

A photograph of two men in a field of large green plants. The man in the foreground is wearing a light blue short-sleeved button-down shirt and is looking down at a clipboard he is holding. The man in the background is wearing a grey t-shirt with '1887' on it and a green baseball cap. The background is a blurred field of similar plants under bright sunlight.

ISO 26000: Fair Operating Practices

Operating responsibly

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

Operating responsibly across the global value chain



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

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

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

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

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

Creating the highest standards of behavior



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

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

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

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

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

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

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

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

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

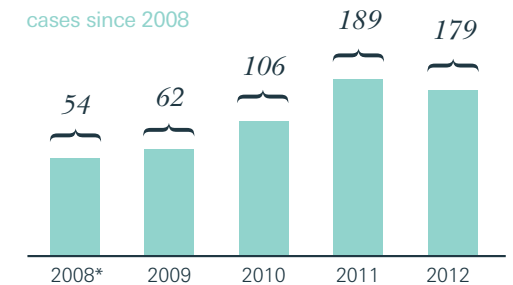
Independent verification is invaluable, and JTI's Code of Conduct itself is evaluated by Corpedia: a global leader in Governance, Risk and Compliance. Corpedia benchmarks compliance programs by using a database of over 1,500 Codes of Conduct. It provides JTI with an opinion on the thoroughness and effectiveness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

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

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

Reporting Concerns Mechanism (RCM) statistics

Evolution in the number of cases since 2008



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

Corrective actions taken by JTI following incidences of misconduct

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

Taking a zero tolerance approach to corruption



Solveig Holy-Ruefenacht, JTI Corporate Compliance Vice President

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

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

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

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

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

Combating illicit trade with a digital solution

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

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

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

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



Carton code verification

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