CSR reports since 1998. Our last report, 'JT Group Sustainability Report FY2014,' was published in June 2015.

The FY2015 report has been compiled in accordance with the Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines 'Core' level. We defined the content of this document using a materiality assessment that covered the entire JT Group.

Data in this report covers January to December 2015, unless otherwise stated. Historic data indicated with 'FY' covers the fiscal year from April 1 to March 31 for our Japanese domestic operations. In 2014 the JT Group moved its reporting period to the calendar year ending December 31. Until March 2014, Group companies outside Japan reported their financial performance from January to December, while in Japan our business took its financial year to be from April 1 to March 31. Data covering the calendar year 2014 reflects businesses' performance spanning from January 1 to December 31, with adjustment in 2014 data for comparability with 2015 data.

## NOTES ON DATA

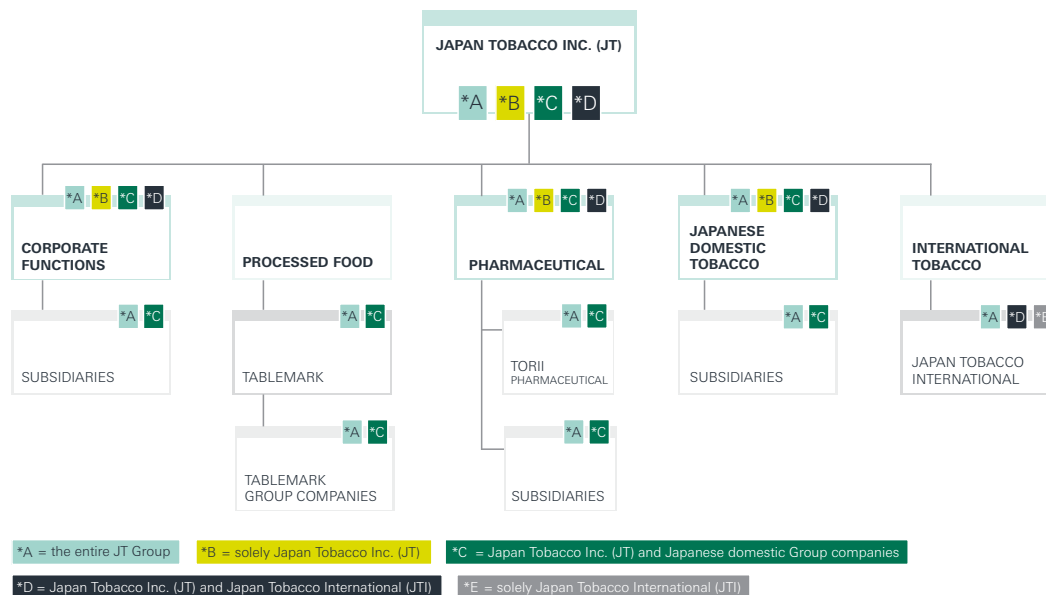
Although we report overall JT Group figures wherever possible, in some areas this has not been possible. In such instances we have made it clear to which part of the business the data applies. In the middle of 2015 the JT Group withdrew from the beverage business, and some of the historical

data presented in this report has been restated accordingly.

We have shown how we calculate and consolidate environmental, health and safety, and HR data in our separate Basis of Reporting document, which we will continue to update in the future. Historical environmental data for the

period FY2009 through 2014, which was disclosed in the FY2014 report, has been restated to align with the requirements of the GHG Protocol.

The Japanese Yen exchange rates against the U.S. Dollar used in this report are the same as used in our consolidated financial reporting.



## EXTERNAL VERIFICATION AND ASSURANCE

This report is not externally assured, although some of the data within it has been externally verified. This includes

Group-wide Scope 1 and 2 GHG data and some Scope 3 GHG data. In future we will consider expanding the scope of

assurance of our non-financial data and the contents of this report.

## IN ACCORDANCE WITH GRI G4 'CORE'

In 2013 we set a goal of reporting in accordance with the G4 'Core' Guidelines. Having achieved this goal, we will strive to continuously improve our reporting in the future.

Our GRI G4 Content Index ([www.jt.com/csr/report/index.html](http://www.jt.com/csr/report/index.html)) shows the list of Standard Disclosures for which we have either provided information in this report or in other public documents, such as

our Annual Report. The identification of specific Standard Disclosures is based on materiality assessments for the entire JT Group.

## CHANGES IN STRUCTURE, SIZE, OR OWNERSHIP

In October 2014 we announced the decision to close factories in Wervik, Belgium, and Lisnafillan, Northern Ireland, potentially affecting around 1,100 jobs.

In February 2015 our Japanese domestic tobacco business announced that 1,754 employees had agreed to take voluntary retirement under a program announced in late 2013 due partly to the closure of some Japanese domestic tobacco-related factories between 2015 and 2016. The majority of these had left the company in March 2015.

In July 2015 we completed the acquisition Logic Technology Development LLC, which is a leading U.S.A. e-cigarettes company. In the same month we also announced that we had decided to close our Moscow factory by mid-2016 due to the serious contraction of the tobacco market in Russia.

In September 2015 we announced the acquisition of Natural American Spirit, which was completed in January 2016.

In October 2015 we communicated that we were considering closing our Wadeville factory in South Africa. We also announced the acquisition of Arian Tobacco Industry (ATI), a cigarette manufacturing company in Iran.

During 2015 we withdrew from the manufacture and sale of beverage products and sold our beverage vending machine operations.

## OTHER PUBLICATIONS

### Websites

Japan Tobacco Inc.:  
[www.jt.com](http://www.jt.com)

Japan Tobacco International  
(international tobacco business):  
[www.jti.com](http://www.jti.com)

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

TableMark Co., Ltd. (processed food subsidiary):  
[www.tablemark.co.jp](http://www.tablemark.co.jp) (in Japanese)

### Publications

JT Annual Report:  
[www.jt.com/investors/results/annual\\_report/index.html](http://www.jt.com/investors/results/annual_report/index.html)

## AWARDS AND RECOGNITION

We are a member of the Dow Jones Sustainability Asia Pacific Index ([www.sustainability-indices.com](http://www.sustainability-indices.com)) and of the Morningstar Socially Responsible Investment Index ([www.morningstar.co.jp/sri](http://www.morningstar.co.jp/sri), in Japanese).

We have also been awarded with a position on the Japan 500 2015 Climate Disclosure Leadership Index, run by CDP, a global body that helps companies measure, manage, and disclose environmental performance. This is recognition for the depth and quality of the climate change information we have disclosed ([www.cdp.net](http://www.cdp.net)).

In March 2016 JT was selected as a Nadeshiko Brand for demonstrating outstanding commitment to empowering women in the workplace among 45 other listed companies on the Tokyo Stock Exchange.

We were chosen by the Ministry of Economy, Trade and Industry as one of its 34 Diversity Management Selection 100 companies, recognizing us for creating new value by embracing diversity in the workplace.

MEMBER OF  
**Dow Jones  
Sustainability Indices**  
In Collaboration with RobecoSAM

**MS-SRI**

**NADE  
SHI  
KO**  
BRAND  
2016

**DIVERSITY  
MANAGEMENT  
SELECTION  
100**  
2016

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