



**OUR WAY OF  
DOING BUSINESS**

ABSOLUTE REQUIREMENTS  
RESPECT FOR HUMAN RIGHTS

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

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

## Our Human Rights strategy

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

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

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

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



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We recognize respecting human rights as one of our absolute requirements for sustainability. Whilst we have made progress, respecting human rights is a journey, and our approach and management of human rights issues will evolve and mature. We still have much more work to do and we will update you on our progress as our human rights initiatives unfold in the coming years.

Chigusa Ogawa,  
Senior Vice President, Sustainability Management, JT

### OUR COMMITMENT TO CONDUCTING HUMAN RIGHTS DUE DILIGENCE

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

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



# Our approach and progress in 2018

## INFORM

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

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

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

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

## ASSESS

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

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

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

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

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

## IMPROVE

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

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

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

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

## Governance and stakeholder engagement

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

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

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

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

### HUMAN RIGHTS EXTERNAL ADVISORY BOARD

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



## Our programs

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

**Code of Conduct**  
see page 32

**ARISE**  
see page 48

**Workplace Health & Safety**  
see page 38

**Community Investment**  
see page 24

**Agricultural Labor Practices (ALP)**  
see page 46

**Diversity & Inclusion**  
see page 76

## HUMAN RIGHTS IMPACT ASSESSMENTS

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

### SOME KEY FINDINGS AND HOW WE ARE ADDRESSING THEM



#### TANZANIA

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

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



#### JAPAN

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

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



#### MYANMAR

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

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



#### DOMINICAN REPUBLIC

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

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



#### MEXICO

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

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



#### MALAYSIA

Workers at a JTI supplier reported long working hours.

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



## Going forward

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

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

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

ABSOLUTE REQUIREMENTS

AN IMPROVED SOCIAL AND ENVIRONMENTAL IMPACT

Improving our social impact

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

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



An employee volunteering project to protect saplings in Kosuge, Japan

OUR TARGET\*

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

\*This is a Group-wide target.

CONTRIBUTING TO COMMUNITIES

TOTAL VALUE OF INVESTMENTS IN THE COMMUNITY IN 2018\*



OUR APPROACH

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

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

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

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

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

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

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



Accessibility program, La Scala, Italy



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

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

## Improving our environmental impact

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

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

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

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

### WHAT HAVE WE ACHIEVED SO FAR?

Through our Long-Term Environment Plan 2020, we committed to a 20% reduction in GHG emissions between 2009 and 2020. These GHG emissions relate to both Scope 1 emissions (those for which we are directly responsible) and Scope 2 emissions (those related to energy supplied by third parties).

We achieved the absolute emissions target three years ahead of schedule at the end of 2017. By the end of 2018, we had reduced our absolute emissions by 21.4% and our emissions intensity by 16.1%.

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

### WHAT ARE THE NEXT STEPS?

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



Solar electricity generation in our Batangas factory in the Philippines

### THE JT GROUP ENVIRONMENT MANAGEMENT

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

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

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

### THE JT GROUP ENVIRONMENT PLAN 2030

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

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

### OUR OBJECTIVES AND TARGETS FOR 2030\*

#### ENERGY AND EMISSIONS

### Energy

Transition our operations to net zero carbon energy supply.

#### TARGETS

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

### Emissions

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

#### TARGETS

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

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

#### WASTE

### Waste

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

#### TARGETS

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

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

#### NATURAL RESOURCES

### Water

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

#### TARGETS

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

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

### Forestry

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

#### TARGETS

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

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

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

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

## MAKING PROGRESS IN ENERGY AND GHG EMISSION REDUCTION

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

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

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

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

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

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

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

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

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

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



### SETTING A SCIENCE BASED TARGET

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

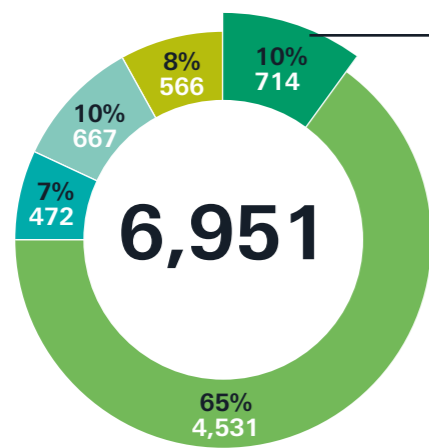
We have committed to reduce GHG emissions from our own operations by 32% across the Group (2015 to 2030). Our target was validated by the Science Based Targets initiative (SBTi) in February 2019.

### REDUCING OUR ENVIRONMENTAL IMPACTS IN SCOPE 3 EMISSIONS

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

### GHG EMISSIONS IN OUR VALUE CHAIN IN 2018

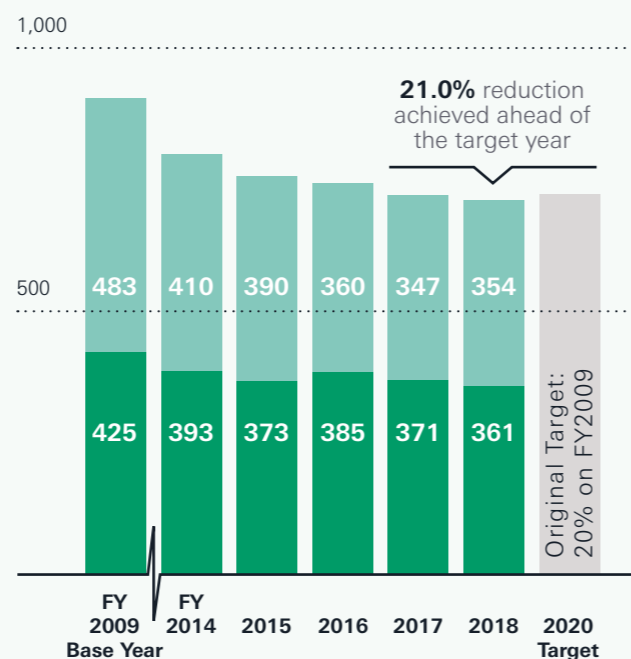
CO<sub>2</sub>e thousand tons



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

### COMBINED SCOPE 1 AND 2 GHG EMISSIONS

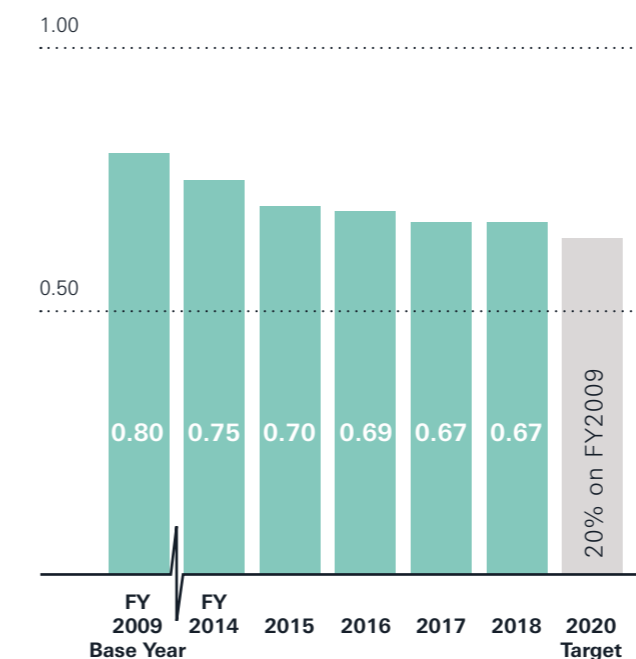
CO<sub>2</sub>e thousand tons



Scope 1
Scope 2

### GHG EMISSIONS INTENSITY FOR THE TOBACCO BUSINESS

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



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

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

## WATER

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

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

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

### OUR 2030 GOALS

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

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



## FORESTRY

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

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

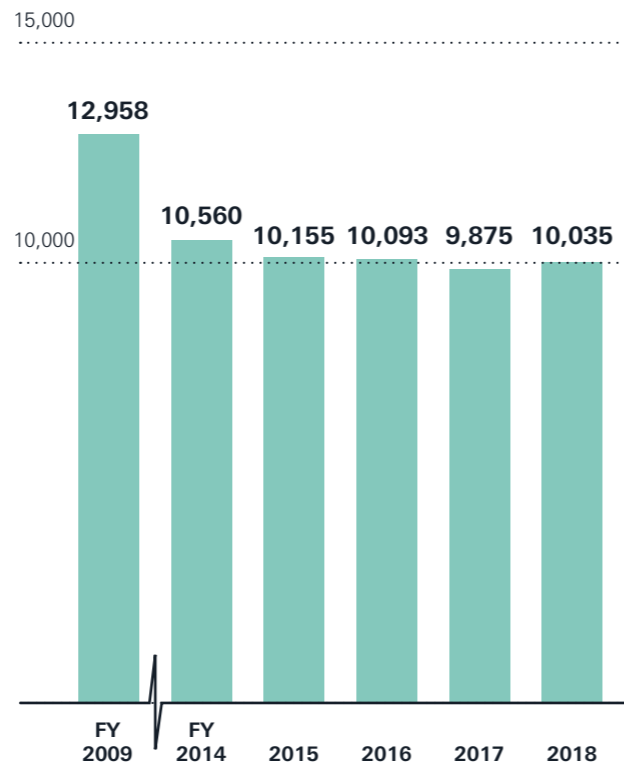
In addition to our current programs and to further focus our efforts on sustainable forest management,

### WATER RISK IN OUR SUPPLY CHAIN

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

### WATER WITHDRAWAL

Thousand m<sup>3</sup>



we will have assessed the drivers for deforestation and forest degradation in communities where we source tobacco and we will have action plans for improved wood resource use, forest conservation, and forest rehabilitation by 2020.

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



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

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

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

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

Yusuke Takaki,  
Manager, Environment, Sustainability Management, JT

## WASTE

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

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

### LONGER-TERM GOALS

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

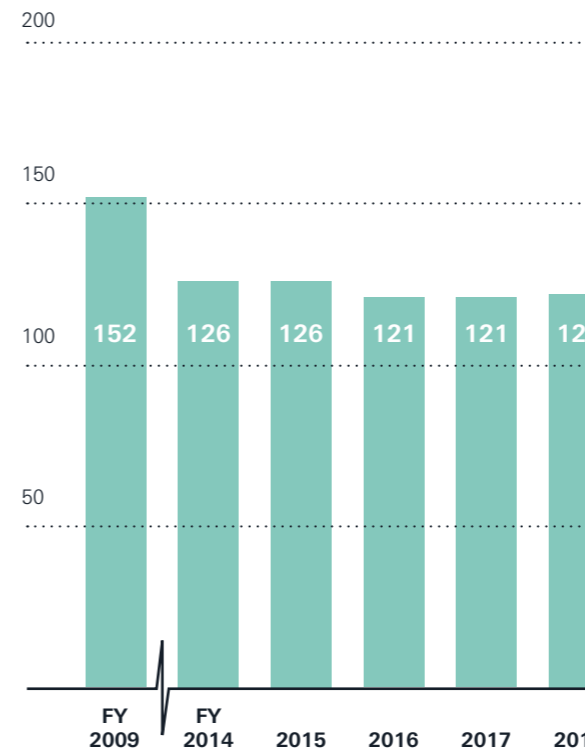
By 2030, we will reduce waste associated with our tobacco business by 20% vs 2015. We will do this by improving resource efficiency and rolling out innovative solutions across different sites.

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

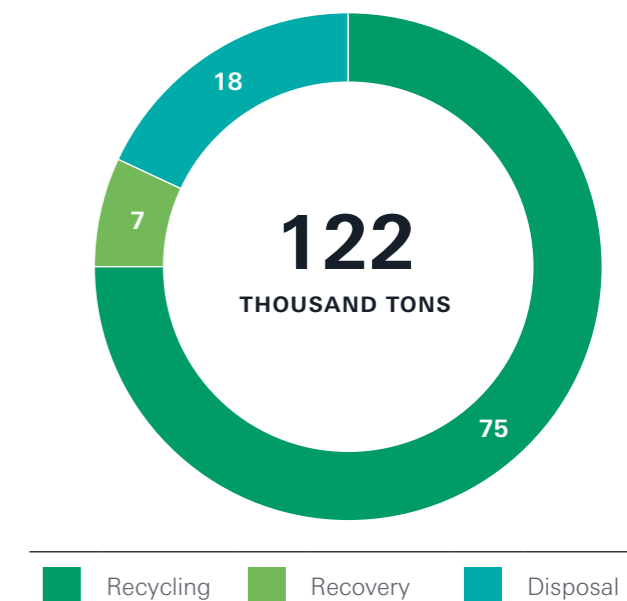
Read about how we reduce waste in manufacturing on page 53.

### WASTE GENERATION

Thousand tons



### BREAKDOWN OF WASTE GENERATED IN 2018 (%)





**ABSOLUTE REQUIREMENTS**

**GOOD GOVERNANCE AND BUSINESS STANDARDS**

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

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

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

For more details about JT's corporate governance, including tax practices, risk management, and information security, see [www.jt.com/sustainability/way\\_of\\_business](http://www.jt.com/sustainability/way_of_business).



**Our business ethics**

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

**LIVING OUR CODES OF CONDUCT**

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

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

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

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

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

the Philippines and Indonesia. The same approach applies to trainings on Anti-Bribery and Corruption, including Anti-illicit Trade and Conflicts of Interest.

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

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



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

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



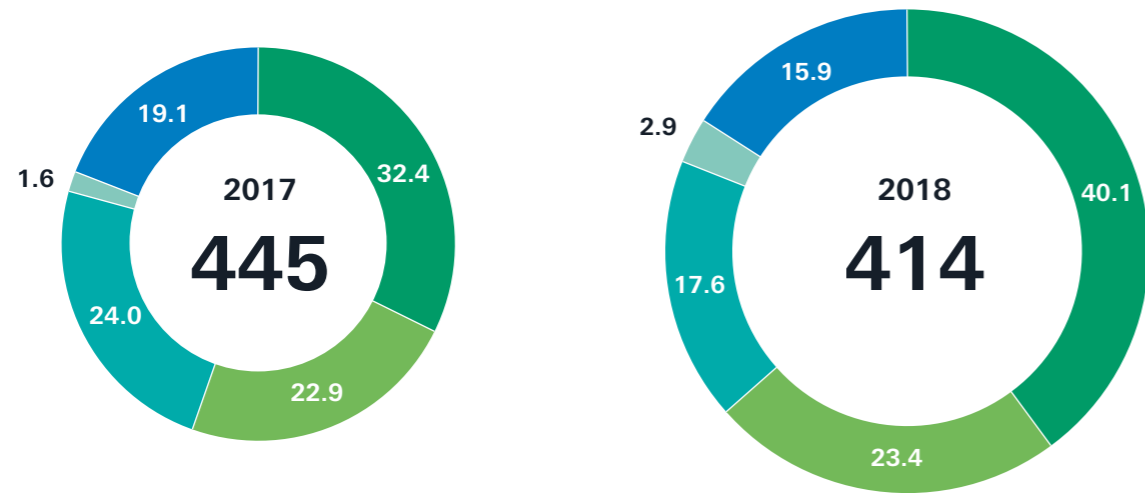
**REPORTING CONCERNS**

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

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

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

**BREAKDOWN OF REPORTED CASES (%)**



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

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

**ANTI-BRIBERY AND CORRUPTION**

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

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

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

**GIFTS, HOSPITALITY, AND ENTERTAINMENT**

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

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

**ANTI-COMPETITIVE BEHAVIOR**

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



**PREVENTING FINANCIAL CRIME**

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

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

our existing Anti-Money Laundering policy to include other elements of financial crime.

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

# Our people

## JT Group Human Resources Management Philosophy

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



### LEARNING AND SHARING BUSINESS SKILLS

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

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

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

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

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

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



### RESPECTING DIVERSITY IN THE WORKPLACE

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

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

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

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

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



### ENGAGING WITH EMPLOYEES

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

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

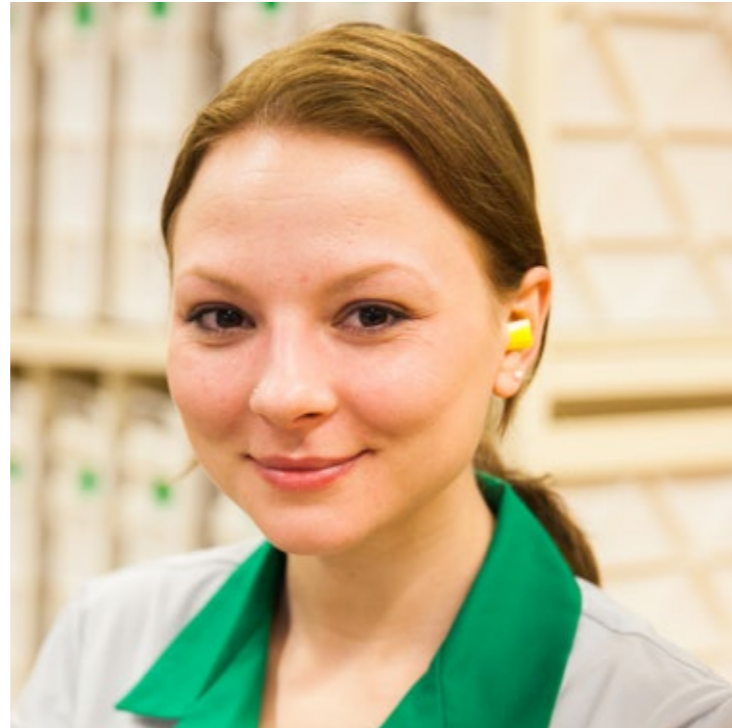
Importantly, our people also help us understand what we need to do differently to maintain our reputation as a top employer.

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

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

## The JT Group health and safety strategy

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



## TOWARDS A BETTER WORKPLACE

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

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

### WORKPLACE HEALTH AND SAFETY DATA\*1

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

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

\*2 Excludes third-party fatalities.

### THREE PILLARS OF SAFETY

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

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

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

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

