

Corporate Social Responsibility

JT Group Report 2013



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Introduction

The JT Group, centered around Japan Tobacco Inc. (JT), is a global organization operating in Japan and over 120 countries worldwide. It is active in the three broad sectors of tobacco, pharmaceutical and foods. JT manufactures and markets tobacco products in Japan, and Japan Tobacco International (JTI), headquartered in Geneva, Switzerland, operates the global tobacco

business. The pharmaceutical business conducts research and development, manufactures and markets prescription drugs. The foods businesses consist of beverages and processed foods. Both the pharmaceutical and food businesses are based in Japan. A belief in 'doing the right thing' is central to the JT Group's corporate principles and how it conducts

its businesses. This belief underpins the examples of Corporate Social Responsibility (CSR) activities presented in this Report. Additionally, in 2012 the Group adopted the ISO 26000 guidelines on Social Responsibility as a new framework to help structure its CSR reporting. ISO 26000 encompasses manufacturing processes, consumer services, supply chain management, environmental

management, business operations and social contributions, all of which are relevant to the JT Group. Undoubtedly, there will always remain much more to be done, and the Group is committed to strengthening the societies and communities in which its businesses operate.



In today's world, we face many and varied challenges that impact on the sustainability of society at large. These include climate change, resource depletion, poverty and the abuse of human rights.

The JT Group is an organization whose value chain is spread around the world. It is right then that we are expected to help address the societal challenges which arise from the impact of our business operations on communities.

With the "4S" Model, our management principle, we aim to balance the interests of four classes of stakeholders - consumers, shareholders, employees and society – fulfilling

our responsibilities towards them. This Model requires us to contribute to the sustainable growth of societies, by conducting socially responsible business operations.

Accordingly, we are committed to enhancing our value chain management to reduce environmental impacts, preserve natural resources, address the abuse of human rights, and contribute to communities.

Operational in over 120 countries and with an employee base encompassing more than 100 nationalities, we ensure that our diverse global workforce observes the principles of CSR to make a real difference in the development of sustainable society.



Mitsuomi Koizumi

President and Chief Executive Officer
Japan Tobacco Inc.



The JT Group operates in many countries, across different business sectors, touching myriad aspects of global society. As such we take our responsibilities to help address pressing environmental and social concerns very seriously.


Under the “4S” Model, our management principle, we have long been committed to addressing environmental issues, community development, and incorporating Corporate Social Responsibility (CSR) in our Group’s business operations. We look to incorporate the perspectives of the stakeholder groups with whom we are in dialogue, so that in undertaking CSR initiatives we maximize our contribution to the communities where we operate.

The JT Group strives to live up to stakeholders’ expectations through continuous improvement, evolving our CSR credentials through programs and activities in line with a coherent global strategy.

This report provides an insight into the direction we are taking.



Hideki Miyazaki
Executive Deputy President,
CSR, Finance and Communications
Japan Tobacco Inc.

A close-up photograph of a pair of hands holding a small, young tree with dark soil. The tree has a thick, dark trunk and a dense canopy of green, needle-like leaves. The hands are positioned at the base of the tree, supporting it. The background is dark and out of focus, emphasizing the hands and the tree. The overall mood is one of care and nurturing.

ISO 26000: Human Rights

Observing human rights

The JT Group counts diversity as one of its great strengths, and actively promotes respect, fairness and opportunity for all in its work environments.

Putting human rights first

The JT Group reinforces the importance of human rights, in all areas of its business activities and workplaces. Policies are employed to ensure that no employee is subjected to discrimination or exploitation, and is treated fairly and appropriately at all times.

The Group procures a wide variety of raw materials through a complex supply chain that spans the world. Accordingly, all suppliers are expected to observe the sanctity of human rights in their business operations.

These standards are set out clearly in the JT Group's Responsible Procurement Policy and all business partners are held to the same stringent standards.

The contracted growers that supply tobacco to the JT Group are expected to comply with our Agricultural Labor Practices, which define standards and give guidance on labor practices, addressing such issues as child labor.

Child labor is a complex issue within tobacco farming. The JT Group makes it clear to the growers who supply our tobacco that child labor is not acceptable. A fundamental part of this approach is to improve the livelihoods of farmers, their families and communities. For this reason, the JT Group works with international organizations to meet the target of getting children back into schools and keeping them there.

People's rights to express themselves and work without prejudice are central tenets of the JT Group's culture and working practices.



Partnering to help end child labor



The JT Group's commitment to the future of tobacco growers starts with making sure that children go to school. 'No Child Labor' contracts are reinforced with programs to build schools, investment in infrastructure to improve community livelihoods and through a tailored child labor elimination program, ARISE. By promoting education the JT Group builds an understanding within the communities where it operates, helping to give children a good education and widening their paths to a better future.

The ARISE program

In February 2012, JTI began a program called ARISE (Achieving Reduction of Child Labor in Support of Education). The purpose is to help eliminate child labor in the communities where it purchases tobacco leaf. This program is currently active in Malawi, Zambia and Brazil.

In developing countries the challenges of child labor are significant, and the JT Group recognizes that it cannot address these without collaborative efforts. That is why the ARISE program partners with the International Labor Organization (ILO) and Winrock International. These two organizations possess specialized knowledge in eliminating or reducing child labor, using experienced teams to develop and monitor activities taking into account local conditions.

Children who have been removed from work as child laborers face considerable barriers to education because they are often far behind, having missed out on the fundamentals. ARISE addresses these by providing educational materials and after-school tutoring that serve as an enhancement to formal schooling. The program also

offers mentoring and access to technical and vocational training for older children through Model Farm Schools and vocational skills courses. Such training ensures that children gain the knowledge and skills needed to achieve food security and a decent livelihood within the rural economy. Family Support Scholarships provide not only educational materials for children, but also entrepreneurship training and conditional capital investments for their mothers or guardians. This encourages them to remove their children from child labor situations and keep them in school.

Through the ARISE program, together with its partners, JTI helps create child labor alternatives. At the same time, it raises awareness on this issue in the most affected communities and increases educational opportunities for local children.

Putting the program into action



A typical school in the Kaoma district of Zambia, where ARISE was launched this year.

Lucia Kaluzu is a 17 year-old from the village of Kumayani in Lilongwe District in Malawi. At the age of 16 she dropped out of the sixth grade because her parents and others told her she was too old for school. Although Lucia's parents were too poor to keep her in school, her fate changed when the ARISE program came to her village.

ARISE established Child Labor Monitoring Committees in each village, to identify children involved in child labor or at risk of entering into this situation. Lucia was identified as needing support and direction, and was selected to take part in the program's Model Farm School, a six-month vocational agricultural training program. She was also encouraged to re-enroll in school and now attends sixth grade again. Additionally, she received ARISE materials, including a book bag, uniform, exercise books, pens, soap and other necessities. She spends three afternoons each week at a Model Farm School and attends the after-school program two afternoons per week, receiving mentoring and enjoying sports activities.

Making a better future possible

According to Lucia, ARISE changed her life and her perceptions and understanding on many issues. She learned that a young woman has a right to an education and that she can learn other skills and become a farmer herself.

In the Model Farm School, Lucia learned to grow crops using modern, safe techniques designed to produce more on a small plot of land. She wants to finish her education and take up vegetable production on a larger scale as her main business: "I feel I have to choose a different path. I see these women struggling everyday to support their families; their small businesses just cover their immediate needs, but they cannot save money or invest for their children. I want to take advantage of the Model Farm School to get the right farming skills so that together with my friends we can one day open up a big farm as a cooperative."

"I realized that I was a victim of child labor. ARISE taught me and my friends that child labor is any work that keeps young people out of school. I went home and talked to my parents and, with the support of the program's mentors, members of the Child Labor Monitoring Committee as well as my school teacher and our village chief, I found myself back in school."

Lucia Kaluzu



ISO 26000: Labor Practices

Respecting employee relations

*The JT Group recognizes
that good labor relations
foster collaboration, and puts
employees at the center of its
efforts to succeed and grow.*

Focusing on health, safety and employee satisfaction

The health, safety and well-being of its workforce are of paramount importance to the JT Group. It has established policies and standards beyond its statutory requirements, which safeguard the interests of all employees.

Recognizing the importance of dialogue with staff helps to create an understanding of how the JT Group can be a better employer. To this end, employee surveys are conducted and the result is a two-way communication between the Group and its employees, who cooperate to create rewarding business environments.



The JT Group believes that its core asset is the talent it employs. Respecting and acting on the needs of employees is therefore essential.

Listening to employees helps create a better workplace

Employing a culturally diverse workforce

The JT Group employs individuals encompassing more than 100 nationalities. It believes that employing a workforce of such cultural diversity creates a strong source of competitiveness and is a driving force for sustainable growth. Great efforts are made to harness this power of diversity, motivating and encouraging employees to express their individual perspectives.

As an equal opportunities employer personal growth is nurtured, regardless of an individual's race, nationality, creed, religion, gender or physical ability. The principle of combating discrimination in the workplace is central to the Codes of Conduct and human resources policies.

Developing the skills of its employees helps advance the objectives and growth of the JT Group. It therefore supports employees' efforts to advance by offering a wide range of personal training programs, which helps them determine and capitalize upon their best abilities.



Between 2008 and 2009, the JT Group piloted an Employee Engagement Survey (EES) in 12 countries across its CIS+ region. The aim of the survey was to gather employees' suggestions on how to improve business practices and discover what issues they may have.

The scope of the EES subsequently extended in 2010, and in 2012 the first Group-wide survey took place. The survey covered 72 countries, with 46,729 employees surveyed in 38 languages. The response rate - 93% - is considered by Towers Watson, consultants to the EES, to be above the participation rate of

high performance companies. Data from the EES is now used as a catalyst for hundreds of initiatives, mostly at a local level. It illustrates the fact that, not only is the JT Group committed to listening to and understanding its employees, but it also acts upon the feedback received.

Action plans and initiatives that result from the EES take many different forms, from creating new platforms that enable the business to work smarter to programs that reward employees' exceptional efforts.



“The EES is a global initiative that results in local actions. It makes sense to interpret and act on the information we receive at the country level because of local influences and differing cultures.”

Heinz von Allmen
JTI Vice President Human Resources

Demonstrating ‘continuous improvement’ with Employee Engagement Survey initiatives

Online collaboration: from the survey to the server



'Engage'

In 2012, JTI launched a global internal networking platform called 'Engage', a tool with functionality similar to popular social media networks. The platform evolved from an initial pilot in Ukraine, where employees asked for an online solution that would help them share information, generate ideas and collaborate with colleagues around the globe. This led to the development of 'MyJTI' in Ukraine, a collaborative online tool allowing employees to dialogue across departments, improve decision-making and share best practices.

The decision was made in 2012 to expand the concept to create an internal global networking platform, and Engage was born. Jonathan Duce, Corporate Communications Director, tasked with overseeing the platform's delivery, explains the thinking: "One of JTI's core strengths is its international diversity. This online employee platform will help us to leverage that diversity and nurture a culture of openness and innovation."

Striving for excellence

In the 2010 EES, JTI's MENEAT region identified an opportunity to reward employees for their performance. Accordingly, the 'Striving for Excellence Awards Scheme' was created to recognize and celebrate high-performing employees across the region. More specifically, the scheme looked to reward individuals whose contribution to the business goes above and beyond the normal expectations of their position.

To be eligible for the award, an employee must be nominated by a colleague and recommended by local management. The program, piloted in 2011, was extended in 2012 to cover all employees, including those working in factories across the region. In December 2012, 16 successful candidates were rewarded with a two-day trip to London. This included a sightseeing tour and dinner with the regional management team.



Irfan Cinar
Electricity and Energy Associate, JTI Turkey
Striving for Excellence Award winner

Chris Moat, MENEAT & WWDF Regional Human Resources Vice President, believes that the 'Striving for Excellence Awards Scheme' works on many levels: "As a region, MENEAT is geographically very diverse, and the 'Striving for Excellence' program provides a platform for employees to be recognized not only at a country level, but also by the region. It really incentivizes employees to know that their efforts do not go unnoticed, and that exceptional work will be met with exceptional rewards. The awards are now very much a part of MENEAT's efforts to recognize the contribution of its employees."

"It was an honor to be commended for my work by the Company. I enjoyed visiting London, and one of the highlights was visiting Madame Tussauds waxworks museum where I saw the wax statue of Atatürk, the founder of the Turkish Republic."

Bringing ideas to life



Evgeniya Yaroslavtseva receiving a “Bringing Ideas to Life” award from Martin Braddock, JTI Regional President CIS+.

A number of countries have their own programs for promoting innovation throughout the JT Group. While specific details differ, the essential spirit of such initiatives is the same across all geographies: individuals put forward ideas that contribute to the performance of the Group, with the goal of generating better business results.

One such initiative that evolved from the EES is the ‘Bringing Ideas to Life’ regional awards program in the CIS+ region. Employees expressed a desire to contribute more to the success of the Company, requesting a platform to present new ideas.

In 2012, the ‘Bringing Ideas to Life’ awards generated as many as 1,482 ideas, of which 288 were shortlisted. These were further evaluated and the best ideas were identified, which led to 11 people being invited to JTI’s headquarters in Geneva in January 2013, to be honored for their efforts. Award winner Evgeniya Yaroslavtseva, a recruitment specialist in Moscow, proposed that

new employees receive an introductory letter on their first day, making them feel welcome and informed. Other winning ideas included the creation of a single email address for all human resources enquiries, and the replacement of paper payroll slips with electronic slips.

Guergana Andreeva, CIS+ Regional Human Resources Vice President, points to the benefits that such a program brings to the Company and its staff: “One of JTI’s values is ‘Enterprising’ and this award promotes an enterprising and entrepreneurial spirit throughout all levels of the organization. Encouraging employees to be innovative ultimately benefits the business in terms of performance, and it also encourages the sharing of best practices. Above all, it shows employees how they can really make a difference and that their ideas are always taken seriously.”

Maintaining the health and well-being of employees

The JT Group has in place initiatives aimed at maintaining the health of employees, with the emphasis on preventing medical conditions that arise within the workplace.

Global health and well-being strategy

In 2012, JTI began developing a global health and well-being strategy as part of its Environmental Health and Safety (EHS) commitments.

Prior to the introduction of this strategy, existing programs were run successfully in local entities, according to their specific needs. Presently, a global approach allows the sharing of best practices and ensures consistent initiatives and activities across the entire organization.

The strategy will be monitored, so the business can measure its success. Mike Jackson is JTI's Occupational Hygiene Director and he explains the program's objectives: "Prevention is key to our goals, but rehabilitation support is also essential in the event of sickness."

Four pillars to well-being

Four pillars comprise the employee well-being program. These pillars are: **'Reaction'**, which defines the response to employees who become ill. The second pillar, **'Risk Assessment'** identifies the occupational health risks our workforce face and how these can best be addressed. The third pillar is **'Control & Management'**, once the nature and magnitude of a health issue is understood, control mechanisms can be put in place. Finally, the fourth pillar is **'Well-being'**, which includes initiatives in health education, management and promotion. Not only are occupational factors considered, advice on diet, exercise and stress management are also included.



Mike Jackson, JTI Occupational Hygiene Director

Extending the program beyond staff

In countries where JTI operates and endemic diseases are prevalent, the employee health and well-being program will cover employees as well as employees' family members and their local communities. Jackson provides an example of how this currently works to good effect: "We currently have a successful Action Against Aids program in South Africa and Tanzania, and we are looking to adopt this for other regions across sub-Saharan Africa, particularly where we have agricultural operations. From a business perspective, occupational health programs make sense, because we rely on local workforces. So this is not merely philanthropic; the benefits affect our ability to maintain a healthy supply chain."



Exercise and stretching class with a public health nurse

Promoting healthy lifestyles in Japan

In Japan, JT has instigated various programs that offer employees the opportunity to change their daily habits and routines. Programs include lectures and advice on nutritionally balanced meals, such as providing easy-to-make recipes for healthy meals. On a physical level, exercise and stretching classes are available, as well as instruction on how to maintain posture, through walking with a correct gait.

JT also provides employees with access to physicians and nurses who can be consulted regarding any health concerns.



ISO 26000: The Environment

Lessening environmental impact

The JT Group has established a wide range of policies and initiatives that limit the environmental impact of its commercial activities.

Working towards sustainability



The JT Group's environmental agenda is to operate in a sustainable and efficient manner over the long-term.

The JT Group utilizes agricultural products worldwide and recognizes that its global activities have an environmental impact. From the procurement of raw ingredients and materials, to the manufacturing and distribution of products, the aim is to lessen this impact by promoting sustainability.

Minimizing the environmental impact, and the promotion of the efficient use of resources, is achieved through focusing activities on lowering greenhouse gas (GHG) emissions and reducing water consumption and waste generation. Biodiversity conservation and consideration of local ecosystems are also addressed in a number of ways.

The JT Group's environmental principles and policies are set out in its Environmental Charter, which has led to the implementation of numerous programs that reduce environmental impact across the entire value chain.

Meeting the challenges of environmental management



Environmental Charter and Environmental Action Plan

The JT Group has established an Environmental Charter which defines the approach to preserving the environment. A series of practical steps have been designed to limit environmental impact, and

are contained in an Environmental Action Plan (EAP) which outlines the planning, implementation and management of environmental programs. Activities and goals in the EAP are tailored to the individual challenges and circumstances of the Group's factories, offices and other sites.

The EAP targets for GHG emissions, water consumption and waste generation, covering

the medium term plan of 2009 – 2012, were all attained except for the GHG emissions per million cigarettes. The global recession and an increase in taxes in Japan, contributed to a lower than planned emission reduction per million cigarettes.

JT Group EAP¹: Reduction Targets and Results

Index	Medium-Term Target (FY2009 - 2012) ²	FY2012 Results ²
Greenhouse gas (GHG) emissions ³	10% reduction by FY2012	Reduced by 10%
	Tobacco product factories 11% reduction in GHG emissions per million cigarettes by FY2012	Reduced emissions per million cigarettes by 6%
Water consumption	12% reduction by FY2012	Reduced by 31%
Waste generation	15% reduction by FY2012	Reduced by 21%

¹Amongst the JT Group, 55 major entities are monitored for EAP assessment.

²Reference year for the medium-term target and the FY2012 results is FY2007.

³GHG emissions indicated in the table above, cover Scope 1 and Scope 2 set in the GHG Protocol.

When calculating CO₂ emissions in relation to electricity usage, we use conversion factors set in the 2005 GHG Protocol for domestic operations in Japan, and the 2003 Protocol on a country by country basis for the international operations.

Reducing greenhouse gas emissions



JTI factory in Trier, Germany

The JT Group aims to reduce GHG emissions through efficient energy use and a shift to low carbon fuels. In 2012, the scope of measuring GHG emissions was expanded across its entire value chain to monitor the environmental effects of energy use. The Group continually assesses ways to integrate low-energy methods and processes into its operations. This includes measuring, recording and reporting energy efficiency across functions, from R&D and manufacturing to marketing and sales. For example, the introduction of energy-saving equipment and the operational optimization of machines are widely observed in production sites. Additionally, the Group has made significant efforts to increase transportation efficiencies, utilizing vehicles that

consume less fuel. In some of the factories and offices co-generation systems are in place and the conversion from standard fuels into low-carbon fuels is also encouraged.

In Japan, energy-saving vending machines have been installed on various sales sites. Additionally, the switch to LED lighting in offices is now widespread, as traditional light bulbs are replaced with LED bulbs as part of the regular office equipment renewal cycle.

As a result of these initiatives, GHG emissions have decreased by 10% compared with 2007.

Observing the GHG Protocol

In order to better understand its environmental impact, and so that it can measure reductions over the long-term, the JT Group has begun calculating the amount of GHG emissions it generates throughout its entire value chain. Measurements are in line with Scope 3 set in the GHG Protocol: an international guideline for calculating emissions.

Under the GHG Protocol, three scopes have been set to calculate and report on GHG emissions:

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

The total Scope 3 GHG emissions of the JT Group in FY2012, is currently being verified and is expected to comprise the major portion of the total GHG emissions of the Group's entire value chain. This reaffirms the importance of efforts to reduce emissions across the chain.

The Group is set to reduce its GHG emissions by continuously monitoring environmental performance across its entire chain of business operations.

Combating resource depletion through forestation and conservation



One way in which the JT Group limits its environmental impact is through forest regeneration and conservation programs.

Replanting trees and preserving areas of existing woodlands support biodiversity within ecosystems and aids farming communities in particular. Additionally, trees hold soil in place, thus preventing soil erosion and reducing the flood vulnerability of local communities. This also makes sense from a business perspective as the JT Group will continue to use wood from forests as a resource in the future.

Investing in a secure future for growers and their communities by planting trees today

In many of the countries where the JT Group sources tobacco, people depend upon wood for building, cooking and the heat needed to cure tobacco leaf. Over time, increasing populations have placed pressure on tree resources, resulting in large areas of deforestation. While the amount of wood used in producing tobacco is a small portion of the total used each year, the JT Group is focused on renewing these natural resources as part of its broad approach to sustainable agriculture. Therefore, the Group has reforestation programs

in Malawi, Zambia and Tanzania, operated in partnership with Washington State University, with the aim of restoring deforested areas. Training farmers to plant a mix of native, exotic and naturalized species of trees helps ensure that there is fuel and timber today, and for future generations of growers and their communities. These carefully managed wood lots also contribute to a better habitat for wildlife, while protecting soil and water resources.

Curbing deforestation in Malawi with Live Barns

Live Barns is an initiative launched in Malawi in February 2013, aimed at avoiding deforestation and contributing to soil conservation in tobacco growing communities.

The Malawi tobacco industry has traditionally used wood-based barns in the curing and storage of tobacco green leaf from the field. The JT Group is in the process of phasing out this old barn system, because it cannot be sustained within the context of Malawi's high rate of deforestation.

The Live Barns concept eliminates the need for wood or timber and the cutting of trees. Conventional barns use poles for their construction and maintenance, while Live Barns are built in the wood lot using live trees. Seedlings are planted right where the barn will stand, and a barn is erected once they are fully grown.

Seedlings of different kinds of fast-growing naturalized tree species are used, which can support a roof after three or four years of growth. The roof is thatched from natural



A Live Barn in practice

grasses and is protected with a watertight covering to keep out the rain. The Live Barns project will initially involve approximately 300 farmers, who will grow 65,000 trees in the first year before extending the initiative to 15 other districts. Ultimately, over 14,000 barns will be established and over three million trees planted.

The Live Barns initiative complements the JT Group's forestation program, which is developed in partnership with Washington State University and Total LandCare, a non-profit organization (NPO) that aims to improve the livelihoods of local communities.

Protecting water sources

Water is an essential element used in manufacturing many of the JT Group's products. Consequently, the Group is focused on reducing the amount of water it uses, while increasing water recycling methods.



TableMark's Uonuma Mizunosato Factory in Japan



Cooling boiled 'UDON' noodles as part of the production process

Maintaining water quality to reduce pollution

TableMark Co., Ltd., a subsidiary of JT, operates primarily in the processed food business in Japan. Its Uonuma Mizunosato Factory is located in Uonuma, in the Niigata prefecture. This is an area renowned for an abundance of high-quality water, and was

officially selected as one of Japan's 100 Best Water Areas. The factory produces 21,000 units of frozen 'UDON' noodles and 6,000 packs of cooked rice every hour. The quality of the water used greatly enhances the flavor of the rice and noodle products, which are

boiled in this water during the production process. To avoid water pollution and reduce impact on the environment, TableMark established a water quality monitoring committee together with the city of Uonuma and the local fishermen's association before

making the factory operational. The Company also installed water purification equipment, such that TableMark not only meets local environment effluent regulations, but applies its own stricter criteria, which exceeds local regulations by a factor of ten.

Reducing, Reusing and Recycling



PET bottles in beverage production

The JT Group sets waste generation targets by adopting and promoting the 3R measures: Reduce, Reuse and Recycle.

Reducing the use of raw materials

In its beverage business, the JT Group procures from its suppliers plastic PET bottles as beverage containers which are produced using a reduced amount of raw materials. These PET bottles are still robust enough not to be affected by heat deformation or the effects of impact, while ensuring the quality of the contents.

The business has adopted different bottle sizes as part of its efforts to reduce the amount of plastic used. New 280ml and 500ml bottles have been introduced, resulting in savings on plastic amounting to 530 tons in FY2012.



Tobacco shipping cases

Reusing materials in the tobacco business

In 2007, JTI initiated a shipping case reuse program across its global supply chain, which reduced the purchase of new cases by 460,000 in 2011. The offset to JTI's cigarette production waste in 2012 is estimated at over 12%, with significant cost savings despite the additional logistics required to match supply with demand.

In Malawi, JTI reduced the amount of coal used in its boilers by 23% by burning woody tobacco stems, which also resulted in the reduction of CO₂ emissions. Additionally, tobacco waste that is not burned is being put to good use, after testing demonstrated it can improve soil. JTI continues to investigate further opportunities for redefining waste as a usable resource, including a current, factory-wide assessment of all its waste materials.

Innovating to limit waste

Helping a local farming community

Thai Foods International Co., Ltd. (TFI), a subsidiary of TableMark, is part of the processed food business that produces yeast extracts and other natural seasonings.

Yeast broth, a by-product of the manufacturing process, is rich in essential organic and inorganic substances. Identified as an aid to growing agricultural products, the broth has been supplied to local farmers as a fertilizer. Following the installation of a concentration facility, concentrated yeast broth can now be packaged and delivered to areas outside the immediate locale, so that even more farmers can benefit from this nutritious by-product.

The recycling of yeast broth as an organic fertilizer contributes to decreasing waste from TFI's production processes. It also reduces farmers' reliance on chemical fertilizers thus reducing the CO₂ emissions generated during the production of chemical fertilizers.



The Recycle Plaza JB disposal facility

Working with the beverage industry to recycle used beverage containers

Proper disposal and recycling of used drink containers is an ongoing problem within the beverage industry. The Japan Beverage (JB) group is part of the JT Group's beverage business, responsible for operating beverage vending machines throughout Japan. The Company has taken a proactive measure to ensure the appropriate disposal and recycling of containers,

by establishing the JB Environment Network, comprised of 18 major beverage companies in Japan.

In 2003, the JB Environment Network created the Recycle Plaza JB, a core disposal facility for recycling used beverage containers. The facility takes care of the intermediate disposal of cans, bottles and PET containers from Tokyo and surrounding prefectures in Japan.

After separating the used containers, manually and with the aid of machinery, aluminum and steel cans are reprocessed by furnaces into high-purity aluminum and steel pellets. The purity of these recycled metals allows them to be sold to the

metal industry and used as raw materials in the manufacturing of aluminum and steel products. Glass bottles are shipped to a glass processor, and PET bottles are sent to appropriate recycling companies.

In addition, JB has organized a broader Recycle Network consisting of over 180 third party waste disposal institutions and recycling companies across Japan.

In 2012, the annual throughput at Recycle Plaza JB was 8,869 tons, with a recycling rate of 87%. The total amount of throughput since 2003 has exceeded 71,500 tons.



ISO 26000: Fair Operating Practices

Operating responsibly

The JT Group fosters a fair and inclusive culture, detailing responsible behaviors expected of its employees and partners in Codes of Conduct.

Operating responsibly across the global value chain



The JT Group works with its internal and external business partners and governmental authorities to prevent corruption and similar unethical activities, thereby helping to contribute to a more responsible global market place.

The JT Group connects to a global market place where ethics, fairness and transparency in business are increasingly central to the way companies are expected to operate.

Achieving and maintaining high standards of ethical business conduct is something the JT Group takes very seriously. Employees across all Group entities must be aware of and adhere to the relevant Code of Conduct for their business. All commercial partners must also recognize the values embodied in these business standards and act accordingly at all times. Failure to do so results in serious consequences, including the termination of a partner's commercial relationship with the JT Group.

Another important area that falls within the area of Fair Operating Practices is the fight against illicit trade in the tobacco supply chain. Here, the JT Group cooperates with government actors such as law enforcement

agencies and customs authorities. It also works closely with retailers and consumers to prevent the proliferation of illicit tobacco products. To that end, the JT Group has participated in global product awareness campaigns to inform retailers and consumers about these issues. It also has a number of robust compliance programs in place to monitor its commercial partners.

Creating the highest standards of behavior



Bruno Duguay, JTI Chief Compliance Officer and Anti-Illicit Trade Vice President

The role of Compliance within the JT Group is to ensure the highest standards of corporate governance, which can only be achieved with strong, visible actions.

For JTI, translating this objective into reality basically falls into two areas: the first is that the Company is fully compliant with the JTI/ EU Cooperation Agreement signed in 2007. This is a far-reaching cooperation agreement that covers how JTI does business internally, and with external business partners. Additionally, outside of Europe, the Company has similar agreements and/or Memoranda of Understanding in effect. These various commitments help to demonstrate a fair and transparent approach to commercial operations.

The second area concerns business ethics, which is essentially what society expects from JTI. Today, businesses are at the heart of societies' concerns

and must consider how they interact locally with communities, and globally impact society.

JTI's Code of Conduct addresses wide-ranging issues covering around 30 different topics. These include directives on health and safety, bribery, child labor, anti-money laundering and the reporting of misconduct within the Company.

In all of these areas, JTI has created standards, which necessarily evolve over time, reflecting a proactive nature and reactive capabilities. For example, in 2010, the British Government published the UK Bribery Act, which is arguably the most stringent legislation on bribery that exists in the world today. Nevertheless, JTI has required compliance with the fundamental structures of the UK Bribery Act across the entire Company on a global scale, setting the bar high.

As well as its own employees, JTI's Code of Conduct and Supplier Standards apply to business partners, and compliance with the appropriate publication is enshrined within JTI's business contracts. It is made clear that JTI only partners with businesses that fully comply with its Code of Conduct, making it a fundamental element of any business relationship.

To ensure that customers are fully aware of its ethics and standards of behavior, JTI has put in place the 'Know Your Customer' (KYC) program. The Company also partners with Deloitte, who independently monitors information on operations provided by our customers.

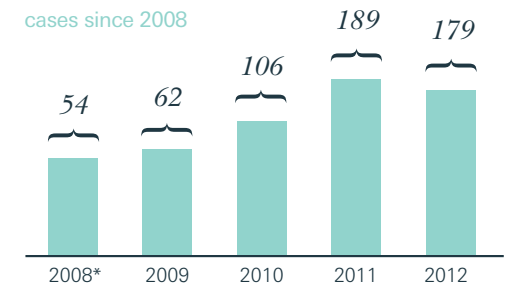
Independent verification is invaluable, and JTI's Code of Conduct itself is evaluated by Corpedia: a global leader in Governance, Risk and Compliance. Corpedia benchmarks compliance programs by using a database of over 1,500 Codes of Conduct. It provides JTI with an opinion on the thoroughness and effectiveness of its Code of Conduct in comparison to other organizations, providing the Company with insights from an outsider's perspective.

Ultimately, how JTI acts and regulates itself internally is the key to good governance. JTI's Reporting Concerns Mechanism (RCM) is just one example of how, across the Company, employees are committed to upholding the Code of Conduct.

Employees act as volunteer 'Contact Persons' in each of JTI's offices and factories, performing an essential service to the Company: listening to employees and reporting any misconduct to Corporate Compliance. The RCM process is entirely confidential, and reporting employees are guaranteed confidentiality (if desired) and protection from retaliation. Reports found to be 'in scope' of the RCM are fully investigated. If misconduct is subsequently proven, accused employees can face disciplinary sanctions, including the termination of their employment contracts.

Reporting Concerns Mechanism (RCM) statistics

Evolution in the number of cases since 2008



*As the Company has grown organically and through acquisitions, so has awareness of the RCM, accounting for the rise in numbers since 2008.

Corrective actions taken by JTI following incidences of misconduct

- Policies and procedures reviewed
- Control mechanisms revised or introduced
- Communication and training provided
- Employee disciplinary actions

Taking a zero tolerance approach to corruption



Solveig Holy-Ruefenacht, JTI Corporate Compliance Vice President

As the JT Group does business in over 120 countries, within each market place the relationships with external suppliers, customers and partner organizations number in the thousands for each entity. As a result, the risk of corruption is an inevitable reality. The Group operates a zero tolerance policy regarding all aspects of corruption and has extremely strict and thorough guidelines in place to communicate on this issue.

Solveig Holy-Ruefenacht, JTI Corporate Compliance Vice President, provides an overview of the global context in which JTI operates: “There is now in place a global agenda for governments to address corruption. We welcome such legislation, because corruption prohibits sustainability and economic growth. This new commitment to fight corruption at state level supports our efforts.”

JTI’s Code of Conduct clearly sets out the measures that each employee should be aware of and abide

by, in relation to anti-corruption. One specific section covers Gifts, Hospitality and Entertainment (GHE). While GHE is a common global business practice, JTI employs a GHE software application that employees use to record exchanges that fall within the GHE category.

As Holy-Ruefenacht explains: “As a rule, employees cannot receive a gift valued at USD 250 or above without registering it in the GHE online application. However, in certain countries, it is commercial practice to offer expensive gifts. In these instances, our policy is not designed to simply override cultural norms, but instead it ensures that any such gift exchanges are made properly, responsibly, proportionally, and at all times in line with local legislations. Consequently, when a gift cannot be returned for cultural reasons, it is registered and may be donated to charity.”

Combating illicit trade with a digital solution

The illicit trade in tobacco products is a major global concern for the JT Group and other legitimate tobacco companies, as well as to governmental authorities responsible for regulating tobacco sales.

Illicit trade falls into three categories: **Contraband** - the unlawful movement of tobacco products from one tax jurisdiction to another without the payment of applicable taxes, or other breaches of the law; **Counterfeit** - the illegal manufacturing of a trademark without the owner’s consent, with applicable taxes rarely, if ever, paid; and, **Illicit Whites** – marketed on price and typically produced legally, but intended for smuggling into countries where there is no prior legal market for them.

To help combat illicit trade, JTI became a founding member of the Digital Coding & Tracking Association (DCTA). The DCTA’s mission is to encourage authorities to adopt a proven digital solution for tax verification, authentication, and ‘Track & Trace’. Based in Switzerland, the DCTA was founded by the four largest international tobacco companies. It engages with governments and international organizations to help set global standards that address the illicit trade in tobacco products.

Brendan LeMoult, JTI’s Anti-Illicit Trade Vice President, states: “The DCTA’s global solution is embodied in a group of technological developments, collectively referred to as ‘Codentify’. Codentify looks to replace commonly used paper tax stamps, which are easy to



Carton code verification

counterfeit and have proven to be ineffective in fighting illicit trade. Codentify generates a unique, human-readable, 12-digit alpha-numeric code that is printed directly onto packaging during the manufacturing process. Codentify has three key functions which cover digital tax verification, product authentication, and Track & Trace.” LeMoult sums up how the DCTA initiative will strengthen the resolve to fight criminal activity, in relation to JTI’s products: “JTI takes a multi-disciplined approach to fighting illicit trade. The DCTA is another strong step in this process, and it will help tobacco companies secure their products, while ensuring that governments collect the revenue that is currently being lost to illicit trade.”



ISO 26000: Consumer Issues

Providing consumer information

The JT Group provides consumers with detailed information about its products, giving them the information necessary to make considered purchase decisions.

Being transparent about our products



The JT Group develops relationships with its consumers, providing information that builds trust.

Consumers today are faced with great choice. Making a purchasing decision is a complex combination of factors, and the way in which a company communicates regarding its products is an integral part of enabling consumers to make fully informed choices.

The JT Group informs and educates consumers in a transparent, responsible and proactive manner. This includes disclosing ingredients on tobacco products, engaging in dialogue, listening to customers' needs and responding openly to complaints and opinions.

The Group's pharmaceutical business develops, manufactures and markets prescription drugs that are strictly regulated and comply with the highest national and international standards. Additionally, internal systems have also been established to ensure safe, high-quality drugs.

To ensure the integrity of its beverages and processed foods, the JT Group applies rigorous quality processes. From the sourcing of ingredients to the manufacture, packaging and sale of food products, safety controls and standards are observed at every stage. On all products, ingredients are extensively disclosed and traceability information provided.

Answering the call with an exemplary complaint handling service



Sylvain Beauchamp
Consumer Response Manager



Marie Poirier
Consumer Response Associate



Suzanne Baron-Lafrenière
Consumer Response Associate

The JT Group has established consumer/customer complaint handling policies that define a standard business process and provide guidelines for addressing product quality-related complaints.

In Canada, JTI-Macdonald created an exemplary process of consumer communications, which is a Company 'best practice' in proactively managing complaints. From its Montreal factory in Quebec, the Consumer Response Team, headed by Sylvain Beauchamp, serves JTI consumers in Canada with a fast, friendly and efficient handling

of complaints. As Beauchamp explains: "We take consumer complaints very seriously. We offer a quick, 'hassle-free' service that demonstrates our commitment to satisfying our consumers, whether they have a product issue or any other concern to report."

JTI-Macdonald offers a 24-hour toll-free phone line, which is presented on cigarette packages. The emphasis is a 24-hour a day, 7-day a week personal response, offered in both English and French.

The first action following an initial conversation is for JTI to issue an Age Verification Form (AVF), which the consumer returns along with the defective product. A five-step sequence of letters then follows, sent directly to each consumer, to ensure they are fully satisfied with JTI's response to the complaint.

Consumer Service Contact

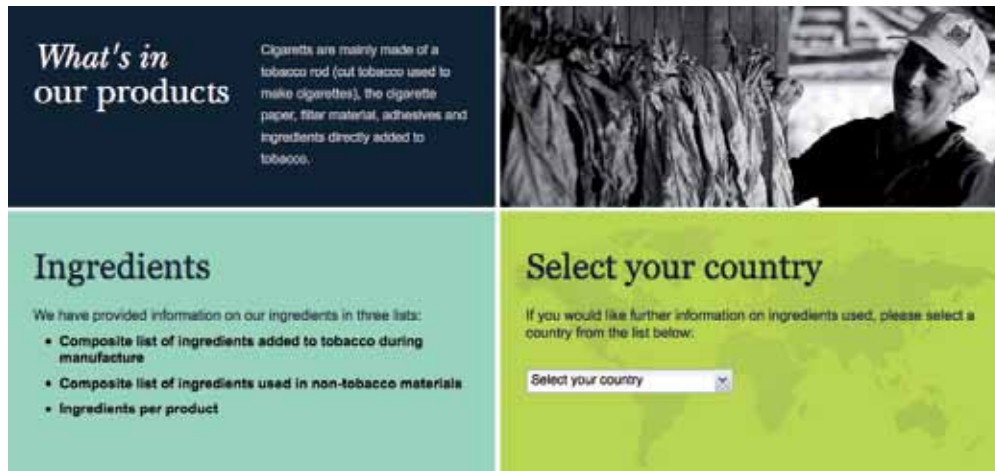
Enhanced levels of communication and accessibility, and the opening of the new call center in June 2010, have generated an increase in contacts over the past couple of years.

	2009	2010	2011	2012
Complaint	1445	1745	2050	1995
Enquiry	774	1186	1627	1755
Feedback	222	541	1396	1481
Total Contacts	2441	3472	5073	5231

As well as responding efficiently, the team also uses consumer complaints to help address any production issues, as Beauchamp explains: "We provide real-time response to our quality control department in the factory, identifying problems that may be systemic within the production process."

The Consumer Response channel in Canada plans further optimization of services by expanding into online complaints/comments submissions. An enhanced online consumer response portal will be launched in the summer of 2013, allowing the team to respond using every available consumer communication channel.

Disclosing ingredients information voluntarily



Ingredients website

The JT Group voluntarily provides comprehensive information about the ingredients in its tobacco products. This transparency is in response to consumers' demands to know what ingredients are used in the brands they smoke. On its websites, detailed lists of ingredients can be found, categorized by tobacco product type, brand

and location, with full inventories of key materials and ingredients, as well as quantity levels within the product. The websites include information on cigarette papers, filtration materials, adhesives, inks and flavorings of cigarettes, Roll-Your-Own (RYO) and Make-Your-Own (MYO) products.

Ensuring only adults gain access to tobacco products

Despite the fact that minors are legally prohibited from smoking in many countries, underage smoking remains a societal problem. It is best addressed collectively with parents, educational institutions, governments and the tobacco industry, each playing a particular role. The JT Group abides by laws and regulations and its own international standards in relation to youth smoking prevention. Additionally, it established programs and operational policies that focus on preventing youths from purchasing tobacco.

The 'taspo' ID card system

Since 2008, cigarette vending machines in Japan have been required to incorporate adult identification functionality. The 'taspo' ID card system is one such example, an initiative jointly undertaken by the tobacco industry with JT taking a major role, and the vending machine association. ID cards are issued following the submission of official documentation for approval, which must contain the name, date of birth and current address of the applicant. The aim is to prove that smokers who wish to use vending machines are at least 20 years old. A photo is also printed on the ID card to prevent improper use, such as lending the card to other people, notably minors. As of March 31 2013, almost all of the 299,455 tobacco vending machines in Japan were equipped with the 'taspo' ID card reader. To date, over ten million ID cards have been issued.



Japanese cigarette vending machine with the 'taspo' adult identification function

Providing professional assistance within the pharmaceutical sector



The JT Group's pharmaceutical business endeavors to create world-class innovative drugs. In doing so, it ensures a high degree of discipline, responsibility and ethical practice from those employees who are engaged in dealing with the healthcare industry.

Torii Pharmaceutical Co., Ltd., a subsidiary of JT, manufactures and distributes prescription drugs in Japan. To help the medical profession prescribe drugs safely, the Company has appointed Medical Representatives (MRs) to deliver information to health workers concerning the quality, effectiveness and possible side-effects of prescription drugs.

In addition, MRs collect information on drug performance, which is analyzed, evaluated and conveyed back to the medical community. This enhances the effectiveness of medications through a cycle of continuous information-sharing. MRs help maintain the proper usage and safety of the drugs that are manufactured and marketed.

Torii Pharmaceutical requires newly-appointed MR employees to undergo a six-month introductory training program, designed to provide them with the basic medical and pharmacological knowledge, information on relevant national drug legislation and regulations, MR ethics, and detailed information pertaining to the Company's pharmaceutical products .

Follow-up training sessions are provided on an ongoing basis to further develop their medical and pharmacological knowledge in accordance with advancement in medical science and pharmacology, and changes in relevant national drug legislation and regulations.

Prioritizing safety control in the beverage and processed food businesses



Food quality control

The JT Group's food businesses manufacture products that meet the highest standards of quality and safety.

To ensure that consumers enjoy its products safely, the JT Group has implemented food safety measures and established independent food safety management divisions within each of its beverage and processed food businesses, with four distinct approaches in place:

Food safety

The JT Group reviews product-specific food safety, and conducts inspections and audits based on detailed risk information. It

ensures the correct operation of food safety management systems, consistent with standards such as ISO 22000.

Food defense

The Group promotes a Risk Management Integrated Program that adheres to risk management policies and procedures. The program incorporates knowledge via management systems, security in the form of appropriate hardware and standards compliance with factory checks and audits.

Food quality

Quality management systems are coordinated across the entire supply chain. Consumer satisfaction, and consequently product value, is enhanced by constantly improving products based upon feedback from consumers.

Food communication

The ISO 10002 complaint management system creates a means for consumers to dialogue with the beverage and processed food businesses, to express issues regarding its products. Other communication methods include providing traceability information and the disclosure of ingredients on its products.

Promoting cross-functional safety controls

The JT Group promotes cross-functional food product safety controls. For example, TableMark's Tokyo Quality Control Center analyzes raw materials and finished goods for the beverage business.

Additionally, the beverage and processed food businesses benefit from assessments and advice from external food safety experts, incorporating opinions and knowledge into its food safety controls.



Communicating with consumers

As part of its food communication initiatives, the JT Group's beverage and processed food businesses provide information on products and ingredients in accordance with relevant laws and regulations and information that is above and beyond what is required by law. In addition to the information provided on the JT Group websites, toll-free numbers are provided on product labels to give consumers the opportunity to request additional information. The in-house team responds directly to these inquiries. For example, on the packaging of its frozen food products and website, TableMark discloses the factory where products are manufactured and the origin of the main ingredients. The Company also provides consumers with traceability information on its website for some of its packed cooked rice, which includes specific data on where the rice was grown, the factory of manufacture, production dates and details relating to suppliers.



'Dreams never get old' initiative,
2011 'Grand Rider' participants

ISO 26000: Community Involvement & Development

Contributing to communities

The JT Group nurtures its relationship with local communities, providing a unique mix of programs that contribute to their development.

Helping local people with compassionate aid programs

The JT Group helps to address social needs in local communities, often in relation to the elderly and those at an economic disadvantage.

Activities aim to improve people's lives, alleviate suffering and complement the efforts of local systems providing services to the underprivileged. This often includes partnering with charities, non-governmental organizations (NGOs) and non-profit organizations (NPOs).



96-year-old Mary taking part in a Leonard Cheshire Disability performance with the London Philharmonic Orchestra



Residents at a Leonard Cheshire Disability residential home enjoying an art workshop with the Royal Academy of Arts

The JT Group's businesses are integral to the communities in which they operate: primarily as an employer, but also as a partner that helps to better the lives of local people facing social challenges.

Bringing sustenance to a city in need of help



A Rikuzentakata grower planting seedlings of 'Takata no yume'



Employees assisting the Rikuzentakata growers

In 2011, the Great East Japan Earthquake and resulting tsunami caused extensive damage to Rikuzentakata located in the Iwate prefecture of Tohoku. The JT Group, as part of its many efforts in responding to this national disaster, created an initiative focused specifically on the city and people of Rikuzentakata. The intention of the project was to support reconstruction efforts over the long-term.

The Group's Plant Innovation Center (PIC) donated a previously unreleased variety of rice, 'Iwata 13', including its ownership rights, to Rikuzentakata. The city was given this to grow, brand and sell as its own, with all future revenue going to the rice growers in the city. Masakazu Kashiwara, a researcher at PIC, helped develop this particular strain of rice. He commented: "Iwata13 has been cultivated on a trial basis for four years in the Tohoku region and is a variety of rice that is well suited for the climate of the Iwate district. The rice itself, when cooked, has a glossy appearance, with a sweet taste and sticky texture. It is also robust and resistant to lodging¹ and to disease, which is an additional benefit." As part of its contribution, PIC provided assistance in helping the city grow the rice. It also helped on an administrative level, with the application and preparation of documents like the brand certificate of authenticity and materials relating to varietal characteristics.

A competition was held to name the new brand of rice, which was finally called 'Takata no yume', which means 'Dream of Takata'. The rice was nationally launched at the Agriculture Frontier 2012 exhibition in December. In 2012, 600 kilos of 'Takata no yume' were harvested, with the city's 11 rice growers planting 10 hectares in 2013. It is hoped that this will continue to rise to tens of thousands of kilos in the coming years.

¹Lodging: The collapse of top heavy plants, particularly grain crops.



"Firstly, the rice itself is delicious. I believe it will give us the strength we all need to boost the rebuilding of the city. We, the citizens of Rikuzentakata, will nurture this dream. I would like to thank the JT Group for giving us this great opportunity. Our gratitude will be best shown when we make a success of the brand."

Futoshi Toba, Mayor, City of Rikuzentakata

Restoring forests in Japan



JT employee engaged in conservation activities

JT Forest is an initiative that was first established in 2005.

Today it includes a program of activities in nine forests throughout Japan. This involvement provides necessary support for forest developers, and engages with local communities, authorities and experts.

This includes local forestry cooperatives that have an extensive knowledge of the forests, and the woods grown, providing invaluable insights into local eco-systems.

Activities are designed to restore the forest cycle and revitalize neglected forests. As well as replanting trees, conservation measures include forest thinning, pruning and mowing, while constructing the strip roads essential

for forest conservation. Areas where the cycle is halted vary from forest to forest, as do the functions that forests play, regionally. An improvement plan is developed according to the characteristics of each individual forest, with the focus on restoration and maintenance. Ultimately, support programs are designed to reflect residents' needs and hopes for their forest.

JT also supports local communities by actively promoting the timber from the forest thinning activities. The timber had previously been underutilized as an economic resource and is now expected to contribute to the reinvigoration of these rural communities.

As part of its on-going program, JT Forest holds Forestry Program Days on two occasions each year. These events involve working on the forest itself, in preservation activities that bring together JT employees, local residents, students and government officials.

In addition to aiding conservation, the aim is to help build relationships between JT and the local community, to educate employees on environmental matters and to hand down the responsibility for the local environment to younger generations.

Picking up on the issue of litter in Japan



Hironori Sogawa, community event organizer

“As the organizer of an event that attracts thousands of people, I really appreciate the fact that the JT Group supports the event through tackling the litter. Getting people to help clean up and raise awareness of litter in the city is a meaningful activity.”

Since 2004, the Company has run a community clean-up campaign called ‘Pick Up Litter and You Will Love Your City’ in Japan. The overall objective has been to raise awareness of the problem of public littering, through trash collection activities. The initiative is carried out in collaboration with local governments, companies and volunteer groups, as well as the organizers and



participants of community events. The ‘Pick Up Litter and You Will Love Your City’ campaign has held over 1,400 events, bringing the number of participating groups and organizations to 2,950. As of March 2013, the total number of participating individuals has reached almost 1.4 million; approximately 700 tons of litter has been collected over the course of the program.

The JT Group is committed to continuing its efforts to tackle the problem of litter in communities and is looking to encourage more people to join and cooperate in this campaign in the future.

Volunteering help in Spain

In recent times the economic conditions in Spain have made it difficult for the more vulnerable members of society to maintain a healthy, dignified life. With unemployment levels up to 27% in Spain, the number of people dependent on soup kitchens, often run by charities and NGOs, has increased dramatically.

The Madrid Banco de Alimentos Foundation is a non-profit charity dedicated to improving the quality of life of people with limited resources facing poverty. Its mission is to collect and distribute food among more than 400 officially registered NGOs in the Madrid community.

In 2012, JTI Spain contributed to the work of the Foundation, helping it build a new food bank facility in the southern part of Madrid, creating a new point for the collection and distribution of food. This new bank will dramatically increase the number of soup kitchens and service centers that receive food daily.

“JTI made possible a project that was ready on paper but sitting in a drawer. The new distribution center is now a reality.”

Francisco Garcia,
Vice President, Banco de Alimentos Foundation



Employees participating in 'Operation Kilo'



On May 5 2012, JTI employees participated in 'Operation Kilo', an initiative run by the Foundation. To accomplish this, 25 employees stood at the entrance to a major supermarket in Madrid, engaging with shoppers as they exited the store, asking them to donate at least a kilo of their groceries to the Foundation. The results were outstanding, with 5,400 kilos of food collected by employees on behalf of the organization.

Two weeks later, another 10 employee volunteers visited the Foundation to assist in the process of sorting and storing the food, in order to facilitate the distribution among the soup kitchens and social service centers.

Caring for the community

Aiding senior citizens in Madrid

Amigos de los Mayores is a social foundation dedicated to improving the quality of life of senior citizens with limited resources, who face a situation of isolation.

With the help of qualified volunteers, the Foundation aims to create social situations that bring these lonely, elderly people together for cultural and entertainment excursions.

JTI Spain worked with Amigos de los Mayores to organize a guided tour for senior citizens to the Prado Museum. Employee volunteers visited the homes of the elderly to collect and accompany them to the venue.

Following the tour, guests enjoyed refreshments at the museum cafeteria and then were returned to their homes.

Supporting the 'Dreams never get old' initiative



Aging populations are a global concern. Taiwan is among the most rapidly aging societies, with elderly people accounting for 10% of the population. JTI in Taiwan is a key

partner of the Hondao Senior Citizens Welfare Foundation, whose mission is to help senior citizens make their dreams come true through the 'Dreams never get old' program. The aim is to meet the physical and psychological needs of the elderly by facilitating events that are both fun and rewarding.

In 2011 alone, more than 100 employees from the Taiwan office helped the Foundation fulfill 10 different dreams for 462 senior citizens over 75 years of age. Activities included becoming a 'soldier for a day,' creating a life journal, and participating as a 'Grand Rider' in a convoy of motorcycles.

Building a future for the under-privileged and elderly in Malaysia



JTI Malaysia partners with a number of organizations that assist those needing economic aid and help senior citizens maintain an overall quality of life.

The 'Support To The Elderly' program began in 2008 as a long-term initiative. Actions to date include providing resources for elderly people to refurbish their homes; employees in Malaysia have volunteered their time toward this endeavor.

Additionally, in the Tumpat and Pasir Putih districts in the state of Kelantan, the local office collaborated with a range of partners to build new homes for the elderly. JTI also helped rebuild a Community Center in

Cheras, Kuala Lumpur, in partnership with the Taman Cuepacs Residents Association. The Center has been operational since June 2011 and is now an important place for residents to meet and interact with their peers.

"Most of us have been in the elderly home for more than 20 years. Our old wooden house used to be flooded every time the monsoon season started. Now, with support, we have a new home equipped with proper furniture, electricity and a clean water supply."

Residents of Rumah Sejahtera Kampung Jalan Besar, Tumpat, Kelantan



ISO 26000: Organizational Governance

Governing with integrity

*The JT Group
promotes
transparency and
accountability,
creating a solid
framework for
doing business on
a global scale.*

Supporting businesses with transparent and sound governance



The JT Group structures its corporate governance to enable prompt, high quality decision-making and proper business conduct. Enshrined within this structure are clearly defined roles and responsibilities that allow the Group to respond to changing business environments and manage activities effectively and efficiently. Additionally, this structure is complemented through compliance, internal audits and risk management strategies.

All employees are expected to represent their organization in a socially responsible and ethical manner. They must adhere to

the principles and processes set out by the JT Group, in relation to organizational governance. These clearly detail stringent personal and professional standards, based upon the Group's values and operating philosophies.

Open channels of communication are maintained among the JT Group's boards, management teams, employees and other interested parties. Transparent and regular reporting, governed by regulatory and internal control mechanisms, achieves stability; which helps drive the business forward on all fronts.

Solid governance supports the JT Group's business operations, internally and with the external world.

Ensuring effective decision-making and accountability

The JT Group comprises different commercial entities, operational in over 120 countries. Every company within the Group applies rigorous and transparent policies to enable effective corporate and organizational governance.



Delivering efficient business execution

In Japan, JT employs a corporate governance system that facilitates proper and efficient decision-making, while adhering to relevant laws and regulations, including the Companies Act of Japan and the Japan Tobacco Inc. Act.

The corporate governance system is a top-down structure, beginning with the General Meeting of Shareholders where decisions are taken relating to legal requirements and items embodied in the Articles of Incorporation. Decisions then cascade down to the Board of Directors, which is responsible for Group-wide management strategies, as well as overseeing the execution of all business activities.

In addition, the Audit & Supervisory Board ensures accountability and transparency in the conduct of proper business and accounting audits. The Compliance Committee further enhances corporate governance by deliberating and acting on important Group-wide compliance matters. The Advisory Committee includes external experts and outside directors, who bring an invaluable external perspective, advising on the Group's mid- to long-term direction. The Compensation Advisory Panel consists of outside directors, outside auditors and the Chairman; and reviews the policy and the rules relating to compensation for board members and executive officers.

The Executive Committee consults on important management issues on behalf of the Company's President. This includes reviewing management policies and plans in relation to overall business operations.

JT's Executive Officer system manages Group-wide business activities. Executive Officers, who are appointed by the Board of Directors, are assigned duties in their respective areas of responsibility which cover business execution, relationship management and signing business contracts.

Abiding by the JT Group's Codes of Conduct

Appropriate behavior, and an awareness of what is expected of each employee are essential. To this end, companies within the JT Group each have a Code of Conduct in place. These publications clearly set ethical standards by which all employees must abide. Reporting mechanisms are in place so employees can report suspected misconduct or violations of the Code of Conduct, or other operational guidelines.

The Group's Compliance Officers are tasked with investigating reported violations and are provided as dedicated contacts for employees at each entity. Concerns can be reported quickly and in full confidence, ensuring the privacy of employees who raise concerns. Detailed cases are reported to Compliance Committees and/or the Board of Directors. Raising awareness and communicating by these mechanisms has resulted in an increase in early-stage reporting, enabling Compliance staff to take prompt and appropriate actions. Following an investigation into a reported breach of conduct, appropriate measures are implemented if necessary to prevent the recurrence of verified misconduct, following consultation with the relevant departments and divisions.

Enhancing organizational governance with internal control systems

The JT Group has established a wide range of internal control systems that underpin its ethical and legal approach to business operations. Systems relate to compliance, internal audits and risk management, and are continually reviewed and revised to ensure the highest standards of self-regulating organizational governance.



Compliance news bulletin 'Kawara-ban'

Raising awareness of compliance in Japan

In every JT workplace, compliance meetings are regularly held for employees to conduct a 'self-check' in relation to their roles and activities. During the meetings, employees discuss compliance

issues and make suggestions to improve procedures that might strengthen compliant behavior.

JT's Compliance Office has also created a set of educational tools for employees, to encourage high standards of behavior in business operations. Materials are available on and offline.

Over the past three years, JT's Compliance Office has issued a quarterly compliance news bulletin. This includes summaries of cases relating to the Code of Conduct, such as misuse of company property, or inappropriate disclosure of company information via social media platforms.

Available on the intranet, it is often printed and displayed on bulletin boards in offices and factories in Japan.

Defining the proper direction and control of all international entities

JTI is made up of hundreds of legal entities in operation globally. Through the publication of a set of guidelines and policies, the Company brings a unified approach to all entities, enabling them to abide by the laws and regulations of their place of incorporation, while operating within JTI's own organizational norms.

The Corporate Governance Management System (CGMS) is the JTI policy, which defines the information that must be reported by the CGMS Coordinators, who are also tasked with uploading information into a database, so that up-to-date information pertaining to any JTI entity is constantly available.

The 'On Board' publication acts as a guideline, setting out the JTI standard model for the composition of a Board of Directors of a JTI entity, as well as the roles and responsibilities of the Directors. It explains what is required in appointing a Board Secretary, along with their duties, and details 'how, when and where' Board meetings should be conducted. Finally templates are provided, illustrating business reports, Board meeting agendas and how to record the minutes of a Board meeting.

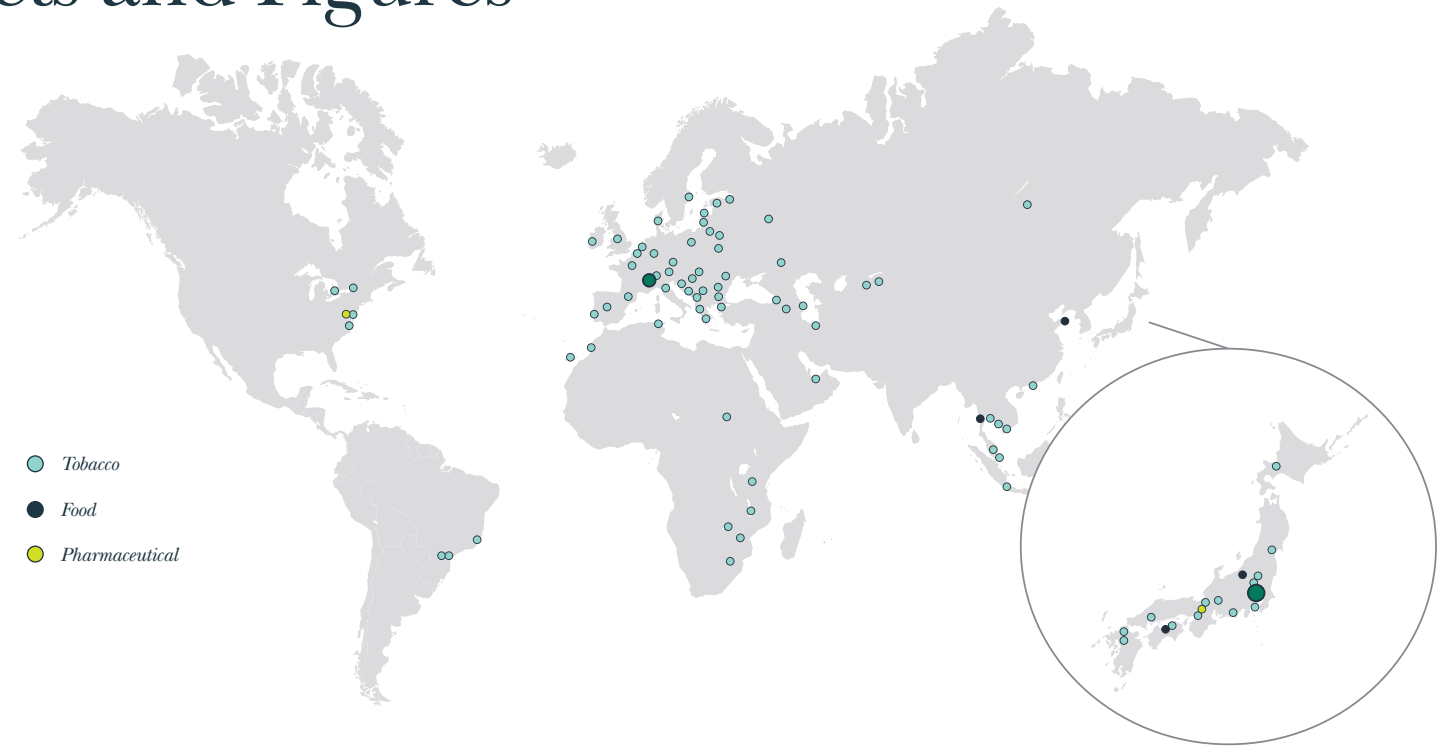


François Dugast, JTI Corporate Secretary

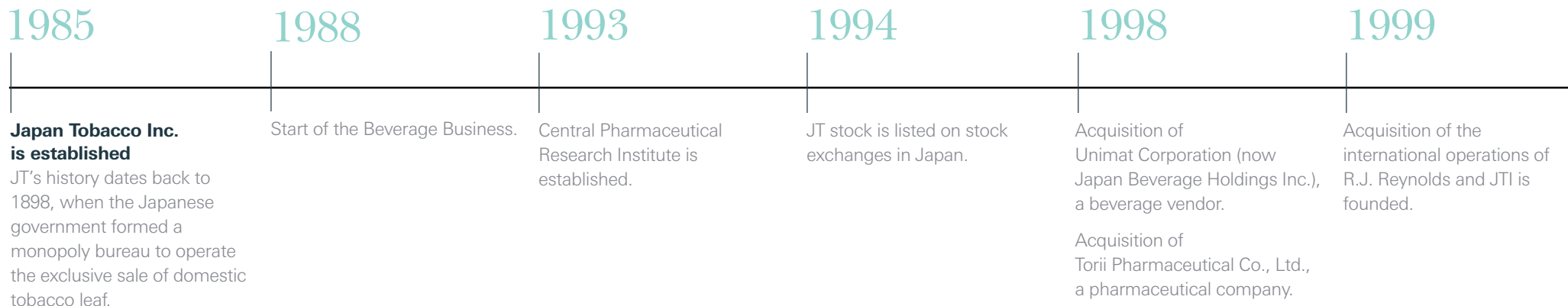
François Dugast, JTI Corporate Secretary, underlines why the policy and the guidelines are essential to the smooth running of the business, including safeguarding the actions of those in positions of responsibility: "Directors of JTI entities are given the privilege of making decisions on behalf of the Company. However, the position comes with considerable legal obligations and responsibility. JTI Directors who act in accordance with domestic legislation are offered the appropriate level of protection with respect to their potential liability by JTI, insofar as such cover is legally permitted locally. Having our own policy and guidelines, driven from headquarters, assures us that our entities are aligned within a framework that gives employees adequate levels of security, while delivering effective global corporate governance."

Group Profile Facts and Figures

The JT Group is a global organization, with a rich heritage built through organic growth and successful acquisitions. Integrating varied companies, with their individual histories, shaped and transformed us into one of the most culturally-diversified, fast-moving global businesses, stretching over 120 countries.



Key Dates



Business Performance

JT Group adopted International Financial Reporting Standards (IFRS) effective FY2011 ending March 31, 2012.

Unit: JPY billion	FY ended Mar. 2012	FY ended Mar. 2013
Revenue	2,033.8	2,120.2
Operating Profit	459.2	532.4
Adjusted EBITDA	577.1	622.1

Number of Employees

	As of end of Mar. 2013
Japanese domestic tobacco	11,043
International tobacco*	24,397
Pharmaceutical	1,744
Beverage	4,912
Processed foods	6,563
Others / Corporate	848

*As of December 2012

Revenue Breakdown by Business Segment



Total Number of Employees

49,507

2007

Gallaher Group Plc., a UK based tobacco manufacturer, formerly the fifth largest global tobacco company in the world, was acquired, doubling our combined employee population. At the time, this was the largest foreign acquisition by a Japanese company.

2008

Acquisition of Katokichi Co., Ltd. (now TableMark Co., Ltd.), a processed food company.

2009

Investment in the supply chain and acquisition of tobacco leaf operations in Africa, Brazil and the U.S.

2011

Acquisition of Haggar Cigarette & Tobacco Factory Ltd. in Sudan.

2012

Acquisition of Gryson NV, a leading Roll-Your-Own/Make-Your-Own European tobacco company.

2013

Acquisition of Al Nakhla, an Egypt based waterpipe tobacco manufacturer.

ISO 26000

Guidelines for creating a Social Responsibility framework

ISO 26000 was published in 2010 by the International Organization for Standardization. It offers guidance on Social Responsibility (SR) activities and outcomes only, beyond legal requirements, and does not set out requirements for certification.

ISO 26000 assists organizations in focusing on sustainable development, with the core notion that businesses are wholly connected to the communities, locally and globally, where they operate. It addresses the concerns of multiple stakeholders, and promotes a holistic approach to business, which incorporates widely recognized societal values.

The guidelines highlight seven key principles on SR. These are: Accountability; Transparency; Ethical behaviour; Respect for stakeholder interests; Respect for the rule of law, Respect for international norms; and Respect for human rights. Additionally, there are seven core subjects, which define distinct areas of activity.

Human Rights

ISO 26000 takes a comprehensive view to Human Rights, with organizations expected to respect an individual's civil, economic, political, social and cultural rights, with a particular focus with regard to vulnerable groups.

Consumer Issues

ISO 26000 outlines organizations' responsibilities towards consumers, providing safe and healthy products, accurate information about products' manufacture and raw materials, and to help promote the notion of sustainable consumption.

Labor practices

ISO 26000 states that organizations have a duty to provide safe and healthy working conditions and to engage in dialogue with workers, and their representatives, in order to fully address employees' rights and concerns.

Community Involvement & Development

ISO 26000 promotes organizations' involvement with local communities in order to create better social and cultural environments, whereby society in general benefits from the act of companies behaving as a 'good neighbors'.

The Environment

Within the framework of ISO 26000, being responsible towards the environment means fully considering the impact of business activities on the natural world and taking steps to remedy and reduce this impact.

Organizational Governance

ISO 26000 calls for transparent and accountable business operations, whereby company leaders are expected to nurture a culture of decision-making that incorporates the wider principles of SR within an organization.

Fair Operating Practices

ISO 26000 defines Fair Operating Practices as dealing with commercial stakeholders, including customers, suppliers and other partners, within the law, in a fair and fully accountable manner.

