

## Supply Chain Management

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### JT Group Responsible Procurement Policy

There has been a growing need to deal with social problems through management of corporate supply chains. While the JT Group has been putting forward CSR-oriented procurement such as green procurement, the JT Group Procurement Policy was established to further meet social expectations and fulfill corporate social responsibilities.

This policy stipulates that compliance be observed and due consideration be paid to human rights and the environment when procuring materials.

Accordingly, the JT Group will continue expanding cooperation with suppliers to pursue CSR-oriented procurement through its entire supply chain.

#### JT Group Responsible Procurement Policy

The mission of the JT Group is to create, develop and nurture its unique brands to win consumer trust, while understanding and respecting the environment, and the diversity of societies and individuals. To achieve the mission of the JT Group, the JT Group operates procurement in the manner as stated in the JT Group Responsible Procurement Policy.

##### 1. Implementation of Compliance

- Acting in a manner to comply with the legislation and regulations relating to procurement as well as social norms.
- Providing appropriate measures to protect all information provided to us by our suppliers for procurement activities.
- Operating procurement activities in appropriate and sincere manner that follows JT Group Principles of Conduct and Guidelines for Conduct.

##### 2. Environment

JT Group operates procurement in a manner to pay due consideration to the environment in accordance with the basic principle of JT Group Environment Charter.

##### 3. Selection of Suppliers

Our supplier selection is based upon our review of a supplier's quality, price and service. In particular, JT Group will consider the supplier's historical success with respect to the delivery of goods and services to be supplied to JT Group, as well as the supplier's capability to ensure ongoing delivery of these requested goods and services. In addition to these criteria, JT Group will consider the following:

- The supplier's compliance with relevant laws and regulations for each country and region.
- The supplier's policies that respect human rights and social norms.
- Whether the supplier has appropriate measures to pay due consideration to the environment.
- Whether the supplier has appropriate measures to protect confidential information, trade secrets and any other information provided by business partners.
- Whether the supplier has appropriate measures that ensure business continuity, free from any operational and financial instability.

## Supply Chain Management in the JT Group Business

### Activities in the Tobacco Business

#### Domestic Leaf-Tobacco Procurement

While consumers and society pay greater attention to the quality of raw materials, the JT Group places a premium on producing quality leaf tobacco.

The JT Group's domestic leaf-tobacco production depends on procuring raw materials from contract leaf-tobacco farmers nationwide.

The very basis of agriculture lies in soil preparation, in which the use of organic fertilizers is effective. JT encourages leaf-tobacco farmers to reduce the use of chemical fertilizers, replacing them with quality compost and mixed organic fertilizers.

At the same time, explicit standards and rules are in place to regulate the use and handling of agrochemicals for leaf-tobacco cultivation, while meetings and seminars are held for all contract farmers to minimize agrochemical use in an appropriate way. There is also a system to have them report on the amount of agrochemicals used and to analyze samples of all leaf tobacco upon purchasing, ensuring the traceability of individual farmers for problem-identification purposes.



Leaf-tobacco farm

JT and its contract leaf-tobacco farmers will continue making a concerted effort to produce reliable leaf tobacco.

#### Overseas Leaf-Tobacco Procurement

Japan Tobacco International (JTI, headquartered in Geneva, Switzerland) is in charge of procuring leaf tobacco overseas for the JT Group. Sustainable development of tobacco-producing areas, meanwhile, is key to maintaining the supply of quality leaf tobacco. JTI is thus committed to solving social problems, while playing a part in developing tobacco-producing areas and improving farmers' living standards.

As major tobacco-producing areas in Africa and other parts of the world face serious problems such as deforestation, poverty, low agricultural productivity, and child labor, JTI is working on a variety of programs, including those for a forestation, forest conservation, construction of irrigation systems, and agricultural technical assistance. It is also engaged in programs to provide children with opportunities for education and to educate local communities including tobacco-leaf farmers, thereby eliminating child labor and dangerous work.

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Feature1: Social Contributions in Tobacco Leaf Producing Regions

### Activities in the Pharmaceutical Business

Pharmaceutical companies manufacturing drugs that have a direct impact on human life and health must ensure high levels of quality and safety in every phase of their operations, from R&D of drugs to post-marketing surveillance.

Torii Pharmaceuticals Co., Ltd., a JT Group company manufacturing and distributing pharmaceuticals, gives the highest priority to the safety of patients and sees to it that the quality and safety of drugs are maintained throughout the entire process, from raw material procurement to manufacturing, shipment, and delivery to patients. Accordingly, raw material suppliers and outsourcing companies are selected through rigorous screening to ensure the quality of finished products. In addition, existing suppliers are regularly audited to maintain the quality of drugs until they are delivered to patients. In order to abide by relevant laws and regulations, moreover, the general marketing compliance officer, the quality assurance supervisor and the safety management supervisor known as "manufacturing/marketing triumvirate" are in place, working to ensure the quality of drugs and the safety of those already on the market.

### Activities in the Food Business

The Food Business places a premium on the highest level of safety control to provide consumers with safe and reliable products.

Producing safe foods starts from procuring safe, high-quality raw materials. The JT Group, therefore, makes it compulsory for suppliers to turn in quality assurance, which are carefully examined. Regarding key raw materials, moreover, pesticide residues and antibiotics are monitored and inspected, while raw material factories are regularly audited. As for raw materials produced overseas (Thailand, Vietnam, China, etc.), the conditions of agricultural farms (the soil, water quality, cultivation conditions, and pesticide management), breeding farms, and fish farms are inspected to ensure the safety of finished products right from the production of raw materials.

Production processes are also monitored according to rigorous standards. While all frozen food factories of the JT Group and its outsourcing companies have obtained ISO 22000 certification for food safety, security and chemical management, too, are audited, with regular as well as no-notice audits conducted at factories at home and abroad.



Inspection by Food Safety Advisors