



# OUR TOBACCO BUSINESS

Our core business is tobacco, which generates nearly 90% of our consolidated revenue. Our conventional tobacco products are manufactured in over 30 factories around the world and are distributed in more than 130 countries. In addition to conventional tobacco, we have a Reduced-Risk Product portfolio which includes e-cigarettes and tobacco vapor products.

In this section, we will cover our approach to sustainability across our tobacco business.

Having established the foundations of our sustainability strategy in 2017, in 2018 we identified 11 targets under 4 focus areas which will help us measure our progress. As the business environment and expectations from society change, we will be improving and adding to these targets over time.

## TOBACCO BUSINESS SUSTAINABILITY GOALS

### Supply chain

We will reduce environmental and social risks, and enable transparent and responsible practices across our supply chain.

### Regulatory environment and illegal trade

We will ensure the Company is included in policymaking leading to fair and balanced regulation, and enhance our cooperation with governments to combat illegal trade.

### Products and services

We will be a total tobacco company offering consumers an even greater choice of products by focusing on quality, innovation and reduced-risk potential.

### People

We will be the employer of choice by investing in people.

## OUR TOBACCO BUSINESS VALUE CHAIN



# Building sustainable supply chains

Maintaining a well-managed supply chain is a priority for our business. All the stakeholders in our supply chain are equally important and essential to build a sustainable business. We work closely with them to reduce negative social and environmental impacts, based on a shared vision.

Our factories produce ready-made cigarettes, other tobacco products, and some of our Reduced-Risk Products. We purchase approximately half of our tobacco leaf from directly contracted growers, and the other half from tobacco leaf merchants. We don't own any farms, and we don't employ any growers directly.

In order to ensure the highest levels of sustainability and integrity across the supply chain, all of our suppliers are required to comply with our [JT Group Supplier Standards](#). We select suppliers based on quality, service, and cost. This is reflected in our [JT Group Responsible Procurement Policy](#).

Our contracted tobacco leaf growers and merchants are also subject to the [JT Group Principles in Leaf Tobacco Production](#) and our Agricultural Labor Practices (ALP) program.



## Non-tobacco materials, other products, and services

Non-tobacco materials include packaging, filters, and cigarette-related materials. We also have a number of suppliers for factory machinery and logistics, including freight. We manage the sourcing of most of these centrally. Other products and services, which flow through our supply chain, include marketing-related services, facility management, IT, and other professional services, which are sourced globally, regionally, and locally.

We develop strong partnerships with our key suppliers in order to achieve mutual long-term success. Our strategic relationships are built on shared values and objectives, which allows us to find sustainable solutions together, ensure a stable supply in a dynamic environment, and be able to adapt to innovative technologies.

For example, we worked with a number of suppliers of pulp-based products to reduce our paper and board related waste. We achieved this by optimizing our product specifications, saving approximately 1,700 tons of waste per year.



## SUPPLIER SCREENING

We aim to achieve high standards of integrity across our business operations and supply chain. We can only achieve this through close cooperation with our suppliers.

In our international tobacco business, prior to entering into a commercial relationship, our key suppliers\*1 undergo a screening process\*2 which includes onboarding and qualification. This process allows us to understand potential risks related to compliance, human rights, environment, and health and safety.



### OUR TARGET: SUPPLIER SCREENING

We will screen all key suppliers against environmental, social, and governance criteria by 2023.

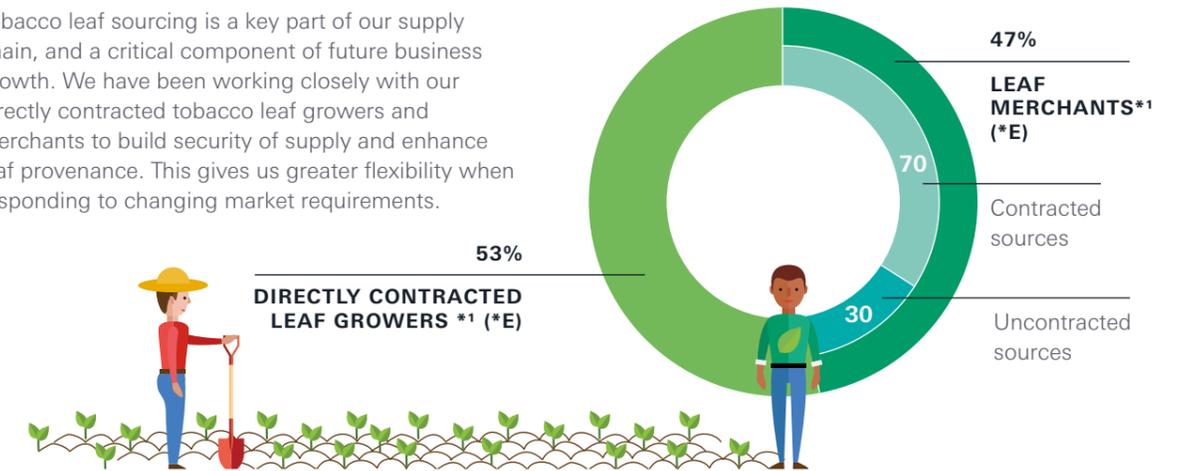
If there are any risks identified, we offer support and collaboration on how to mitigate these risks and make necessary improvements.

Since 2017, we have screened 61% of the key suppliers in our international tobacco business. As our supplier screening target shows, we are committed to achieving 100% by 2023.

For details on how we manage our suppliers in the Japanese market, please visit our website [www.jt.com/sustainability/our\\_business/tobacco/value\\_chain](http://www.jt.com/sustainability/our_business/tobacco/value_chain)

## Tobacco leaf sourcing

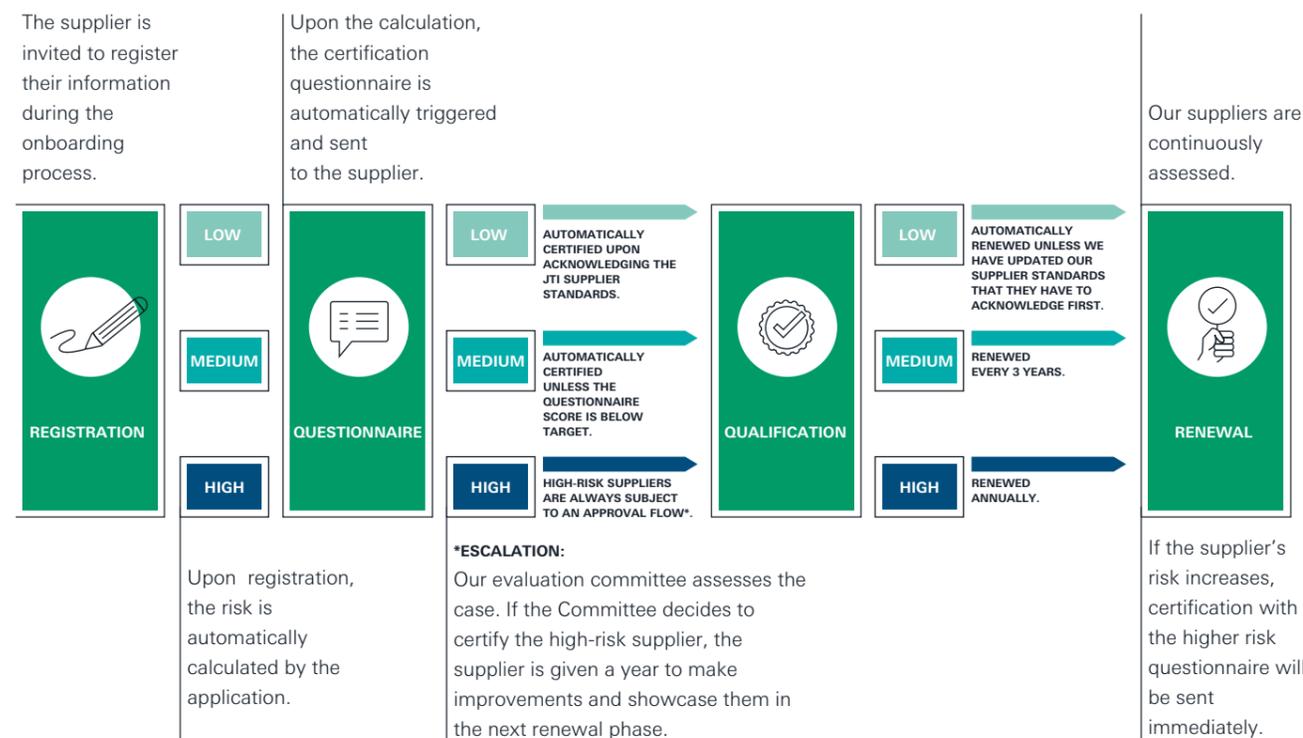
Tobacco leaf sourcing is a key part of our supply chain, and a critical component of future business growth. We have been working closely with our directly contracted tobacco leaf growers and merchants to build security of supply and enhance leaf provenance. This gives us greater flexibility when responding to changing market requirements.



In 2018, we contracted 46,500 tobacco leaf growers directly in Brazil, Ethiopia, Japan, Malawi, Serbia, Tanzania, Turkey, the U.S., and Zambia. The number of growers we work with will increase by approximately 65% in 2019, as a result of our acquisition of United Dhaka Tobacco Company Limited in Bangladesh in 2018.

Contracting leaf growers directly allows us to monitor cultivation and labor practices more effectively. We currently employ 373 Leaf Production Technicians in our international tobacco business\*2, who each supports on average 89 directly contracted growers. They visit every farm between seven and nine times during the course of the cropping cycle to ensure the growers understand how to implement best practices. We encourage open dialogue, which allows continuous improvement on the farms. In our Japanese operations, our 126 Leaf Production Technicians are each assigned an average of 40 directly contracted growers to observe through site visits and questionnaire surveys.

## THE SUPPLIER SCREENING PROCESS (\*E)



## SUSTAINABLE AGRICULTURE

As well as securing the long-term supply of quality tobacco leaf for our business, we also want to create shared value. We do this by providing services that increase grower productivity, while at the same time always trying to improve our social and environmental impact. This results in higher yields and better quality, which in turn drives greater profitability.

Grower return is based on more than price alone. By enabling growers to become more productive and efficient in the way they grow, harvest, and cure tobacco leaf, we ultimately help them to use resources wisely and responsibly, and increase profits. For example, we help to cut costs by using fertilizers and agrochemicals more efficiently. This can lead to cost reductions of up to 20%.

All of our leaf suppliers are expected to follow Good Agricultural Practices (GAP) as set out by the Cooperation Centre for Scientific Research Relative to Tobacco (CORESTA). The concept of GAP is to produce a quality crop while protecting, sustaining, or enhancing the environment with regard to soil, water, air, animal, and plant life (see [www.coresta.org](http://www.coresta.org)).

In addition to GAP, the majority of our directly contracted growers are also required to comply with

our Minimum Agronomic Standards (MAS). These growers are contracted to grow tobacco under our stewardship. In return, they receive both credit for prescribed crop inputs as well as dedicated extension service provision from one of our Leaf Production Technicians. This support includes advice and recommendations throughout the entire crop cycle.

Contracted large-scale commercial growers – notably in the U.S. – don't require dedicated extensive service provision from us. This is why not all of our directly contracted growers are required to comply with MAS.

These farming practices are not limited to tobacco. We encourage growers to use seasonal crop rotation i.e. growing other crops such as groundnuts or maize on the same land in alternate seasons. This provides extra income, improved food security, and soil conservation.

We are always looking to improve our understanding of tobacco farming. Our investment in research and development involves partnering with leading international academic institutions in the development of innovative new ways of producing tobacco. [See page 50](#) for more details.

Key suppliers are defined as suppliers with a planned annual spend greater than 500,000 U.S. dollars, suppliers who either purchase or handle \*1 Japan Tobacco International tobacco products, leaf merchants, suppliers representing Japan Tobacco International before government, and contract manufacturing, and licensees.

\*2 Formally known as Supplier Lifecycle Management.

\*1 Percentage rates are based on planned volume.

\*2 This number excludes Bangladesh as it was recently acquired and Ethiopia as it operates on a different model.

## AGRICULTURAL LABOR PRACTICES

Our Agricultural Labor Practices (ALP) are based on the International Labor Organization's conventions and recommendations. The program consists of three pillars: tackling child labor, respect for the rights of workers, and ensuring workplace health and safety.

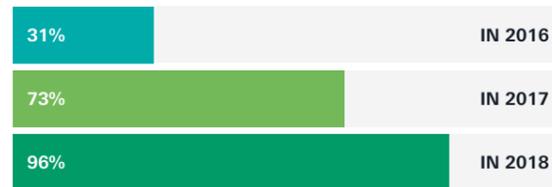
Whether we source tobacco directly or through tobacco leaf merchants, all of our suppliers have a contractual obligation to implement our Agricultural Labor Practices (ALP). ALP drives a continual cycle of improvement and dialogue, a concept deeply rooted in our business. By speaking to growers about their experiences and the issues they face, we can constantly make improvements on the ground and anticipate future challenges. Read more on ALP in our [booklet](#) published on [iti.com](#).

We previously made a commitment to implement ALP in all sourcing countries by 2019. We are pleased to share that in 2018, we observed 96% of our directly contracted growers and 96% of our tobacco leaf merchants reported against ALP.

### OUR PROGRESS AGAINST THE TARGET



Of our directly contracted growers were observed against ALP



Of our leaf merchants reported against ALP

We were able to achieve almost 100% coverage in a relatively short period of time due to a successful pilot program in our international tobacco business that ran between 2013 and 2016. Our learning shaped our current approach and enabled effective implementation with both our directly contracted growers and tobacco leaf merchants.

We have now broadened the target to include new acquisitions in countries such as Bangladesh and Ethiopia.

### CASE STUDY

## Our activities in Japan

### JT FARM

In order to share effective tobacco cultivation practices with growers, in 2018 we established the 'JT Farm' in Japan. The farm functions as a development center, where we try out new techniques and methods before introducing them to growers.

### ENHANCED CURING AND BALING

We are implementing a new curing process for burley tobacco, which can reduce working hours by 15%. This method also helps to prevent the contamination of non-tobacco related materials during green leaf baling.

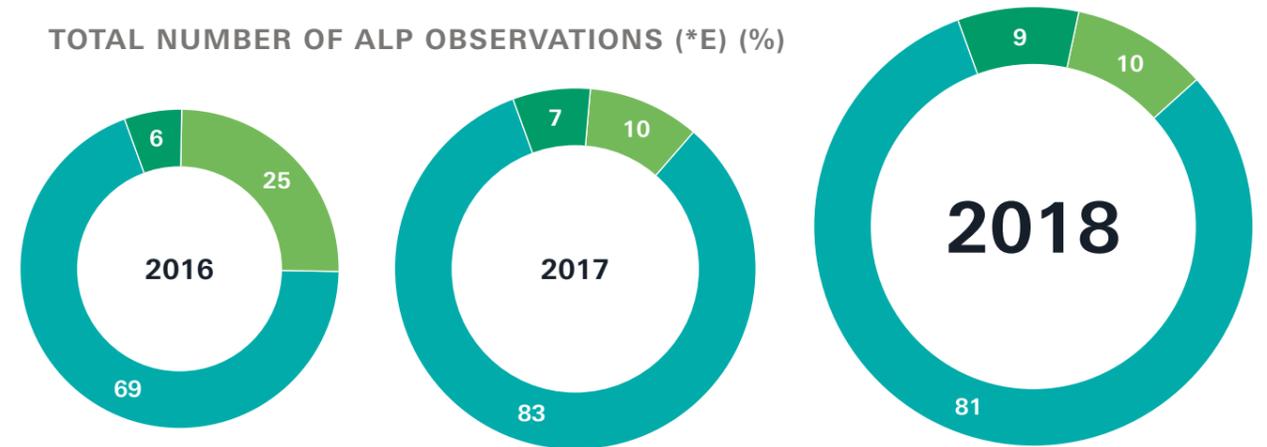


**OUR TARGET: AGRICULTURAL LABOR PRACTICES**  
We will implement our Agricultural Labor Practices (ALP) program in all sourcing countries by 2025.

### ALP IMPLEMENTATION IN JAPAN

We have a long-standing relationship with growers in Japan. Following a 2017 pilot study, the ALP program was fully implemented in 2018. We carried out farm visits and questionnaire surveys to address labor issues on tobacco farms. Based on our findings and observations, we will continue to make improvements.

### TOTAL NUMBER OF ALP OBSERVATIONS (\*E) (%)



Of the program's three pillars, the rights of workers is the most challenging to observe. We have therefore spent a considerable amount of time training our own Leaf Production Technicians and raising awareness among our leaf merchants, which has led to a steady increase in observations in this area over the last few years.\* This enables us and our leaf merchants to better identify and prioritize ALP improvement measures.



\* Combined data, observations of directly contracted growers and leaf merchants.

### ENGAGEMENT IN 2018

Working in collaboration with internal and external stakeholders has been key to the progress and success of the ALP program.

Our relationships with directly contracted growers have continued to produce tangible results due to face-to-face training and regular farm visits. Through a series of global and local meetings in 2018, we spoke to merchants about the strategic direction of the program. This helped to identify additional areas of interest, such as special training on the ground, and a need for innovative mechanisms to manage labor risks. We also engaged with government agencies in the countries where we operate, in order to address fair and safe labor conditions at a local level.

Our international tobacco business is an active member of the Sustainable Tobacco Program (STP). This industry-wide platform enables businesses to share best practices on labor standards, safe workplaces, and sustainable tobacco agriculture. Throughout 2018, we exchanged ideas with other STP members to further develop and improve the program.

In 2018, we became part of the Guidance for Responsible Agricultural Supply Chains pilot project. This initiative is run by the Organization for Economic Co-operation and Development in conjunction with the Food and Agriculture Organization of the United Nations. By participating in this project, we have been able to share our own experiences, broaden our understanding, and benchmark against others.

### CASE STUDY

## Grower Clubs in Zambia

In Zambia, we have an established network of approximately 465 Grower Clubs. Each Club is formed of 10 to 20 growers and led by a Chairman.

The aim of the Clubs is to bring growers closer together and create more effective dialogue. The Clubs allow continuous communication and engagement on a variety of topics such as Farmer Finance, Agricultural Labor Practices, Minimum Agronomic Standards, and other best practices.

In 2018, we trained over 452 Chairmen, in partnership with the government and the banking sector. As a result, all of our contracted growers in Zambia, for instance, now have bank accounts.



## ARISE

Our flagship program, ARISE – Achieving Reduction of Child Labor in Support of Education – has been committed to tackling child labor in our tobacco growing communities since 2011.

In 2018, ARISE placed 7,123 children into formal education, building on the impact of previous years. The program is forging real sustainable change by implementing robust solutions to prevent child labor. For more details on the program, see [ariseprogram.org](http://ariseprogram.org).

In preparation for the next phase of the program starting in 2019, the ARISE team carried out a Social Return on Investment assessment of the program in 2018. The aim was to better understand the value of our investments, from the perspective of our beneficiaries. The findings helped us to complete a comprehensive review of all the program’s activities, showing their impact on both the beneficiaries and our business.

The review identified a number of activities that are particularly valuable in creating a positive impact. These include, for instance, income generating activities at a household level.

The assessment has affirmed the great value ARISE has brought to the communities where we operate over the last eight years. The findings will also enable ARISE to become a more scalable and leaner program in future.

Although the ARISE program is formally monitored and evaluated, it currently lacks a system to monitor the progression of children withdrawn from child labor over time. The program has incorporated this learning into the design of the next phase, by digitizing our approach to child labor monitoring.



*“We work collaboratively with growers, communities, business leaders, and governments to create solutions that address the root causes of child labor whilst always keeping the child’s right to quality education at the heart of what we do. Year on year, we help more children into formal education and create new opportunities for them and their families.”*

Elaine McKay,  
Social Programs Director, JT International

This year has also seen a reshaping of the ARISE program and the contractual framework supporting it. From 2019 onwards, we will continue to work with our contractual partner Winrock International (a US based internationally renowned NGO) to deliver the program. Although the International Labour Organization (ILO) will no longer be a contractual partner, we welcome the ILO’s commitment to continue engaging with the program on the ground.

In the next phase of ARISE, we are committed to scaling up the ARISE program together with Winrock, and during 2019, we will embark on new and innovative partnerships that will allow us to digitize our approach to child labor monitoring in our directly contracted sourcing origins, where ARISE is currently active.

## OUR CONTRIBUTION TO PREVENTING CHILD LABOR

	2016	2017	2018	
<b>COMMUNITY MEMBERS EDUCATED IN CHILD LABOR ELIMINATION (*E)</b>	Brazil	34,640	31,991	<b>23,848</b>
	Malawi	11,820	10,028	<b>12,132</b>
	Zambia	1,384	8,166	<b>99,658</b>
	Tanzania	879	5,060	<b>55,160</b>
<b>CHILDREN OFF FARMS AND INTO SCHOOLS (*E)</b>	Brazil	766	3,185	<b>1,893</b>
	Malawi	6,414	7,063	<b>3,087</b>
	Zambia	2,562	4,167	<b>1,546</b>
	Tanzania	0	680	<b>597</b>



In 2018, we focused on raising awareness about child labor in the communities where we operate, through radio programs and local events. Therefore, our numbers of community members educated in child labor elimination have increased significantly in Zambia and Tanzania, in particular. An educated community will also enable us to increase the number of children taken off farms and into schools in the coming years.

## GROWER SUPPORT PROGRAMS

Our Grower Support Programs are investments that address social needs in our tobacco growing communities.

**ACHIEVEMENTS THIS YEAR (\*E)**

<b>90</b> water systems installed in Malawi, Tanzania, and Zambia	<b>2,000</b> solar panels provided to growers in Malawi	<b>489</b> children benefited from access to quality education through school construction in Tanzania	<b>800</b> adults received literacy training in Zambia	<b>2,500</b> growers benefited from improved healthcare facilities in Malawi, Tanzania, and Zambia
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# Promoting forestry on small-scale farms

## OUR APPROACH

Responsibly managing the use of natural resources within our operations supports the long-term viability of our business, and helps protect the environment. That's why we have embedded forestry considerations into internal management processes and strategic decision-making throughout the organization.

We have been working closely with our growers to improve tobacco yield and quality. Reducing intensity in use of soil, water, and wood generates increased returns for growers and a reduction in environmental impact – all of which makes our business more sustainable.

In countries where tobacco production depends on wood for the curing process, we believe it is our responsibility to ensure this resource is managed and used efficiently while also contributing to environmental conservation.



**OUR TARGET: FORESTRY**  
We will replace all wood from natural forests used in the tobacco curing process of our directly contracted growers with renewable fuel sources by 2030.

## AGRONOMY DEVELOPMENT AND EXTENSION TRAINING

We have model tobacco farms in Brazil and Zambia, also known as Agronomy Development and Extension Training (ADET) centers. This is where we carry out applied agricultural and environment related research and development related to soil management, mechanization, production cost efficiencies, and cultural practices.

These innovative centers enable us to study, test, innovate, and calibrate our ideas, before taking them to growers as recommended best practices. The ultimate goal is to ensure tobacco farming remains viable and profitable for our tobacco growers, while respecting and complying with the relevant environmental requirements and regulations.

In our ADET centers, we focus on forestry research to improve wood production and efficiency in tobacco curing, as well as on forest conservation and rehabilitation. We identify the forestry challenges along with applicable solutions to minimize our impact on the environment at small-scale farm level.

Since 2013, we have been organizing ADETs days, to which growers from around the country are invited to participate. Last year, more than 1,100 growers attended the day, the theme being "Preparing the soil for a new future". The growers learnt about technological innovation in tobacco production, as well as in soil and environment conservation.

Another fundamental part of these model farms is capacity building. There is a robust and continuous cycle of training and engagement of our Leaf Production Technicians, who pass on their knowledge of best agricultural practices and innovation to the growers. Read more on [page 45](#).



*For me, as a researcher, JTI's commitment to the real quest for sustainability has been very motivating. Our partnership forms a sound foundation for developing energy sustainability strategies for small-scale tobacco growers. This in turn helps to generate income, reduce GHG emissions, and increase the productivity of planted forests, securing a sustainable supply of wood for tobacco production.*

Professor Dr. Jorge A. Farias,  
Federal University of Santa Maria, Brazil

## OUR MINIMUM FORESTRY STANDARDS

Through our ADET centers, we have developed our Minimum Forestry Standards – a set of forestry specifications and guidelines that our growers must follow. We have established these standards in all the countries where our growers use wood for tobacco curing, either as a source of curing fuel or for live barn structures: Brazil (2012) and Malawi, Tanzania, and Zambia (2014). As a result, growers in those countries are able to establish and manage better quality woodlots. This approach brings us closer to achieving sustainability in wood supply. It also reduces our environmental impact by helping to avoid deforestation and improve the conservation prospects for natural woodland.

## MATOPE BARNES

An innovative development of the ADET centers are Matope (mud) barns, a more fuel-efficient type of curing barn.

Using Matope barns can lower wood consumption by 75% and reduce carbon emissions by 12%. At the same time, cured leaf yields are 17% higher, while the quality of leaf also improves and grower returns rise by approximately 400 U.S. dollars per hectare. Growers in Zambia installed over 1,300 Matope barn units in 2018.

This is an important development, as the emissions associated with curing tobacco leaf represent the largest single source of Scope 3 emissions for our business. Read about how we reduce emissions in our own operations on the [next page](#).



## CASE STUDY

# Contributing to forest rehabilitation in Brazil

JTI has partnered with the Wildlife Research and Environmental Education Society to restore over 300 hectares of permanent protection areas in Brazil with funding from the National Bank for Socio-Economic Development. These areas include land owned by tobacco growers and part of the Irati National Forest.

The restoration work started in 2018. In Irati National Forest, 35 hectares of pine trees were replaced by native species to help restore the natural landscape. The project also involved the training of 33 local college students in ecological restoration.

We defined priority areas in strategic river basins, based on factors such as soil, rain, and proximity to other projects, to create green corridors (strips of land with sufficient habitat to support wildlife) connecting different regions. One of the first sites we selected was the Taquaral river basin in Parana State. We introduced the project through a series of mobilization meetings, attended by 200 local growers.

The partnership provides growers with technical assistance and support, before and after the restoration work begins. We are committed to protecting and restoring natural forests, and supporting local communities.



# Reducing our environmental impact in manufacturing

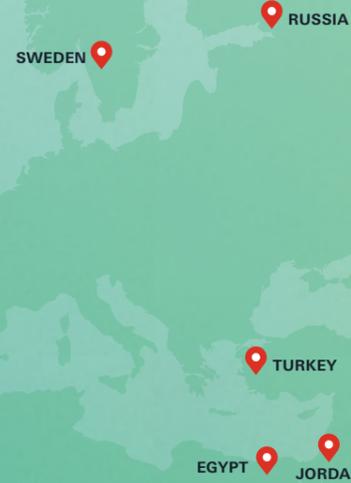
Sustainability is deeply embedded within our manufacturing operations. At our factories around the world, we work to minimize our environmental impact by focusing on energy efficiency, GHG emission reduction, water efficiency, and waste reduction.

In recent years, we have made a concerted effort towards increasing the proportion of our energy that comes from renewable sources, and this has been reflected in our expenditure. Since 2016, we have invested nearly 13 million U.S. dollars in renewable energy.

We are further reducing water usage and improving recycling, enhancing our management of wastewater, and addressing water-related risks to our operations.

In terms of waste, our focus is on improving yield, reducing waste disposal, and decreasing secondary packaging.

Read about our approach to environmental management on [page 26](#).



## 2

### HARNESSING RENEWABLE ENERGY

#### GREEN ENERGY VARGARDA, SWEDEN

The program minimizes CO<sub>2</sub> emissions and energy consumption at the factory by combining green energy alternatives with a range of cost-effective energy-saving projects. The factory is connected to a nearby bio-steam facility, which heats the factory by burning CO<sub>2</sub> neutral woodchips. The factory also uses a steam-to-hot-water conversion system to heat the offices, helping it to achieve a remarkable 67% reduction in CO<sub>2</sub> emissions.

To further reduce energy consumption, the team also plans to rebuild the ventilation system, improve the heating and cooling system, install a better control system, and improve insulation.

#### SOLAR STEAM GENERATION AMMAN, JORDAN

Awarded the “Environmental Stewardship Award” by the Ministry of Environment in Jordan and the World Bank, this is the first tobacco factory in the world to use direct solar steam generation.

A rooftop-mounted collector, steam storage, and a steam-driven absorption chiller provide the site with energy and building heating and cooling. The system covers 85% of the plant’s annual steam consumption, and helps reduce its CO<sub>2</sub> emissions by 12% or 500 tons a year.

The factory’s ultimate ambition is to be 100% carbon neutral.

#### SOLAR ELECTRICITY GENERATION BATANGAS, PHILIPPINES

In the largest self-consumption rooftop solar system in South-East Asia, 17,040 solar panels convert the sun’s energy into usable electricity. The use of solar energy helps prevent approximately 4,000 tons of GHG emissions a year.

## 1

### GHG EMISSIONS EFFORTS IN JAPAN

**JT** is certified as an Eco Rail mark company by the Ministry of Land, Infrastructure, Transport, and Tourism in Japan. This group of companies is reducing GHG emissions through techniques such as modal shift – changing from trucking to container transportation via rail and sea – and improving truck-loading ratios.

The **JT Kansai factory** received two awards from Kyoto City and Kyoto Prefecture government for its excellent emission reduction initiatives. The factory is proactively tackling the reduction of GHG emissions through initiatives such as high efficiency freezer installation and eco-friendly compressor use.



## 3

### WATER

We continue to identify ways to reduce water usage in our factories.

- › Better irrigation processes and timing in **Jordan** and **Iran** have reduced water demand for irrigation by around 40% (around 19,000 m<sup>3</sup> annually).
- › Thanks to improved technology, our **Turkey** factory is now able to reuse the majority of the wastewater from its water filtration process.
- › Our factory in **Egypt** reduced water consumption by over 30% through improved container washing, a mixer project upgrade, and boiler feed water reuse.
- › By reusing recovered water (condensate) for its manufacturing process, our Yelets factory in **Russia** reduced water consumption by 5% (26,400 m<sup>3</sup> per year).

### WASTE

Many of our factories reuse large tobacco packing cases and wooden pallets. This reduces the amount of waste generated.

Our factory in **Iran** has boosted its recycling rate from 48% to 93% by changing its waste management method for tobacco dust and acetate tow. Tobacco dust is used now as agricultural organic fertilizer, and the acetate tow as the raw material for a specific type of packaging production.

Our Environment Program for Markets, which will be launched in 2019, aims to help our office and warehouse locations to raise awareness of our environmental impact, and to develop programs to reduce this impact by sharing guidance and best practices.

**OUR TARGET: GREENHOUSE GAS EMISSIONS**

We will reduce greenhouse gas emissions from our own operations by 35% and from our direct leaf supply chain by 40%, between 2015 and 2030.

**OUR TARGET: WATER AND WASTE**

We will reduce water withdrawal by 15% and waste by 20%, in relation to our own operations, between 2015 and 2030.

# Exceeding expectations with products and services

As alternatives to traditional combustible products, e-cigarettes (E-Vapor) and tobacco vapor products (T-Vapor) are gaining popularity with consumers around the world. Our industry is changing, but our commitment to consumer choice remains.

We are always listening and reacting to the changing tastes of adult smokers and vapers around the world. We develop, test, and bring to market new and innovative forms of Reduced-Risk Products that have the potential to reduce the risks associated with smoking and offer real benefits to consumers, society, and our business.

Between 2018-2020, we are investing 100 billion Yen in Reduced-Risk Products, to further develop our supply chain and expand our research and development capabilities.

**OUR COMMITMENT**  
We will be a total tobacco company, offering consumers an even greater choice of products by focusing on quality, innovation, and reduced risk potential.



**OUR TARGET**  
We will lead in providing the widest range of consumer choice in the Reduced-Risk Product category.



*Evidence so far shows that e-cigarettes are safer than smoking.*

Cancer Research U.K., 2017

Recent third-party\* reports from the U.K. and the U.S. on the relative safety of e-cigarettes state that, based on available evidence, the current generation of e-cigarettes are less harmful than smoking.

We welcome further studies into the effects of long-term use of e-cigarettes.



*Science is at the very heart of our Reduced-Risk Products business. Through JT Science, we aim to widen our audience, addressing people's natural inquisitiveness about science in a clear, concise, and easy to navigate manner.*

Ian Jones PhD,  
Principal Scientist Vice President, R&D, JT International

**JT SCIENCE: AN ONLINE RESOURCE FOR ALL**

JT Science is a valuable online resource for both scientists and non-scientists alike. Our mission is to inform, educate, and collaborate with all those interested in learning about the science behind Reduced-Risk Products – from consumers to scientists and the regulatory community. With JT Science, we strive for an open, balanced, and fair platform where factual scientific data and assessments are shared in a transparent way. The results of our studies that scientifically evaluate our Reduced-Risk Products are publicly available on [www.jt-science.com](http://www.jt-science.com).

## A consumer-centric approach

For products to have the potential to reduce the risks associated with smoking, consumers must first understand and appreciate their value. We therefore take a consumer-centric approach towards research and development, and focus on four major factors that motivate consumers to consider Reduced-Risk Products:

- › The potential for a product to reduce the risks associated with smoking
- › Affordability and value for money
- › Social considerations – seeking products with low smell, so as not to disturb others
- › The convenience of being able to use a product in a wide variety of locations and occasions.

This approach to our Reduced-Risk Product research and development is reflected in the Harm Reduction Equation, and helps us to concentrate on exceeding the expectations of all of our key stakeholders: consumers, shareholders, employees, and the wider society.

The success of any harm reduction intervention is dependent on two factors: its potential to reduce the risks associated with a particular activity and the number of people who adopt the intervention. After all, while non-combusted tobacco products and e-cigarettes drastically reduce the exposure to known harmful constituents in tobacco, and therefore have the potential to lower the health risks of smoking, their potential value is lost when consumers do not accept these alternative propositions.

### HARM REDUCTION EQUATION



### OUR CONSUMER-CENTRIC STRATEGY BENEFITS FOUR KEY STAKEHOLDERS



\* - E-cigarettes, Seventh Report of Session 2017–19. House of Commons Science and Technology Committee. 2018. HC 505  
- Evidence review of e-cigarettes and heated tobacco products 2018. Public Health England. 2018  
- American Cancer Society Position Statement on Electronic Cigarettes, February 15, 2018

Disclaimer: This section is intended only to explain the business operations of the JT Group, not to promote sales of tobacco or nicotine delivery products or encourage smoking among consumers



# Empowering consumer choice

We are committed to providing adult consumers with a relevant and diverse product offering, and to communicating the benefits and reduced-risk potential of each product so that consumers can make an informed choice.

At the end of 2018, our Reduced-Risk Product portfolio was present in 13 countries with a choice of tobacco vapor products (T-Vapor) and e-cigarettes (E-Vapor).

### WHAT IS T-VAPOR?

T-Vapor products contain tobacco that is heated (though not burnt) to create an inhalable vapor. Consumers particularly enjoy the wider social freedoms that they bring compared to conventional products. Our T-Vapor category currently consists of Heated Tobacco and Tobacco-Infused Vapor products:

- ✔ Heated Tobacco delivers the satisfaction of a tobacco experience;
- ✔ Tobacco-Infused Vapor addresses consumer needs of social consideration and convenience, whilst continuing to deliver a true tobacco taste experience.

### WHAT IS E-VAPOR?

Also known as electronic cigarettes, E-Vapor products heat a liquid that usually contains nicotine, but no tobacco. They create an inhalable vapour by electrical heating of a liquid (known as an e-liquid) contained within the device or a replaceable cartridge. Consumers are particularly drawn to the wide range of different devices and flavors available. They offer optimum levels of social consideration, convenience, and affordability.

# Reduced-Risk Products Supply chain

We have established a dedicated supply chain for our Reduced-Risk Products, building strong supplier partnerships that support business expansion and meet the demands of our increasingly sophisticated portfolio. In addition to our in-house production capabilities, we source from manufacturers across Asia and Europe. Out of seven supplier factories, five factories are ISO 14001 certified.

In 2018, we opened a new e-liquids production facility in Gostkow, Poland as an extension of our existing European Flavor House. Most of our e-liquids that contain nicotine, and tobacco capsules, are now produced in-house.

*Our portfolio in Reduced-Risk Products is true to our philosophy of providing consumers with choice and quality. We are proud of our wide range of products, both in e-cigarettes and tobacco vapor.*

Daniel Torras,  
Senior Vice President, Reduced-Risk Products, JT International

### OUR PRODUCT PORTFOLIO (as of January 2019)

T-VAPOR	HEATED TOBACCO				
	TOBACCO-INFUSED VAPOR				
E-VAPOR	Logic Power (Cig-a-like)	Logic LQD (Open tank system)	Logic Pro (Closed tank system)	Logic Compact (Closed tank system)	

### OUR REDUCED-RISK PRODUCTS SUPPLY CHAIN



# T-Vapor Brand Focus: Ploom TECH

Ploom TECH is our Tobacco-Infused Vapor proposition that offers consumers a clear taste, with less smell and high usability. The product is currently available in four markets.

Ploom TECH has been specially developed for consumers who enjoy tobacco but want to do so in a more considerate and convenient way.

Our scientific assessments to date reinforce the risk-reduction potential of Ploom TECH. The data\*1 show that compared with smoking, Ploom TECH offers a more than 99% reduction in the key constituents of emissions that have been linked to health concerns.\*2

The data\*3 also shows that Ploom TECH use has minimal impact on indoor air quality, which explains why an increasing number of restaurants in Japan have allowed the exclusive use of Ploom TECH (see below).

Details on this research can be found on our website: [www.jti.co.jp/investors/library/presentation/2018\\_London/pdf/20180605\\_4.pdf](http://www.jti.co.jp/investors/library/presentation/2018_London/pdf/20180605_4.pdf)

As of March 2019 in Japan, we offer premium tobacco capsules in ten flavors from the JT Group's leading tobacco brands, Mevius and Pianissimo following the launch of a new white Ploom TECH device.

## HOW WE ASSESS THE REDUCED-RISK POTENTIAL OF PLOOM TECH

When it comes to the assessment of reduced-risk potential, we take a tiered approach by:

- › Characterizing the key constituents of the emissions
- › Examining exposure and uptake of emissions, i.e. what is absorbed into the body
- › Investigating the effect (the impact of this uptake on the body)
- › Looking at the impact on the surrounding environment (indoor air quality studies)

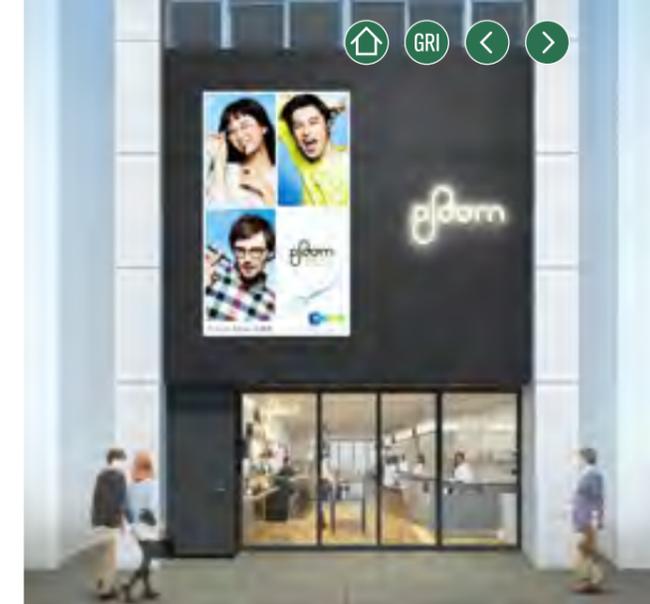
## A BETTER UNDERSTANDING OF JAPANESE CONSUMERS

Growth in the T-Vapor category has been mainly driven by Japan, which in 2017 accounted for over 90% of global T-Vapor sales by volume. By increasing our share in the Tobacco Vapor category, we will strengthen our position as the leading tobacco company in Japan.

In order to maximize product acceptance, in accordance with the principle of the Harm Reduction Equation (see page 55), we have carried out numerous studies in Japan to identify consumer motivations and needs. In one study of over 3,000 consumers, we learned that Japanese consumers are motivated primarily by externally-driven needs, such as social consideration and convenience.

They want an alternative to cigarettes that does not disturb others with the smell of smoke, and is easy to use in a wider range of settings.

A subsequent study of over 4,300 Japanese consumers demonstrates that Ploom TECH delivers



on these needs better than competing products, and was rated significantly higher in terms of having no smoke smell – a hugely important consideration in Japanese culture. With regards to convenience, consumers rated Ploom TECH considerably higher than the competition in terms of ease of use, low maintenance, and long battery life.



## CASE STUDY

### “No Smoking, Ploom TECH only” in over 3,700 restaurants

As part of our commitment towards accommodating the desires of both smokers and non-smokers, we continue to provide businesses with information on Ploom TECH to help them satisfy their customer needs and decide whether to allow the use of Ploom TECH on their premises.

As of February 2019, many businesses across Japan, including over 3,700 restaurants, have chosen a policy of “No Smoking, Ploom TECH only.” This is the result of the unique ability of Ploom TECH to deliver on the no smoke-smell promise.

Following this success, similar efforts are underway to support companies across Japan in introducing “No Smoking, Ploom TECH Only” rooms in their workplaces. We are also building partnerships with car rental companies to benefit Ploom TECH customers.

We feel that this step towards a society that is more inclusive of those who choose to enjoy tobacco will lead to a greater understanding of the benefits of vaping products. The increased adoption and acceptance of Ploom TECH will benefit users and society as a whole, as well as Japanese businesses that wish to accommodate the needs of their customers.

\*1 Chemical analysis and in vitro toxicological evaluation of aerosol from a novel tobacco vapor product: A comparison with cigarette smoke. Takahashi et al. *Regulatory Toxicology and Pharmacology*. 2018. 92:94-103

\*2 It does not imply that the health risk associated with the use of the product is relatively small compared with that of cigarettes. It compares the amounts of nine constituents, the WHO recommend to reduce as a priority, which are contained in one puff of cigarette smoke and one puff of a tobacco vapor of Ploom TECH. Standard test cigarette (3R4F) was selected as the test cigarette product.

\*3 Indoor air quality (IAQ) evaluation of a Novel Tobacco Vapor (NTV) product. *Regulatory Toxicology and Pharmacology*. 2018. 92:278-294.

Disclaimer: This section is intended only to explain the business operations of the JT Group, not to promote sales of tobacco or nicotine delivery products or encourage smoking among consumers

## BUILDING ON THE SUCCESS OF THE PLOOM BRAND

We are committed to continually improve our product offering. In line with this, we have developed two innovative new products in 2018, launched in January 2019 through the dedicated online store and Ploom shops in Japan. Our national expansion plans are on track and we will achieve full national coverage by the end of 2019. Thanks to their different heating temperatures, the new products offer consumers different experiences.

### Ploom TECH+ (Plus)

This new tobacco-infused, low-temperature heating product leverages the unique features of Ploom TECH, such as less smell and high usability. It allows consumers to enjoy a powerful rich tobacco vapor, while producing less than 1% of the odor\*1 and providing a reduction of over 99%\*2 in the levels of measured potentially harmful constituents compared to cigarette smoke.

The launch of these products will be boosted by the strong support of the JT Group in Japan, with both devices co-branded with Mevius, the country's #1 cigarette brand and benefiting from our leading in-market salesforce capabilities – a critical advantage. Please see [page 56](#) to learn how these new products fit into our Reduced-Risk Product portfolio.

### Ploom S

We have entered the Heated Tobacco category with Ploom S, a high-temperature heating product that offers a superior tobacco taste. Compared to cigarettes, it produces less than 5% of the odor\*1 and provides a reduction of over 90%\*2 in the levels of measured potentially harmful constituents.



## RECYCLING SCHEMES FOR PLOOM TECH

We encourage consumers to dispose of empty capsules and cartridges from their devices in a responsible manner.

In Japan, we introduced a recycling program where recycling boxes were sent out to almost 270,000 people so that they could return their empties for recycling conveniently and free of charge.

The program was a significant extension of a similar pilot conducted in 2017, where 16,000 recycling boxes were distributed.

In addition, we sent recycling boxes to shops selling Ploom TECH, thus providing consumers with the option to return the items in person.

The 2018 program was a success, with 1,375,487 empty capsules and 329,394 empty cartridges returned for recycling.

Following positive feedback from consumers, we will continue to investigate a more holistic approach to recycling and waste management.

We have already begun a similar program in Switzerland and hope to roll out further programs across our Ploom TECH markets in 2019.



\*1 Results of the research based on the three-point comparative odor intensity indication method by six people who have passed the olfactory test. Cigarette smoke and Ploom TECH+ and Ploom S tobacco vapor, which contains constituents derived from tobacco leaves, were diluted with odorless air in the bags, and the odor of each bag was statistically quantified as the "dilution factor of just no odor".

\*2 It does not imply that the health risk associated with the use of the product is relatively small compared with that of cigarettes. It compares the amounts of nine constituents, the WHO recommend to reduce as a priority, which are contained in one puff of cigarette smoke and one puff of a tobacco vapor of Ploom TECH+ and Ploom S. Standard test cigarette (3RAF) was selected as the test cigarette product.

Disclaimer: This section is intended only to explain the business operations of the JT Group, not to promote sales of tobacco or nicotine delivery products or encourage smoking among consumers

# E-Vapor Brand Focus: Logic

With 4 E-Vapor devices and 15 rich flavors, products under the Logic brand ensure consumers can enjoy a superior and flavorsome vaping experience. Logic products are currently sold in 11 countries and we aim to expand this to 20 markets by the end of 2020. All products are developed in line with strict international quality standards\*.

Launched in the U.K. in 2018, Logic Compact is the latest device in our lineup. By providing high levels of convenience in terms of both portability and ease of use, we expect that this new device will help us to deliver the benefits of vaping products to an even wider audience of adult smokers and vapers.



## RESPONSIBLE RECYCLING AND DISPOSAL SCHEMES FOR LOGIC

We take our responsibility for the environment very seriously and provide consumers with advice and support to help them conveniently and safely recycle

or dispose of Logic products at the end of their useful life. This is tailored to local requirements, and more details can be found on Logic websites.

### HOW WE MANAGE LOGIC WASTE



DIRECTLY WITH CONSUMERS

In the U.K. and Germany, we provide consumers with a convenient way to return any old Logic tip, battery, or charger to us for safe disposal.

[logicvapes.co.uk/econo-weee](http://logicvapes.co.uk/econo-weee)



THROUGH OUR PARTNERS

In the U.S. and France, we partner with waste management specialists who help consumers to easily and safely recycle or dispose of device components.

[logicvapes.us/social-responsibility](http://logicvapes.us/social-responsibility)

## LATEST REGULATORY DEVELOPMENTS ON E-CIGARETTES IN 2018

It is in the public interest for regulation to be evidence-based, proportionate, and effective. We support the principles of Better Regulation (see page 65), which argue for measures that preserve consumer choice and market freedom. Regulation of Reduced-Risk Products is fast-moving and we monitor developments closely. The following are just a few examples of some key regulatory developments around the world in 2018.



### Canada

An important recent development in North American regulation is the legalization in Canada of e-cigarettes containing nicotine.

The new Tobacco and Vaping Products Act establishes more liberal provisions regulating the commercialization and promotion of e-cigarettes.

In 2019, it is expected that provisions for manufacturers to make reduced-risk claims will be included in the Act.



### Switzerland

On April 24, 2018, the Federal Administrative Court ruled that the 2015 ban on retail of nicotine liquids for e-cigarettes was illegal.

This ruling is based on the "Cassis-de-Dijon" principle, whereby all goods permitted for retail in the EU, should also be allowed to be sold in Switzerland.



### U.K.

On August 17, 2018, the U.K. House of Commons' Science and Technology Select Committee published its report on e-cigarettes and novel tobacco products to widespread media coverage. The report is highly supportive of liberalizing the regulation of e-cigarettes due to clear evidence that they are substantially less harmful than conventional cigarettes.

\* Global standards: IEC 60335-1, IEC 60950-1. – EU standards: EN 55014-1, EN 55014-2, EN 60335-1, EN 60950-1, EN 62133, Directive 2006/66/EC on Batteries and Accumulators, Regulations (EC) No. 1907/2006. – US standards: FCC, CFR 47 Part 15 Subpart B (Federal Communications Commission. Code of Federal Regulations, Volume 47, Part 15, Subpart B), Electromagnetic compatibility, UL 1642 Standard for Lithium Batteries (CEC).

# Optimizing the regulatory environment

## Championing better regulation for informed choice

We value and support the freedom for adults to make informed choices, and we play our part by ensuring all consumers understand the associated risks when deciding to smoke or not. That is why we are as transparent about our positions on smoking and health as possible. It is also why, no matter what we do, we adhere to the five core principles that define our attitude to smoking (see opposite page). We also work in a highly regulated operating environment, and monitor developments and prepare for changes in regulation well in advance. This is done in line with our tobacco principles, so that we go above and beyond our obligations.

**OUR COMMITMENT**  
We will ensure the Company is included in policymaking leading to fair and balanced regulation and enhance our cooperation with governments to combat illegal trade.



**OUR TARGET**  
We will always protect our ability to participate in public policy debate with the aim to achieve balanced regulation that meets societal concern and supports business growth.

Our views on specific regulatory topics can be read online: [www.jti.com/about-us/our-business/our-views-on-regulation](http://www.jti.com/about-us/our-business/our-views-on-regulation).



## OUR TOBACCO PRINCIPLES

**1 OPENNESS ABOUT THE RISKS OF SMOKING**  
Smoking is a cause of serious diseases, and everyone should be appropriately informed about the health risks of smoking.

**4 YOUTH SMOKING PREVENTION**  
Minors should not smoke and should not be able to obtain tobacco products. This belief is central to our Code of Conduct, marketing practices, and the way we do business.

**2 TRANSPARENCY ABOUT OUR PRODUCTS**  
Smokers want to know what it is they are smoking, and we provide information about the ingredients we use.

**5 ACCOMMODATION BETWEEN SMOKERS AND NON-SMOKERS**  
Many people have concerns about exposure to environmental tobacco smoke. We advocate tailored, practical, and effective solutions, that separate smokers and non-smokers while accommodating the legitimate interests of both. Further to this, we are committed to developing and bringing to market Reduced-Risk Products that also have the potential to reduce the impact of smoking to others.

**3 REDUCED-RISK PRODUCTS**  
We believe products that do not involve combustion and do not produce tobacco smoke are products with the potential to reduce the risks associated with smoking. We are committed to developing and bringing to market Reduced-Risk Products that meet consumer expectations. We will help adult consumers to make informed choices by providing factual information acquired through scientific assessment about the products they may wish to use.

## SUPPORTING 'BETTER REGULATION'

Smoking carries risks to health, and appropriate and proportionate regulation of the tobacco sector is both necessary and right. To meet public policy goals, whilst respecting the rights of all stakeholders, it is important that regulation is evidence-based, practical, enforceable, and competitively neutral.

A key aspect of Better Regulation is a transparent legislative process, one that involves all interested and affected parties.

To help lawmakers develop Better Regulation, the OECD has endorsed the internationally-recognized 'Guiding Principles for Regulatory Quality and Performance', which we support. These can be summarized as:

With regulation affecting our products and our industry, we exercise our right to make our views known, by engaging openly and transparently with government stakeholders (including regulators), non-governmental organizations, and all other relevant stakeholders. We seek to ensure that the regulatory environment encourages innovation, business growth, and freedom of consumer choice so that we may better serve the needs of consumers, society, and our business.

- › Coherence
- › Openness
- › Proportionality
- › Participation
- › Effectiveness
- › Accountability

We engage openly in regulatory process at all stages, and take part in public consultations by providing arguments supported by evidence and alternative solutions.

We support public discussions on the topics of good governance, Better Regulation, and transparency. We demonstrate our commitment to Reduced-Risk Products and provide tangible solutions to societal issues.

## OUR VIEWS ON REDUCED-RISK PRODUCT REGULATION

The tobacco industry is undergoing a transformation as Reduced-Risk Products gain popularity in many countries. We believe that these products offer real benefits to consumers and society (see page 56), and that consumers should be free to choose them.

Governments and regulators should avoid restrictive regulation that suppresses innovation and prevents adult consumers from selecting these products.

We are committed to working with regulatory authorities, public health bodies, and the scientific community, to create the best possible frameworks for these products to reach their full potential, and a level playing field for all manufacturers.

## REGULATORY DEVELOPMENTS IN 2018

We continue to follow the evolution of the WHO Framework Convention on Tobacco Control (FCTC). The Protocol to Eliminate Illicit Trade in Tobacco Products (the Protocol) came into force on 25 September 2018, and October saw the eighth session of the FCTC Conference of the Parties (COP8), as well as the first session of the Meeting of the Parties to the Protocol (MOP1).

No new recommendations or decisions were taken that directly impact the JT Group and its products at COP8 and MOP1. Although we continue to be denied a voice at such events, which we believe is wrong, we will persist in closely monitoring the evolution of the FCTC and the Protocol, and share our views with decision makers wherever possible.



## ENGAGING WITH OUR STAKEHOLDERS

Whilst we are prevented from attending events such as COP8 or MOP1, we do attend other industry events such as the Global Tobacco and Nicotine Forum (GTNF), where we are able to engage with a wide variety of stakeholders and make our voice heard.

We attended GTNF 2018 in London, a key international conference where commentators gathered to discuss the future of the tobacco and nicotine industry. The forum attracted over 315 participants from academia and public health authorities as well as the tobacco industry. A lively debate reflected the mixed audience and discussions focused heavily on the inconsistent regulation of Reduced-Risk Products.



## SPOTLIGHT: BRANDING BAN

The ability to build and use a brand is essential for businesses to thrive and economies to prosper. Distinctive branded packaging is vital for competition, and enables consumers to identify, obtain information about, and choose their preferred brands of tobacco products easily and without confusion. However, branding bans are imposed on the tobacco sector in certain parts of the world, and these are not based on, or consistent with, a credible and scientifically rigorous understanding of the behavior of smokers. These types of restrictions are also being considered for other consumer products. Since the implementation of the plain packaging policy in Australia in 2012, followed by France, the U.K., Ireland, New Zealand, and Norway, no studies have shown convincing evidence that it reduces the number of people choosing to smoke.

Consequently, we believe these bans fail to achieve stated public policy objectives and are, in fact, excessive and misguided.

Expert Reports on the impact of these plain packaging bans can be read here:

[www.jti.com/about-us/our-business/key-regulatory-submissions](http://www.jti.com/about-us/our-business/key-regulatory-submissions)

What's more, plain packaging has serious negative consequences for society and consumers. It makes counterfeit products easier to produce, distribute, and sell. This encourages criminality and impacts government tax revenues. Consumers and retailers struggle to tell the difference between brands, which damages competition and affects business. It also infringes our rights to property, expression, and trade, without proper justification.

In 2018, the WTO Panel on Plain Packaging ruled in favor of Australia. The decision is a major step backwards for the protection of intellectual property rights internationally. It sets a precedent that could encourage governments to ban branding on other products without providing any reliable evidence of benefits to the public interest. The Panel decision has been appealed by the Dominican Republic and Honduras and the dispute is now before the WTO Appellate Body, which will deliver a final outcome.



## IN FOCUS

# TACKLING THE ILLEGAL TRADE OF OUR PRODUCTS

Experts estimate that over 10% of all cigarettes sold globally (excluding China) are illicit, with approximately 45 billion U.S. dollars in global tax revenue lost each year. This illegal trade fuels human trafficking, organized crime, and terror groups; and undermines legitimate tobacco businesses. It also causes harm to consumers, as uncontrolled products circumvent regulations and quality controls.

Tackling illegal trade is a top priority for us, and our Anti-Illicit Trade team is recognized as the industry leader in combating this problem.

**OUR COMMITMENT**  
We will ensure the Company is included in policymaking leading to fair and balanced regulation and enhance our cooperation with governments to combat illegal trade.



**OUR TARGET**  
We will engage in dialogue with law enforcement agencies, with the goal to exchange intelligence regarding illegal tobacco products, in order to support the reduction of illegal tobacco products.



### KEY WINS IN 2018

**WE ADVISED 1,329 LAW ENFORCEMENT OFFICERS ON COUNTERFEIT RECOGNITION**

With the goal of reducing the supply of illegal products

**OVER 2.7 BILLION ILLEGAL CIGARETTES SEIZED**

Thanks to intelligence reports provided by our team to law enforcement

**32% DECREASE IN SEIZURES OF OUR GENUINE PRODUCTS**

Resulting from our efforts to ensure the security of our supply chain

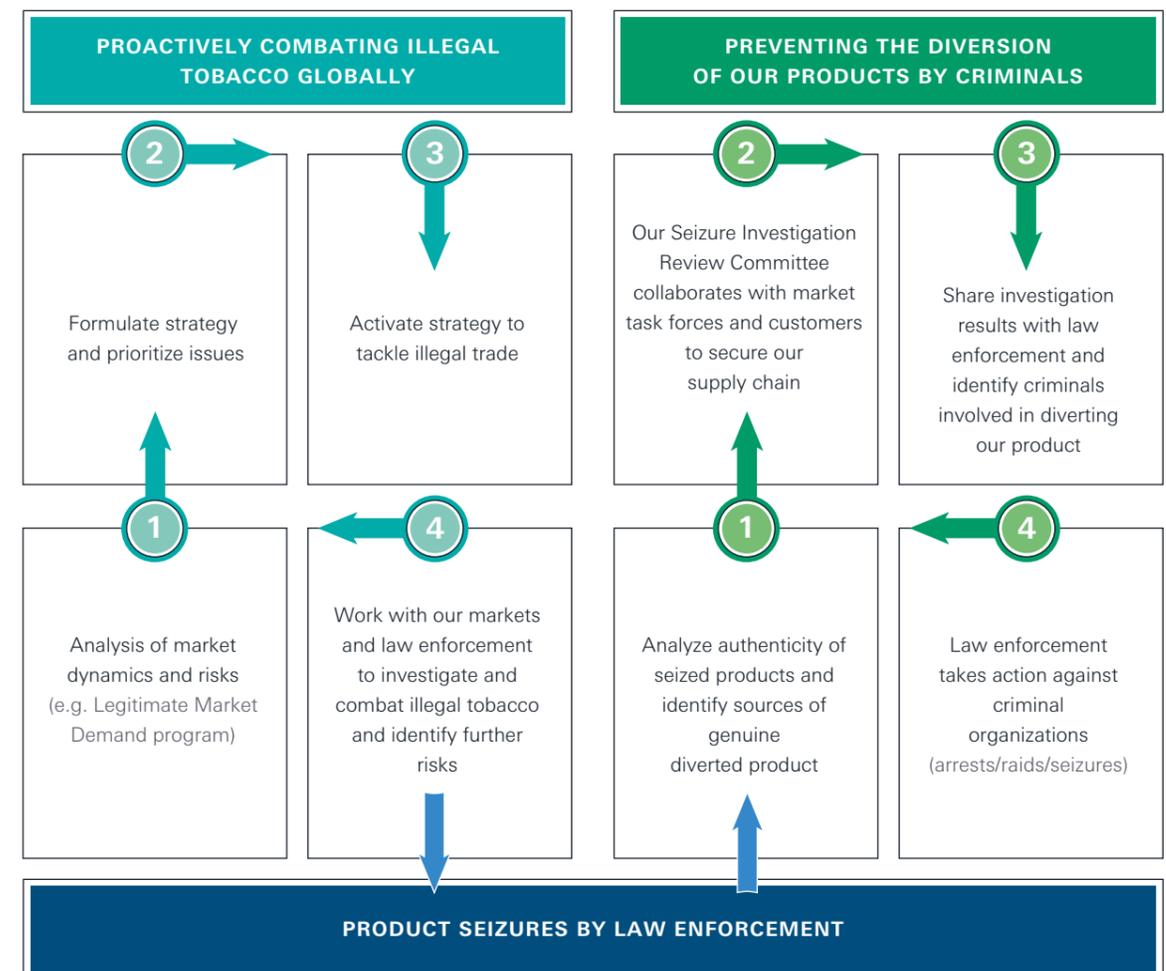
## Our approach

Our global Anti-Illicit Trade team investigates the illegal tobacco trade and protects consumers and society, as well as our business, from criminal elements. It is made up of dedicated professionals with many years of public service in law enforcement, regulatory bodies, and governments. A key part of our business, the team works with our markets to secure our supply chain, and assist law enforcement to remove illegal tobacco from the marketplace. It maintains a robust dialogue with governments and law enforcement agencies on the threat of illegal tobacco through public-private partnerships. Our Anti-Illicit Trade team also supports other areas of our business with research on illegal tobacco and raises awareness of the problem among our business partners, consumers, and society in general. The team protects the JT Group's business and reputation, supporting our long-term, sustainable future.

Increasingly, we are examining ways to tackle illegal trade across our entire value chain. This is resulting in a more transparent and collaborative relationship with suppliers of items such as tobacco leaf and cigarette filters. We have regular meetings with these suppliers and manufacturers to try to help them prevent their products from falling into the hands of criminal networks. Our Anti-Illicit Trade team also supports our compliance and purchasing departments by carrying out due diligence checks to ensure we are entering into contracts with trustworthy suppliers, and by helping these departments to implement JT's policies and procedures.

We continue to closely monitor the way in which organized crime groups use shipping routes and we are working with various law enforcement agencies across the world, such as the World Customs Organization, Interpol, and Europol, to help them track containers suspected to be transporting illegal goods.

### THE JTI APPROACH TO TACKLING ILLEGAL TRADE





CASE STUDY

## Making a positive impact in the Philippines

In 2017, the JT Group acquired Mighty Corporation, the second largest tobacco company in the Philippines. The country faced challenges with regards to illegal trade, notably in relation to locally made counterfeit packs, imported counterfeit products from China, packs of local brands with reused tax stamps, and illicit whites\* with no tax stamps at all.

For our acquisition to make a positive impact to the business, we set up several tailor-made anti-illicit trade projects in late 2017. Working together with JTI Philippines and various government agencies, our Anti-Illicit Trade team successfully established processes for reporting illegal activity to law enforcement, who in turn took the necessary action against illegal trade.

Through this new system, in 2018 we were able to pass on information about illegal factories, storage areas, and even large retail markets where illegal sales were taking place. The results have been very positive, with the latest available figures suggesting that illegal trade dropped by around 50% from September 2017 to the end of 2018.

- › 110 million illegal cigarettes seized in 2018
- › Including 60 million counterfeit JTI cigarettes – an increase of 400% vs 2017
- › Over 25 machines used in the production of illegal cigarettes removed from factories (this is crucial to reducing the counterfeiters' future production capabilities)

Our Anti-Illicit Trade team continues to work with law enforcement to tackle illegal tobacco.

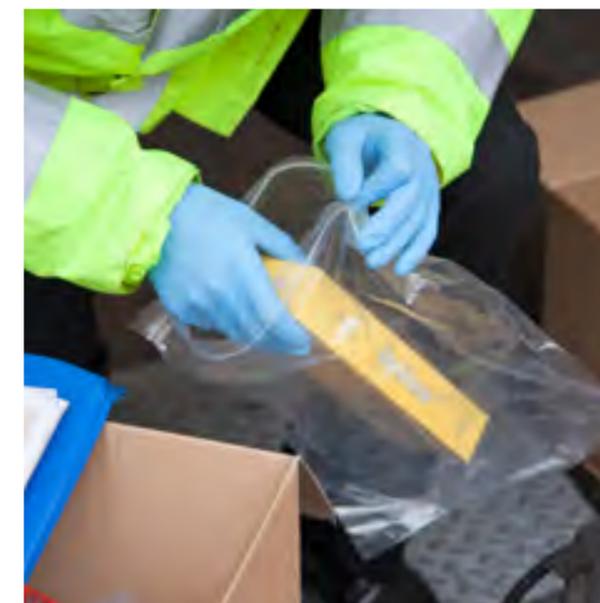
\* 'Illicit whites' refer to tobacco products manufactured legitimately but without any product flow control measures afterwards, and smuggled and sold in another market.

## Supporting business performance through anti-illicit trade programs

Our global anti-illicit trade programs create the opportunity for public-private partnerships to combat highly organized criminality. They are also designed to support our business performance by fulfilling all legal requirements, securing our supply chain, safeguarding and creating opportunities for volume and profit growth, while protecting our company's reputation.

We measure their effectiveness against the below KPIs:

- › Number of seizures based on information we share with law enforcement
- › The level of illicit trade in our top markets through analysis of empty pack surveys, and the reduction we help achieve
- › Implementation of our compliance programs
- › Strengthening partnerships with law enforcement agencies, especially through training.



### STRATEGY, INITIATIVES, AND PERFORMANCE

#### KEY STRATEGIES

**1** **PROTECT OUR BUSINESS THROUGH ANTI-ILLICIT TRADE OPERATIONS**  
Focus on priority regions and markets  
Combat counterfeit and illicit whites

**2** **ENSURE ANTI-ILLICIT TRADE COMPLIANCE**  
Fulfil legal obligations  
Legitimate Market Demand analyses and seizure investigations

**3** **STRENGTHEN OUR PARTNERSHIP WITH CUSTOMERS, GOVERNMENT, AND LAW ENFORCEMENT**  
Knowledge sharing with law enforcement  
Implement anti-illicit trade awareness programs

#### KEY INITIATIVES

Anti-illicit trade task forces set up in priority markets

Efficient and effective responses to information requests by law enforcement agencies

Advise law enforcement on counterfeit recognition  
Global media campaigns to educate consumers on the impact of illegal trade

#### 2018 PERFORMANCE

In 2018, new task forces were set up in our Russia, Ukraine, and Belarus priority markets.  
In 2018, our intelligence led to the seizure of over 2.7 billion cigarettes (or equivalent in tobacco)

We responded to over 500 law enforcement information requests in 2018, and are fully compliant with all of our legal obligations

In 2018, we advised 1,329 law enforcement officers on counterfeit recognition

## Protecting our business

In 2018 our Anti-Illicit Trade team provided 1,328 intelligence reports to law enforcement agencies, leading to the seizure of more than 2.7 billion illegal cigarettes. Based on our information, law enforcement raided more than 39 counterfeit tobacco factories and storage locations.

As a direct result of our work to tackle illegal trade, and based on seizure statistics, notified seizures of counterfeit products in the EU have increased by 82% over the past four years. During the same period, notified seizures of our own genuine products in the EU have decreased by 57%, thanks to our markets' efforts in securing our supply chain, with the support of the Anti-Illicit Trade team. This has been acknowledged by both the EU and the U.K.'s HM Revenue and Customs, which recognized JTI as an industry leader in the fight against illicit trade.

## Ensuring anti-illicit trade compliance

### LEGITIMATE MARKET DEMAND PROGRAM

Companies worldwide seek to understand the demand for their products in their markets but there is a clear distinction between market demand, and "Legitimate" Market Demand (LMD).

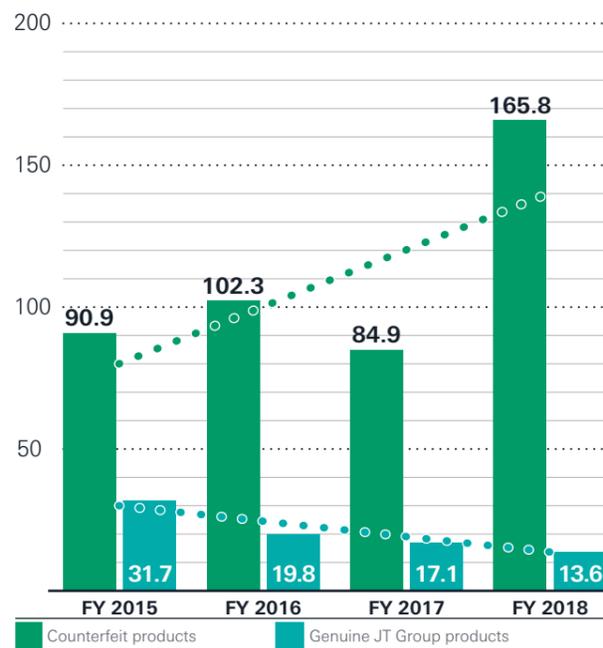
JTI must comply with the European Union Cooperation Agreement signed in 2007. This means supplying tobacco products only in volumes that correspond with the legitimate demand of the intended market of retail sale.

With a commitment to doing the right thing, in the right way, our Anti-Illicit Trade Research team has developed a global methodology to assist JTI's markets with a consistent and accurate approach to annual LMD calculations. Our markets perform the LMD exercise in conjunction with their annual plan. This creates a proactive supply chain control mechanism to make sure that the planned sales volumes are in line with LMD.

The components and parameters of the LMD estimation vary depending on each market's unique characteristics and JTI's product portfolio in that market, but the global methodology provides a logical and defensible standard.

One common factor among these varying calculations is that our demand estimations comply with all laws and regulations.

**EU SEIZURES OF TOBACCO PRODUCTS RESULTING FROM JT GROUP EFFORTS TO TACKLE ILLEGAL TRADE (IN MILLION STICKS)**



### TRACK AND TRACE

Our Track and Trace program has been an important element of our compliance policy for more than a decade. It helps our global efforts to support law enforcement agencies and has been developed with many of the biggest technology companies across the world, as part of our obligations within the EU Cooperation Agreement.

A highly technical and complex process, our Track and Trace program requires markings on all individual and aggregated levels of products. It helps us to track the movements of the products along the supply chain and supports our supply chain analysis. As a result, when seizures are brought to our attention, we can identify the source of diversion of the seized products and implement preventative measures.

In 2019, some JTI markets will be implementing a mandatory Track and Trace system. Among those countries will be the 28 Member States of the European Union, as per the European Tobacco Products Directive (TPD2). According to this directive, products must be tracked to the last economic operator before the first retail outlet in all Member States.

We are currently preparing for the important changes that the new EU Directive entails and are working with key stakeholders in order to comply in the most effective way, while ensuring our EU markets will not be disrupted.

## A GLOBAL RESPONSE TO ILLICIT TRADE

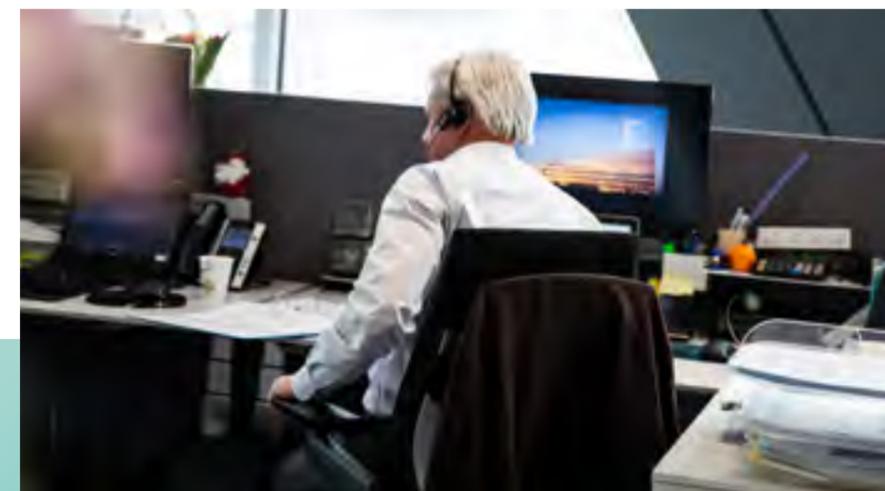
The Protocol to Eliminate Illicit Trade in Tobacco Products is the first protocol to the WHO Framework Convention on Tobacco Control (FCTC). It entered into force on September 25, 2018 and has so far been ratified by 48 Parties.

This international treaty aims to eliminate all forms of illicit trade of tobacco products, through several provisions that are binding on its Parties. We support the Protocol, as it provides a global response to the global problem of illicit trade.

One of the main requirements is that the Parties must implement a Track and Trace regime by 2023

(for cigarettes) and by 2028 (for all other tobacco products). In order for this regime to be effective, we support the implementation of an architecture based on "open standards" and interoperability for every actor in the supply chain, whilst taking into account existing systems such as the new EU-wide Track and Trace system.

We also firmly believe that the fight against illicit trade can only be effective if governments develop ways to address products that are not covered by the Protocol, such as counterfeits or illicit whites.



### CASE STUDY

## Taking the fight to the digital world

The illegal tobacco trade was once largely confined to street corners or under the counter, but the digital age has given rise to a new era, with social media exposing more consumers than ever to the risks of illegal tobacco.

Our project to tackle illegal online trade expanded across Western Europe in 2018. It yielded excellent results, disrupting sales through the takedown of links and social media posts that advertise JTI products illegally.

#### In 2018, we took down:

- Over 5,960 posts
- Over 65,300 items

These results represent 710,433 U.S. dollars worth of potential product losses to the JTI Group, a decrease of approximately 14% over 2017. We believe that this decrease is due to a change in tactics by criminals, who are increasingly selling products in secretive private groups on

social media. Our efforts continue to evolve to meet the changing patterns of this crime.

In addition to successfully taking down these illegal advertisements, we continue to collaborate with law enforcement agencies, providing evidence that leads to prosecutions. In October 2018 for example, a JTI Private Prosecution led to a conviction in the U.K. of an individual who pleaded guilty to six offences relating to illegal sales on Facebook.

Drawing upon this continued success, similar projects have now launched in the Americas and Eastern Europe regions.

For more information on how we tackle the illegal tobacco trade online, see [www.jti.com/our-views/new-era-illegal-trade](http://www.jti.com/our-views/new-era-illegal-trade)

# Investing in people

## Our approach

Our sustainability journey is dependent on the skills and spirit of our people working together with the communities in which we operate. We are pleased to be an employer of choice, and our positive workplace culture and environment help us to attract and retain talented individuals. We will continue developing the skills and capabilities of our talented employees and take further steps to create a diverse and inclusive culture where everyone can feel comfortable and be themselves.

We provide a safe and healthy environment for our employees as we believe our people have the right to a secure workplace.

To make societies cohesive and inclusive, we invest in the communities in which we operate, and in the people who live there. Through our community investment programs, we create positive impacts and give our employees the chance to volunteer in their

local communities and enhance their skills. In order to assess how effective our management approach is in our tobacco business, we have set targets for 'Talent Development', 'Workplace Safety', and 'Community Investment', and we will be setting a target for 'Diversity and Inclusion'.

**OUR COMMITMENT**  
We will be the employer of choice by investing in people.



**OUR TARGET**  
We will be a certified employer of choice every year in at least 60 locations by focusing on talent management, rewards, and empowerment.  
In line with our vision of zero workplace injuries, we will reduce injury rates by 25% by 2023 and 50% by 2030. (Baseline year: 2015).

**APPLYING OUR POLICIES AROUND THE WORLD**  
As part of our drive to expand the business geographically, we have made acquisitions in new markets. In 2017, we acquired tobacco manufacturers in Indonesia and the Philippines, and in 2018 we acquired additional tobacco companies in Russia and Bangladesh. These acquisitions considerably increased the size of our workforce.  
We endeavor to introduce our HR and Health and Safety policies to our new employees as soon as we can, and make sure that these are endorsed across the Group.  
Please refer to the [GRI index](#) at the back of this Report for detailed information about our workforce composition.



*As the global authority on recognizing excellence in people practices, we are delighted to support your ambition to continuously improve the HR policies that affect more than 45,000 employees worldwide. Over the years, we have seen great progress with regards to best-in-class Talent practices throughout the organization. This is proven by the consistent presence of JTI in the top regional ratings, and the Company's certification as a Global Top Employer since 2015.*

David Plink,  
CEO – Top Employers Institute

# Talent development

A fast-changing world continues to bring new challenges to our Talent Management team. The skills our company will need in the future could be very different to those we have within our business today. Employees are fundamental to generating returns and securing the long-term success of our business. We aim to ensure that we attract the best candidates to work for our business, retain our top talent, and offer current and future employees professional

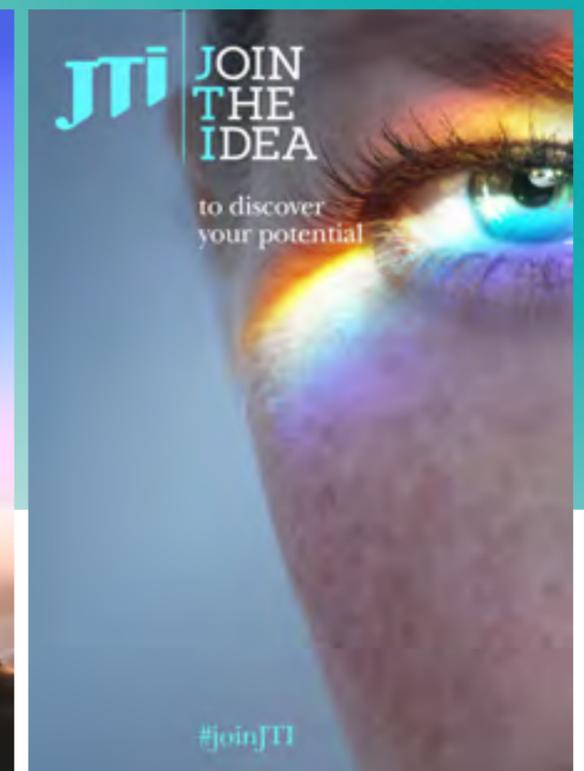
and personal development opportunities in the best possible working environment. With this in mind, in 2018 we rolled out a new global learning platform featuring various face-to-face and digital courses, including leadership and language learning. These courses are available to 20,000 employees who can choose programs according to their interests. We explain our initiatives as a Group on [page 36](#).

## CASE STUDY

### Spreading the word

The tobacco industry is undergoing a major transformation, and we want to make people aware of the new opportunities that our company offers. In recognition of our need for a stronger employer brand, we launched the 'Join the Idea' HR campaign in 2018 with the aim of making our company more visible and attracting the right internal and external talent. Our 'Join the Idea' campaign was hugely successful, and after its launch, the JTI Facebook page gained five times more followers than before.

Thanks to this campaign, we have significantly raised the profile of our brand, which is already rated as a first-class employer in 53 markets. Our intention is that by focusing on talent management, rewards, and empowerment, we will be recognized as a certified employer of choice every year, in at least 60 locations.



## Diversity and inclusion

We strongly believe that diversity in the workplace leads to competitive advantage. Greater diversity of thought and experience leads to enhanced innovation and creativity. In addition, we are convinced that our people prosper in a workplace where differences are valued. In some respects, we are already highly diverse – our workforce includes over 100 nationalities in more than 120 countries. However, in order to further strengthen our organization, we wish to increase diversity in other areas and within senior management across our Group.



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*The fair treatment of all employees is a key element of our focus on diversity and inclusion. I am delighted to announce that we obtained Gender Pay Equity certification in our Geneva office, led by the EQUAL SALARY Foundation. We still have more to do in our focus areas, but we are determined to harness the richness of our talent, ideas, backgrounds, perspectives and skills, to create business value.*

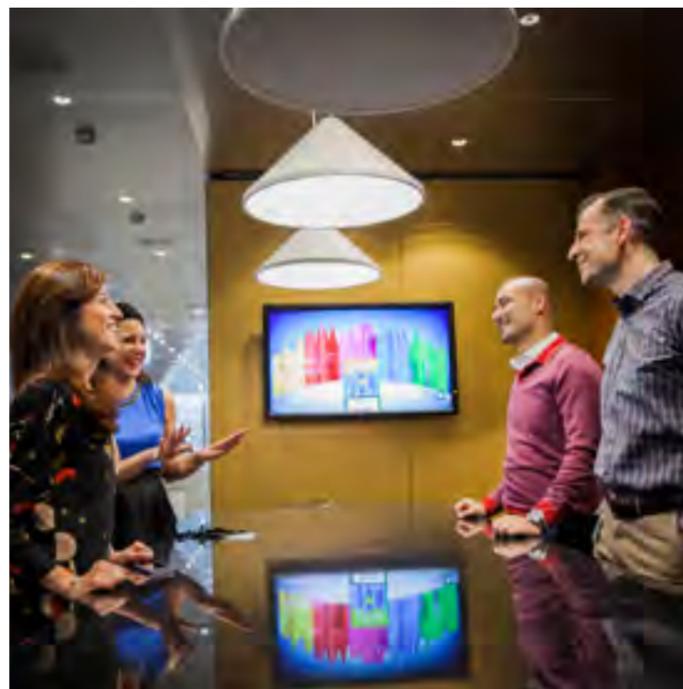
Howard Parks,  
Senior Vice President, Human Resources & Chief Compliance Officer, JT International



At this stage, we are still developing targets for global diversity and inclusion programs. In our international tobacco business we have engaged external advisors and spoken to employees across the business to assess the strengths and weaknesses within our organization.

The 17 members of the Executive Committee of our international tobacco business are fully committed to making the organization more diverse and inclusive, and they each have a personal mentor to help improve their understanding and engagement. We have also created a diversity and inclusion framework to drive change and appointed a thought leader in Diversity and Inclusion to lead our efforts in this area.

Read more about our HR philosophy and initiatives across the Group on [page 36](#).



## Workplace safety

We strive to achieve zero injuries and make safety a priority so that all of our employees return home unharmed by their work activities.

In our tobacco business, the highest safety risk relates to driving vehicles and riding motorcycles.

We proactively identify the risk profile of our fleets in the countries in which we operate. This allows us to target and tailor our training programs to local conditions and to ensure our drivers and motorcycle riders adopt best practices.

### CASE STUDY

## Reducing incidents by 50% through our Motorcycle Safety program

Driving is a critically important area of safety for us, as it can lead to serious injuries and even fatalities. In countries where safety standards and awareness are lower, and ingrained driver behavior is less risk-averse, the danger from driving is higher. To address this issue, in 2016 we launched a motorcycle risk management program in countries where employees drive motorcycles daily, such as Zambia, Malawi, and Tanzania. We are now planning to implement this program in our newly acquired operations in markets such as Indonesia and Ethiopia.

The motorcycle program is designed to reduce risks by teaching the technique of 'defensive driving' to reduce accidents, and focusing on the proper maintenance and inspection of vehicles. It emphasizes the need to wear proper protective equipment, such as helmets, gloves, and high-visibility jackets. Moreover, thanks to the Train-the-Trainer sessions, we now have 38 specialized motorcycle trainers who can provide training in their countries.

The program has had a significant impact on safety performance. In 2018, the number of motorcycle-related injuries in the countries where we implemented the programs was reduced by 50% compared to 2016 and 2017.



## Making a positive contribution to societies

As a responsible business, we wish to create a positive social impact in our local communities. Our local programs are designed to make our communities more inclusive and resilient, while also providing volunteering opportunities for our employees to engage with local communities and develop a variety of soft skills. We will continue to make efforts to meet our target to help make communities more inclusive and resilient. We explain our approach on [page 24](#).

**OUR COMMITMENT**  
We will be the employer of choice by investing in people.



**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.*

CASE STUDY

## Building sustainability through resilience and relief

The JTI Foundation is a charity specializing in Disaster Management. The JT Group contributes 2 million U.S. dollars\* every year, and all funds go towards disaster relief, disaster recovery, and building resilience in disaster-prone environments. Communities become truly sustainable when they are not only able to respond to disasters and undertake reconstruction work, but also when they are resilient to disasters.

In July 2018, a devastating earthquake struck the Indonesian island of Lombok. Many of Lombok's citizens were left in urgent need of shelter, sanitation, food, and water. Through our partners, GEA and Shelterbox, the JTI Foundation provided disaster relief. Just a few days after the initial quake, humanitarian relief (blankets and food) was delivered to 3,200 people and emergency shelters were distributed to 600 displaced families.



CASE STUDY

## Bringing water and hope to rural Egypt

In Egypt, more than 35% of the population lives below the poverty line, and in rural areas, many people do not have regular access to clean water. This situation contributes to a cycle of poverty, as ill-health and the need to access water diverts residents' time and resources away from work and business.

Recognizing that water poverty is part of a wider problem, we partnered with Resala, one of the country's largest NGOs. With the help and supervision of Egyptian municipalities and the Egyptian Water Company, we built the infrastructure required to deliver piped clean water to eight villages. Local employees participated in the project as volunteers, and approximately 300 houses have now received clean piped water, benefitting around 1,800 people.

Our staff were involved in the project selection, decision-making, and overseeing the legal aspects of the work. Volunteering created a sense of belonging in what is a relatively new market for the Company. For the inhabitants of the villages, the project brought not only clean water but also hope. Until we reached out to them with water, most people there felt neglected by society. The success of the project is not only seen in the clean water flowing through the new pipes, but also in the improved health and productivity in the communities we reached.



When two massive earthquakes struck Mexico in September 2017, many families were left without a home. Together with our partner, Habitat for Humanity International and its Mexico National Organization, the JTI Foundation provided matching funding for 140 low-income families with new, safer houses or home improvements. We also offered training to better prepare the community for possible future disasters.

Although disaster-affected areas can be reconstructed, resilience is key to ensuring the well-being of people and communities. In the Philippines, the JTI Foundation partners with Build Change to increase families' physical, economic, and social resilience to natural disasters. In particular, we have worked to build resilience among the informal settlement communities located in the city of Makati – these are built on unstable, disaster-prone flood plains in the region of Metro Manila. Our project ensures the long-term sustainability of communities here. We helped retrofit 90 poorly built houses, trained 90 local builders and homeowners, and have also helped by offering innovative financing mechanisms securing affordable funding for 450 local slum dwellers.

