



## 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 head of the JT Group Compliance Committee is the Chairperson of the Board, and the Committee includes external experts as key members. The Committee meets regularly every year. Among the matters discussed are initiatives to promote compliance throughout the Group, which will be executed based on the Annual Compliance Action Plan. The Action Plan includes maintenance/enhancement of compliance programs, taking action on Company priority issues, carrying out trainings 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 seminar for managers in our headquarters.

The Compliance Office administers our compliance system, promotes compliance and endeavors to identify deficiencies. It also conducts various training programs and other educational activities for directors and employees in the aim of more effective compliance. 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 problems are referred to the JT Group Compliance Committee for review and, as necessary, reported to the Board of Directors.

Similarly, our international tobacco business has its own compliance system, the Compliance Function. This function is led by a Chief Compliance Officer, responsible for promoting and

enhancing the ethical culture of the business. The Chief Compliance Officer guides and supports employees with various compliance processes and trainings. Employees are supported to make decisions in full compliance with all applicable laws and internal policies to mitigate reputational, legal and financial risks for our international business. Employees can report any violations of the Code of Conduct through the internal reporting system known as "Your Voice", 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 Code of Conduct



Our Code 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 Code, 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 Code 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 Code of Conduct

Our Code of Conduct guides us to conduct business ethically and be a responsible corporate citizen. We ensure that they are communicated 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 Code of Conduct. This can be done either online or face-to-face.

We continuously review and update our Code 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.

## Training and communication

We continued to provide training on the Code of Conduct to our employees online and face-to-face in 2020.

In our Japanese operations, 99.8% of employees completed the online courses \*C.

In our international tobacco business, we continue our effort to ensure the highest standard across our business operations. We use an interactive Code of Conduct video in multiple languages to guide our employees to make the right choices. For employees without computer access, we provide face-to-face training in local languages. As part of our annual global business ethics behavior training, we rolled out a global harassment training video. This addressed various forms of harassment and guided employees on how to address this sensitive issue.

## Compliance and Employee Engagement Survey

In order to better implement compliance in our workplace, each department in our Japanese operations makes Compliance Action Plans every year. These Action Plans are rolled out on a yearly basis, which means that we base the plans on the results of the compliance survey and the status of our initiatives in the previous year.

We conduct a compliance survey every year. In 2020, 95.5% of employees completed the survey. The survey outcomes are analyzed by the JT compliance office, and reported to the head of each department while ensuring confidentiality. Next, the JT compliance office develops an Annual Compliance Action Plan based on the results of the analysis. The relevant departments then introduce a remediation plan to address any issues raised, using quantitative targets to evaluate the effectiveness of the plan.



In our Japanese operations, the 2019 survey results showed that harassment\* and undeclared overtime work were the most important concerns. With these results in mind, we provided support for our subsidiaries to comply with the Work Style Reform Act and Harassment Law.

In 2020, the survey results showed that information management and harassment are now the most important issues. We will continue to make every effort to improve the situation by providing employees with training in these areas.

In our international tobacco business, we cover the subject of compliance in our Employee Engagement Survey every three years. The most recent survey indicated that employee understanding of the Code of Conduct was increasing. The next Employee Engagement Survey is scheduled for 2021.



\* 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

\* In our Japanese operations, we distribute a Reporting Concerns Booklet to all employees with detailed information about the process for reporting concerns.

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 and available 24/7. Every reported concern and investigation report are treated on a strictly confidential basis, and retaliation against anyone reporting a concern will not be tolerated.



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

JT reporting concerns\*

### [JTI reporting concerns](#)

We believe that everyone should be able to raise concerns and have their voice heard, even if they do not have access to a company computer and/or the company network. That's why we ensure secure access to reporting system for all of our employees, at all times and from anywhere.

We offer multiple communication channels for employees, customers, and business partners to confidentially raise concerns about potential violations of our Code 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 JT Group intranet. In our Japanese operations, the Mechanism is available in four languages (Japanese, English, Vietnamese, and Nepalese) to meet the needs of our diverse workforce.

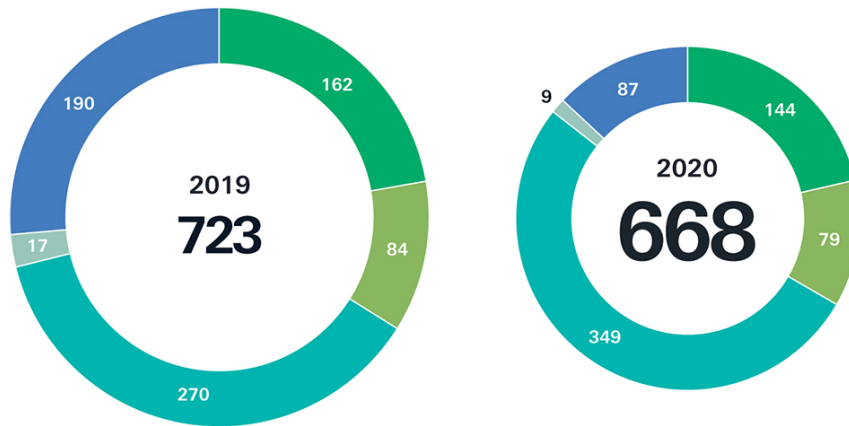
Any concerns are then dealt with by specially trained contact persons, who all follow a mandatory face-to-face training course.

In the final quarter of 2020, our international tobacco business upgraded its reporting concerns tool, introducing a new channel for raising concerns through a voice messaging system. Together with the existing email system, this makes it easier for our employees and business partners to report concerns of misconduct. The tool is available in more than 70 languages.

In 2020, we received 668 reports across the JT Group. In the case of proven violations of our Code

of Conduct, we took appropriate action in the form of dismissal, verbal or written warnings, financial penalties, or other measures.

## BREAKDOWN OF REPORTED CASES



Cases related to:

<span style="color: green;">■</span> Labor practices (excluding human rights)	<span style="color: lightgreen;">■</span> Corruption
<span style="color: olive;">■</span> Human rights	<span style="color: yellowgreen;">■</span> Anti-competitive behavior
<span style="color: teal;">■</span> Fraud and misuse of Company assets	<span style="color: blue;">■</span> Other

\*There were no cases related to anti-competitive behavior for the past three years.

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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 Code 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 the JT Group Anti-Bribery and Corruption Policy. Our training courses help us to reinforce this policy. We run an e-learning course on anti-bribery and corruption every two years. The next one will take place in 2021.

In our international tobacco business, employees in our acquisitions are trained in the first 12



months. Anti-bribery and corruption are also covered in the training we provide locally for employees as a part of our general Code of Conduct 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 communication campaigns across the JT Group.

In our international tobacco business, where possible, we require all employees to obtain approval for the Gift, Hospitality and Entertainment policy before offering or accepting any GHE. To ensure compliance with every relevant laws and regulations, and to prevent bribery or a conflict of interest, all exchanges with non-governmental third parties above US\$250 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 2020 was 268, vs. 632 in 2019.

## Anti-competitive behavior

Compliance with competition laws is covered by our Code 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 our policy.

# Preventing financial crime

The JT Group does not tolerate any form of financial crime. In our international tobacco business, we perform policy controls and provide program training to our employees. We also publish communications on the subject regularly. 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. Read more on [Tax practices](#).

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## 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, secrecy jurisdictions or tax havens 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.

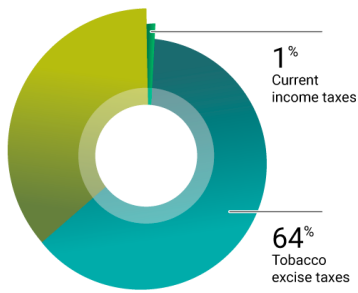
When taking operational or financial decisions impacting the JT Group or its stakeholder groups, our management takes into serious consideration the impact on tax affairs, to ensure compatibility with our 4S model and global tax policy.

Tax legislation and practice have become increasingly complex. This complexity brings inherent tax risks. We maintain proactive communication with tax authorities in order to enhance their understanding of the JT Group business and resolve matters in an open and constructive manner where disputes arise with regard to the interpretation and application of tax legislation or to improve the efficiency of tax compliance.

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 2020



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 7,555,062 million Yen gross revenue we generate, 65% will flow back to society through taxation which includes income taxes. In 2020, we accrued 4,821,891 million Yen in tobacco excise taxes, amounting to 64% of global revenues; and 111,142 million Yen in current income taxes (corporate tax), accounting for a further 1% of revenue.

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

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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 keeping our data safe. We ensure that our regularly updated policies and procedures are shared with and understood by employees, as education is a key component of our broader cyber defense strategy.



In 2020, 99.7% of employees in our Japanese operations received information security training. 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 that all employees understand how to better protect our information.

**LOCATIONS INVOLVED  
IN SECURITY  
AWARENESS CAMPAIGN:**

**100%**



**99.7%**  
IN 2020

JT employees participating  
in e-learning



**30%**  
IN 2019

**60%**  
IN 2020

JTI employees volunteering to become  
'i-secure' certified (advanced training)

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 technological advances, which in turn bring new and complex security challenges.

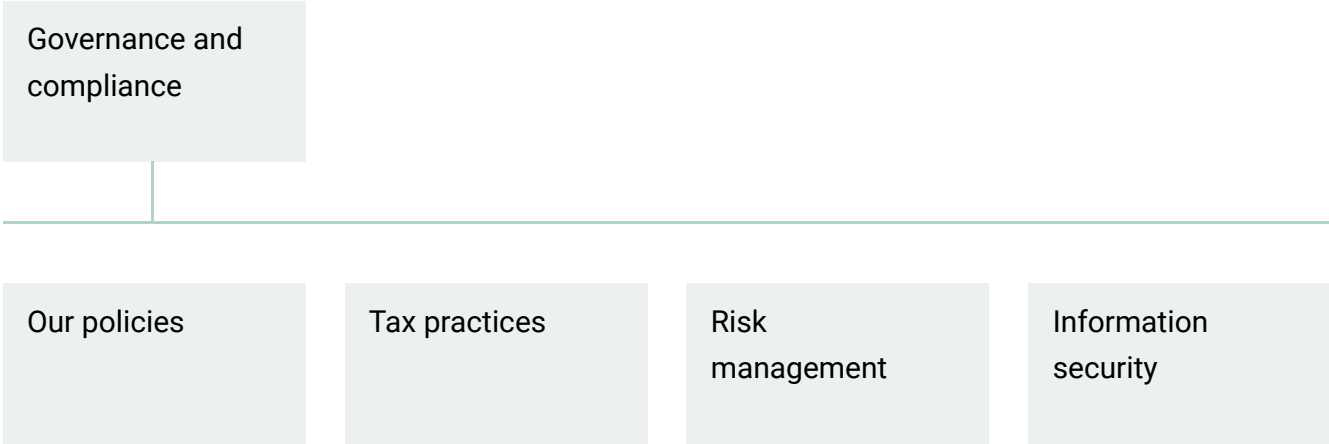
It is the role and responsibility of Information Security to constantly adapt to the ever-changing technical landscape. We are making great efforts to continually improve the security of all areas of the business, with a focus on global collaboration to ensure that the best security practice and defense technologies are used across the JT Group.

**JTI - Information Security**



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## Risk management

Our group operates a diverse business which includes tobacco, pharmaceuticals, 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 the effect of currency fluctuation or impact of regulatory developments. Our approach to addressing key risks is detailed in our latest integrated report under 'Risk Factors'. We also address compliance risk as we strive to ensure all of our business operations are carried out with integrity.

[Corporate governance](#) >

[Integrated report](#) >

### Risk management system

Our risk management system is based on four pillars – Identify, Assess, Plan, and Monitor. This circular approach ensures a systematic approach to risk management and allows us to be conscious of, and appropriately address, more complex, wide-ranging risk factors. The JT Group CEO appoints a person who oversees the comprehensive review of all risks related to our Group (hereinafter 'risk management officer') amongst senior vice presidents.

- **Identify**  
Our risk management officer is responsible for the comprehensive review of all risks related to the JT Group.
- **Assess**  
Senior vice presidents perform a risk impact assessment under their own responsibilities and evaluates all of the risks to identify the key risks for our business operations. The key risks identified are reported to the risk management officer. The risk management officer determines the key risks to our Group are based on reports issued by each business division, then reports these to the JT Group CEO.



- Plan

Senior vice presidents develop an action plan to address the JT Group's key risks. The plans are reported to the risk management officer and CEO.

- Monitor

We continue to monitor the implementation of our action plans in every relevant division. Senior vice presidents report progress to the risk management officer and CEO periodically.

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 JT Group CEO.

## Crisis risk management

We have a crisis management and disaster response protocol, whereby a project team, headed by the JT Group CEO, can be swiftly called upon in times of crisis or disaster.

## Compliance risk management

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 head of the JT Group Compliance Committee is the Chairman of the Board, and the Committee includes external experts as key members.

We make every effort to ensure that our business operations are carried out in an appropriate way, and to gain a high level of trust and confidence from our stakeholders.

[Group compliance](#) >

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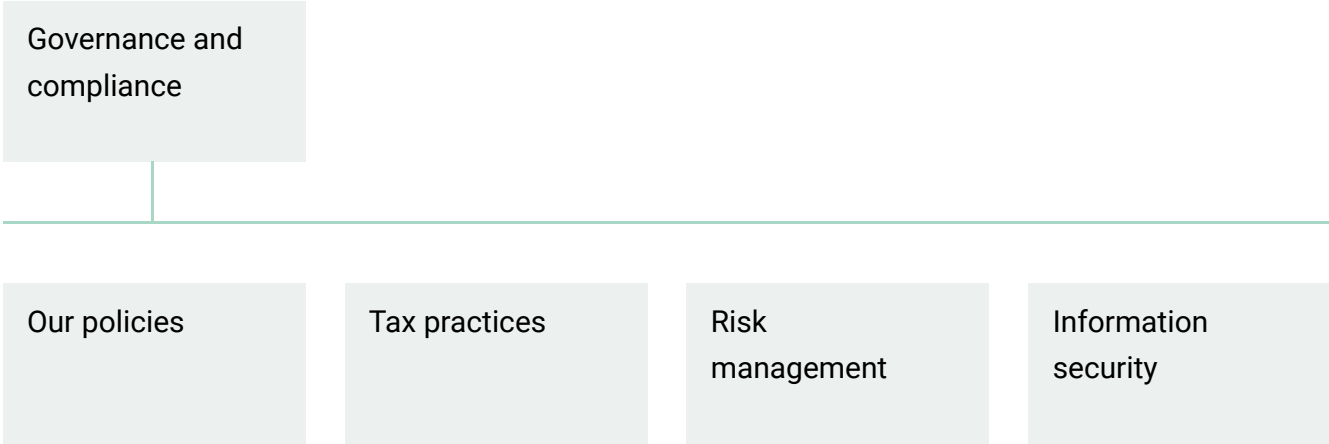
[Tax practices](#) >

## Enterprise risk management

We recognize the need for a Group-wide global risk management framework: this would allow us to be conscious of, and appropriately address, 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.

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compliance



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