



## Our compliance system

The JT Group Compliance Committee plays a significant role in the JT Group governance. Its aim is to ensure that all directors and employees fully comply with applicable laws, our Articles of Incorporation, cultural expectations, and other compliance standards. The roles of the Compliance Committee are as follows:

- Hold meetings where compliance-related matters are reviewed and discussed to report directly to the Board of Directors
- Appoint an Executive Officer responsible for the JT Group Compliance
- Discuss the Annual Compliance Program and Annual Compliance Action Plans
- Report on the progress of compliance initiatives to the Board of Directors

The Compliance Office oversees departments to ensure that compliance is appropriately functioning. It also promotes compliance by running various training programs for executives and employees.

Employees can report any violations or consult about possible violations of the JT Group Code of Conduct by calling internal or external hotlines. The Compliance Office is responsible for investigating reported cases, and in the case of proven violations, each work division must implement corrective measures. Serious cases are reviewed by the JT Group Compliance Committee, and reported to the Board of Directors as necessary.

The head of the JT Group Compliance Committee is the Chairman of the Board, and the Committee includes external experts as key members. The Committee meets regularly three times every year. Among the matters discussed are initiatives to promote compliance throughout the Group, and these initiatives will be executed based on the Annual Compliance Action Plan. The Action Plan includes maintaining and enhancing the compliance system, taking action on Company priority issues, carrying out training and seminars, handling the Reporting Concerns Mechanism, and implementing the Compliance Promotion Month. The Compliance Promotion Month takes place in June every year. The aim is to raise employees' awareness of this important subject, through information sessions in every workplace, e-learning, and seminars for managers in our headquarters.

Our international tobacco business has developed its own compliance system, the Compliance Function. This function is led by the Chief Compliance Officer, who is responsible for promoting and enhancing the ethical culture of the business. Guiding, encouraging and supporting all employees through various compliance processes and trainings to make the right decisions in full compliance with all applicable laws and internal policies, thereby mitigating reputational, legal and financial risks for our international business. Employees can report any violations of the Code of Conduct by using our internal reporting system, namely “Your Voice”, a system which is available to all employees and all business partners. Serious cases of Code of Conduct violations are referred to the Business Ethics Committee for review and investigation and where necessary shared with JT Compliance.

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# Our Codes of Conduct



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

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

Besides the JT Group Code of Conduct, our international tobacco business and Torii Pharmaceutical have developed a version of the Codes of Conduct to reflect the needs of their operations.

[The JT Group Code of Conduct](#)

[JTI Code of Conduct](#)

[The JT Group Supplier Standards](#)

## Living our Codes of Conduct

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

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

We continuously review and update our Codes of Conduct to improve our standards, and the latest revision took place in 2018. In our international tobacco business, we have digitalized the Code into an accessible, easy-to-read document, including a decision-making guide to assist employees in making the right choices. It is now available in 40 languages, and we provide printed booklets for those with limited internet access.

We continued to provide training on the Codes of Conduct to our employees online and face-to-face in 2019. In our Japanese operations, 99.7% of employees completed the online courses \*C. In our international tobacco business, we launched a new interactive Code of Conduct video in 25 languages to guide employees to make the right choices. For employees without computer access, we have adopted a Train-the-Trainer approach. So far we have trained 59 local trainers, who provided face-to-face training in local languages to 6,274 employees, including those from all our newly acquired entities in the Philippines, Indonesia and Bangladesh.

In our Japanese operations, the survey outcomes are reported to each executive officer and to each department. The relevant departments then introduce measures in their Annual Compliance Action Plans to address any issues raised, using quantitative targets to evaluate the effectiveness of these measures. In 2019, 95.8% of employees completed the survey.



In our Japanese operations, the latest survey results showed harassment\* and unpaid overtime as the most important concerns. We have provided support for the JT Group companies to comply with the 'Work Style Reform Act' and monitored overtime hours in each department. We will continue to monitor progress and make every effort to improve the situation in these two key areas.

In our international tobacco business, the Employee Engagement Survey covers compliance questions. It is distributed every

three years, and the last one was completed in 2018. The results showed that, since the previous survey was carried out, the Code of Conduct is more widely understood by employees and enforced by line managers. A total of 90% of respondents agreed that their direct supervisor reinforces the importance of adherence to compliance and ethical standards, compared to 85% in the previous survey (2014).



\* Harassment includes sexual harassment and bullying.

## Reporting concerns

Across the JT Group, each of our operating companies has specially trained members who handle compliance matters. If an employee is concerned about a potential violation of our Code of Conduct, they can contact their line manager, HR lead, or a member of the compliance team. Employees in Japan receive a booklet explaining the process for reporting concerns. We also provide an external concern-reporting service run by an independent provider. Every reported concern and investigation report is treated on a strictly confidential basis.

[JT reporting concerns \(for business partners\)](#)



JT reporting concerns\*

[JTI reporting concerns](#) 



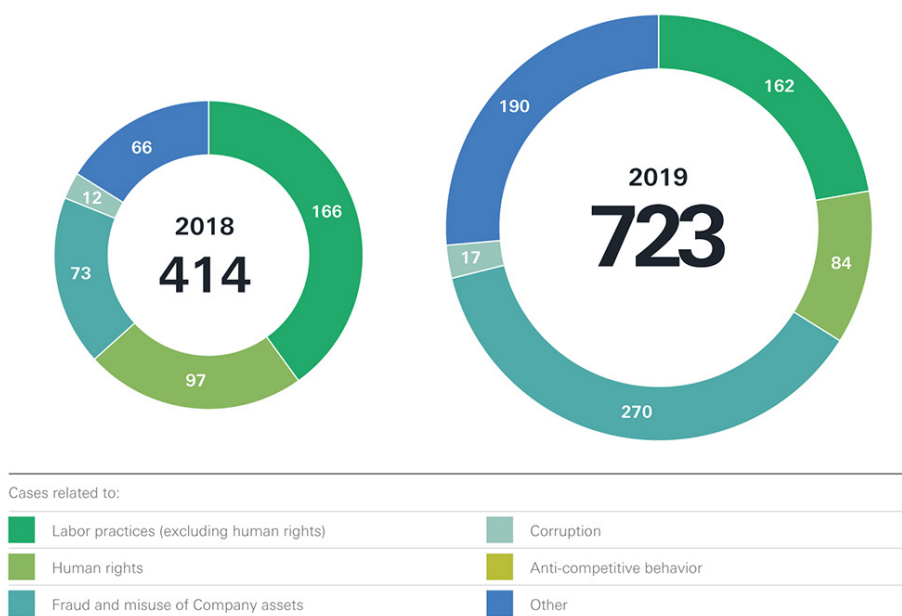
\* We distribute a Reporting Concerns Booklet to our employees in which they can find detailed information about the process for reporting concerns

We offer multiple communication channels for employees, customers, and business partners to confidentially raise concerns about potential violations of our Codes of Conduct or policies. We review all concerns raised, launch investigations as needed, and take appropriate corrective actions.

Employees are informed about our Reporting Concerns Mechanism through various channels, including the Group intranet. In 2018, our Japanese operations made the Mechanism available in four additional languages (English, Chinese, Vietnamese, and Nepalese) to meet the needs of our diverse workforce.

Any concerns are then dealt with by specially trained contact persons, who all follow a mandatory face-to-face training course.

### BREAKDOWN OF REPORTED CASES



\*There were no cases related to anti-competitive behavior in 2018 and 2019.

In our international tobacco business, there is a Reporting Concerns Mechanism called Your Voice, which is available in 16 languages. Employees are able to report concerns via multiple channels including designated trained contact persons.

In 2019, we received 723 reports across the JT Group, covering issues such as labor practices and discrimination. In the case of proven violations of our Codes of Conduct, we took appropriate action in the form of dismissal, verbal or written warnings, financial penalties, or other measures.

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# Compliance risk management



We make every effort to ensure that all of our business operations are carried out in an appropriate way, and that we focus on compliance risk management to maintain our stakeholders' trust.

In our Japanese domestic tobacco, pharmaceutical, and processed food businesses, every division is required to assess their compliance risks and submit action plans to address any risks identified. A compliance survey is conducted every year and each organization incorporates the results into their action plan.

## Anti-bribery and corruption

With operations spanning the world, some of our businesses are conducted in jurisdictions with a high prevalence of bribery and corruption. Our Codes of Conduct clearly prohibit bribery and forbid corrupt practices in any form. Taking into account legislation such as the Unfair Competition Prevention Act of Japan, the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, and anti-bribery laws in China, we have introduced the JT Group Anti-Bribery Policy.



We take a zero-tolerance approach to corruption and bribery, and all executives and employees must respect and comply with our JT Group Anti-Bribery and Corruption Policy. The training courses help us to reinforce this policy. In our Japanese operations, we run an e-learning course on anti-bribery and corruption every two years. In 2019, 2,419 employees took this course.



In our international tobacco business, in 2019, 4,607 employees completed the anti-bribery and corruption online training. We also provide face-to-face trainings locally for employees without computer access as a part of the general Code of Conduct trainings that includes an anti-bribery and corruption section. In 2019, 5,128 employees attended this training.

[The JT Group Code of Conduct](#) 

[JTI Code of Conduct](#) 

[The JT Group Anti-Bribery Policy](#) 

## Gifts, hospitality, and entertainment

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

All exchanges with non-governmental third parties above 250 U.S. dollars in our international tobacco business must be approved. For government and public officials, all requests, regardless of the amount, have to be approved. The number of gifts, hospitality, and entertainment requests sent for approval in 2019 was 632, vs. 603 in 2018.

## Anti-competitive behavior

Fair competition compliance with competition laws is covered by our Codes of Conduct, which require employees to compete fairly in all markets.

Our international tobacco business has a policy with detailed guidelines in place to ensure that business operations are conducted fairly and in compliance with competition laws, wherever we do business. The policy provides guidance for employees on how to conduct business in a compliant and ethical manner. For example, all activities and strategic decisions must be carried out independently of our competitors.


Our customers must be free to make their own business decisions concerning their customers and how they compete in the market. Employees in our international tobacco business are required to attend regular training on compliance with competition laws and the JTI policy.

# Preventing financial crime

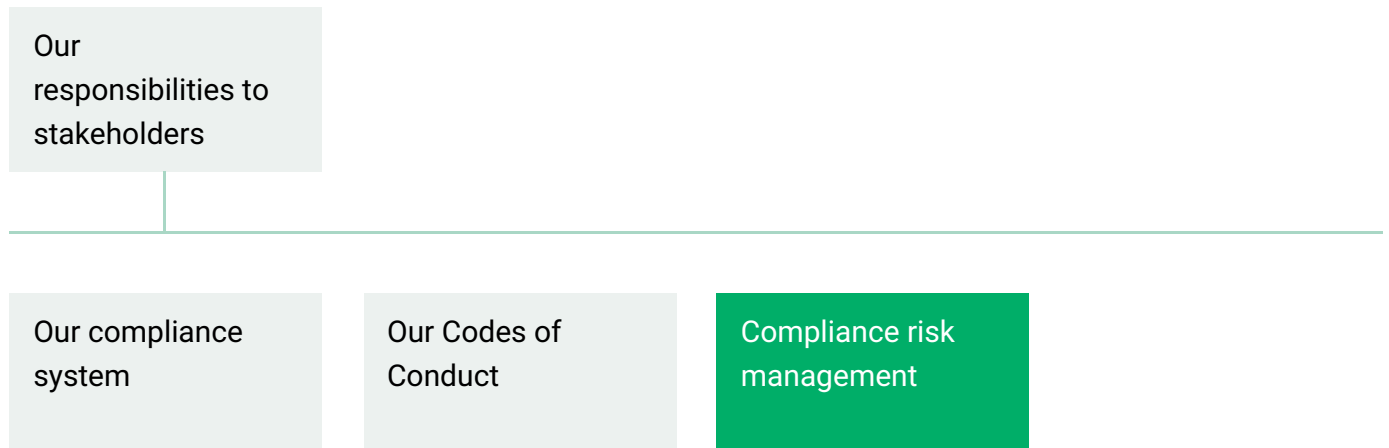
The JT Group does not tolerate any form of financial crime. In our international tobacco business, we abide by the EU Cooperation Agreement obligations, and take into account the U.K. Criminal Finances Act 2017. We perform policy controls and provide program training, and we publish employee communications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

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

## Tax compliance

The [JT Group Tax Policy](#)  outlines our approach to tax compliance, tax risk management, the utilization of external tax advisors, and our relationship with tax authorities.

### Related links





## Tax practices

In accordance with our responsibilities to all stakeholders in our 4S model, we are fully committed to paying our fair share of taxes within both the letter and spirit of local laws. This commitment ensures that our tax affairs remain transparent and sustainable on a long-term basis; we therefore do not engage in aggressive tax planning or tax avoidance schemes. We never use legal entities for tax purposes only, nor do we undertake any transactions whose sole purpose is to reduce our tax contribution.

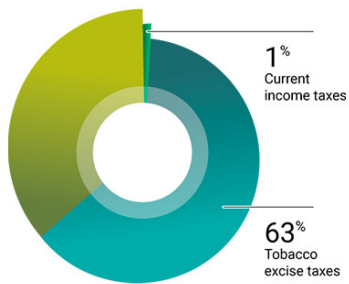
This approach is spearheaded by our experienced in-house global tax team. The team ensures that all departments and geographies adhere to our global tax policy and that appropriate expert advice is sought on all commercial and financial decisions. Furthermore, the global tax team provides guidance to other departments, and issues detailed annual reports showing how we meet local tax obligations. In addition, experienced local tax resources are embedded in the finance teams in our key tax jurisdictions.

When taking operational or financial decisions impacting the JT Group or its stakeholder groups, our management takes into serious consideration the impact on tax affairs, to ensure compatibility with our 4S model and global tax policy.

In 2016, the U.K. introduced a law that requires large U.K. businesses to publish an annual tax strategy which sets out, among other things, the approach towards tax planning and how tax risk is managed. Our tax strategy and global tax policy, which are on our website, describe our statement on U.K. tax strategy in more detail.

[JTI UK Tax Strategy](#) 

### Breakdown of gross turnover in 2019



Our tobacco business is subject to substantial taxation, including tobacco excise taxes, which is paid at the point of sale and which we pass on to governments. Out of the 7,581,071 million Yen gross revenue we generate, 64% flows back to society through taxation which includes income taxes. In 2019, we paid 4,750,416 million Yen in tobacco excise taxes, amounting to 63% of global revenues; and 114,799 million Yen in current income taxes (corporate tax), accounting for a further 1% of revenue.

In recent years, tax legislation and practice have become increasingly complex. This complexity brings inherent tax risks. We try to nurture good relationships with tax authorities in order to increase certainty on both sides and to facilitate an open and constructive discussion, where appropriate.

Read more about [the JT Group Tax Policy](#)  .

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## Risk management

Our group operates a diverse business which includes tobacco, pharmaceutical and processed food. We also operate on a global basis with offices in Europe, CIS, Africa, and the Middle East, among others. Due to this diversity and as we operate in a changing business environment, we are exposed to various risks.

We look at emerging risk such as increase in cyber/IT security risk, risk of natural disasters arising from climate change or increase in political risk. We examine financial and business risks such as effect of currency fluctuation or impact of regulatory developments. Our approach to addressing key risks is detailed in our latest annual report under 'Risk Factors'. We also address compliance risk as we strive to ensure all of our business operations are carried out with integrity.

Our key financial and business risks are considered by the Board of Directors on a quarterly basis. Internal audits are carried out by a division independent of the business, which reports directly to the Group President. We have a crisis management and disaster response protocol, whereby a project team, headed by the Group President, can be swiftly called upon in times of crisis or disaster.

We recognize the need for a Group-wide global risk management framework: this would allow us to be conscious of, and appropriately deal with, more complex, wide-ranging risk factors. We are establishing more systematic ways to analyze and respond to risk factors surrounding our Group and our stakeholders, with a view to further strengthening our risk governance.

[Integrated Report >](#)

[Compliance risk management >](#)

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compliance

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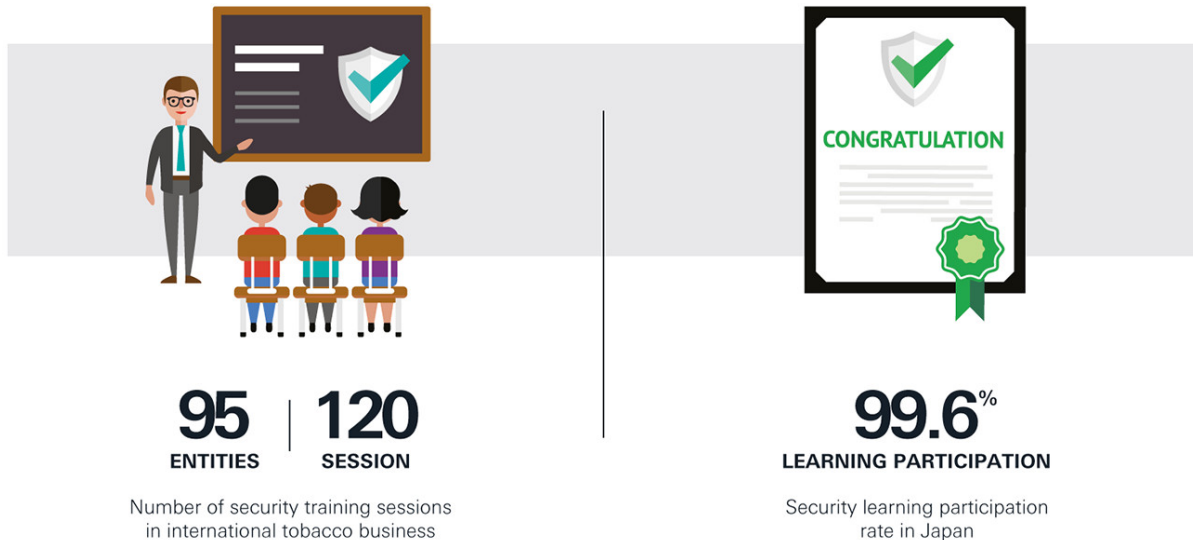
## Information security

Our information security risks relate to all the valuable data we hold. This not only includes details about our customers, consumers, suppliers, and employees, but also information on our business strategy and our engineering and experimental data, including results from research. The danger is that this important information could be stolen, leaked, or damaged in some way.

In order to minimize this risk, we are committed to continuously enhancing our information security framework. We understand the importance of awareness and the role every employee can play in the security of our data. We ensure regularly updated policies and procedures are shared and understood by employees, as education is a key component of our broader cyber defense strategy.



In 2019, 99.6% of employees in our Japanese operations received security education. Our international tobacco business has a bespoke i-secure program, which was established to promote a culture of cyber security awareness both at home and at work. The annual learning program is executed in 100% of locations worldwide and key behavior indicators allow us to constantly measure the effectiveness of our program. This learning program supplements our technological defenses against cyber crime, by ensuring all employees are also striving to better protect our information.



As we increasingly move towards the use of cloud services for data processing, we are re-evaluating risk and strengthening our security defenses. We continually assess the threat to our company using a variety of security intelligence methods. The JT Group's vision to become one of the leading global companies, will require the need for technological advancements, which in turn brings new and complex security challenges. It is the role and responsibility of Information Security to dynamically adapt to the ever changing technical landscape. Great efforts are being made to continually improve the security posture of all areas of the business, with global collaboration to ensure the best security practice and defense technologies are utilized by the JT Group as a whole.

## Related links

