

In this section

Strategy and approach > P.13

The JT Group governance > P.14

Sustainability governance > P.15

Stakeholder engagement > P.16

Identifying our material issues > P.18

Performance highlights > P.19

01 The JT Group and sustainability

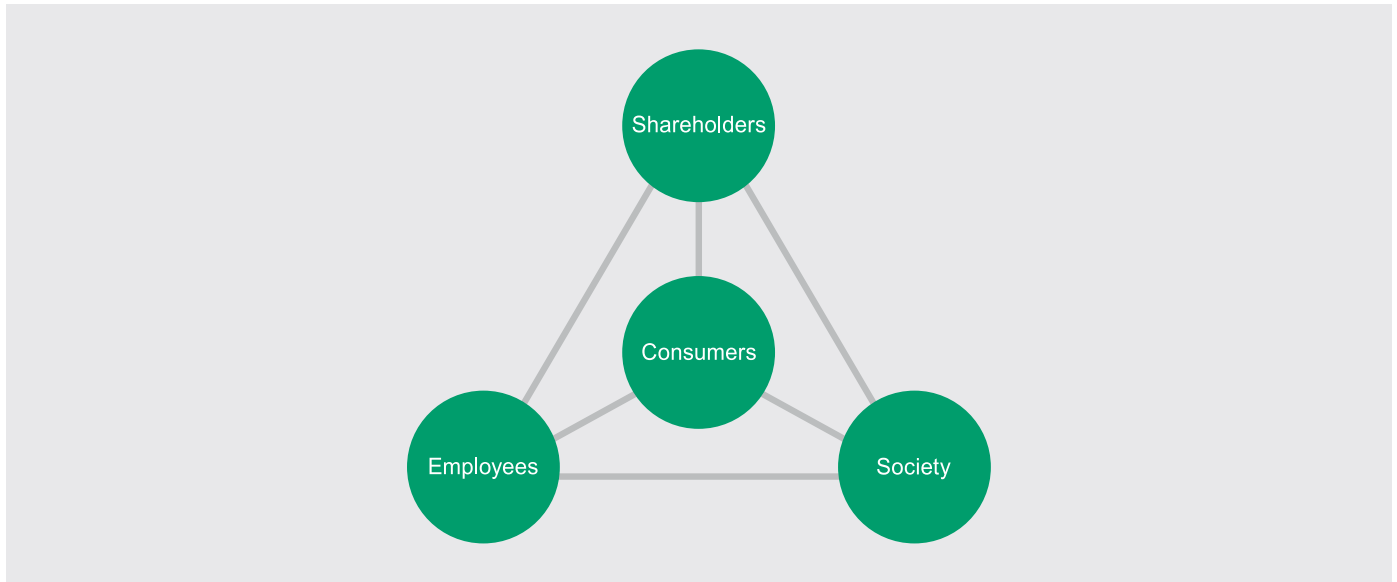
Our approach to sustainability is governed by our management principle, known as the “4S” model. Under the model, we balance the interests of consumers, shareholders, employees, and wider society, and fulfill our responsibilities towards them, aiming to exceed their expectations.

Using the “4S” model, we strive for sustainable growth over the mid- to long-term by continually delivering added value to our consumers. We believe that pursuing this model enhances corporate value and helps us to meet and exceed stakeholders’ interests in the most balanced way possible. We take pride in the strong relationships we have built with the four stakeholder groups within the “4S” model, and through our engagement we are able to reflect stakeholder views in our business activities.

Strategy and approach

In addition to the “4S” model, our responsibilities as a corporate citizen are also reflected in the JT Group Mission, “To create, develop and nurture its unique brands to win consumer trust, while understanding and respecting the environment and the diversity of societies and individuals”. Responsible behavior and continuous improvement are also commitments that are outlined in the JT Group Way, and our Codes of Conduct.

For more information on the “4S” model, the JT Group Mission, and the JT Group Way, please visit www.jt.com/about.



“4S” model

Value chain approach

Based on the “4S” model and the JT Group Mission, we work to continually strengthen our sustainability management and performance. We take a value chain approach to sustainability focusing on issues at every stage of our business operations, from supply chain, research and development, and manufacturing to sales and marketing, distribution, and product use and disposal.

Business-specific sustainability issues

Given the international and diverse nature of our organization, different parts of the JT Group have developed business-specific approaches to sustainability linked to the level of exposure to sustainability risks. For example, in our tobacco leaf supply chain, we aim to safeguard the long-term supply of high-quality tobacco leaf for the JT Group. Sustainability issues play a significant role in meeting that aim, including improving environmental and social conditions, protecting human rights, and working in partnership with stakeholders. In our international tobacco business, our supply chain strategy also focuses on enhancing the livelihoods and long-term profitability of farming communities, particularly those in developing countries (see page 33).

In our pharmaceutical business, some of the key strategic issues that we consider, based on importance to patients, include an ethical approach to research and development, responsible marketing of our products, and a reliable supply of drugs (see page 56).

In our beverage and processed food businesses, our key commitments are to delivering the highest-quality products, ensuring food and product safety (see page 58), and minimizing our environmental footprint from manufacturing, sales, and distribution (see pages 40–41).

With operations in more than 70 countries, our international tobacco business is exposed to a wide range of sustainability issues and risks. To identify the most important sustainability issues across this business, a materiality exercise was conducted in 2013 as a first step towards developing a more defined strategic approach. Further detail is provided on page 18.

Developing a new strategy

Recognizing the importance of an organization-wide, forward-looking approach to sustainability, we are in the process of developing a comprehensive sustainability strategy, which will be rolled out across various parts of the JT Group over the course of 2014 and 2015. A number of organizational changes were implemented in 2013 to support this process, including appointing a Senior Vice President for CSR, who is a member of the JT Executive Committee, and establishing a dedicated CSR department in our international tobacco business.

The JT Group governance

The JT Board of Directors holds the ultimate responsibility for the administration and supervision of our activities. The Board is supported by a number of governance structures. These include the Compliance Committee; the Compensation Advisory Panel; the Executive Officer system responsible for efficient business management; and the Audit & Supervisory Board, a separate governance board that oversees our audit activities.

In 2013, our Board of Directors consisted of nine Directors, two of which are independent. Five members of the Board also serve as Executive Officers and three are non-executive, including the JT Group Chairman. The separate Audit & Supervisory Board consists of four members, two of which are independent.

Within our corporate governance framework, we develop appropriate internal controls, including compliance, internal audit, and risk management, and results of these activities are reported regularly to the Board. Our Annual Report provides further details on our latest governance structures and Board members (www.jt.com/investors/results/annual_report).



Remuneration

The Compensation Advisory Panel supports the Board of Directors with the compensation calculation policy and the compensation system for Directors and Executive Officers. Remuneration for our Directors is determined by the Board of Directors, taking into account the range approved at the Annual General Meeting of Shareholders (AGM) and deliberations of the Compensation Advisory Panel.

Compliance and audit

Compliance requirements are outlined in the JT Group Code of Conduct, which has been approved by the Board of Directors. Under the Code, all Directors and employees are expected to fully comply with applicable regulations, our Articles of Incorporation, social norms, and other compliance standards (see page 21). The Compliance Committee discusses important compliance-related issues and reports to the Board of Directors. The Audit & Supervisory Board conducts audits on operations, including compliance-related issues, as well as accounting audits, while exchanging relevant information with independent auditors and the Operational Review and Business Assurance Division, which conducts internal audits.

Risk management

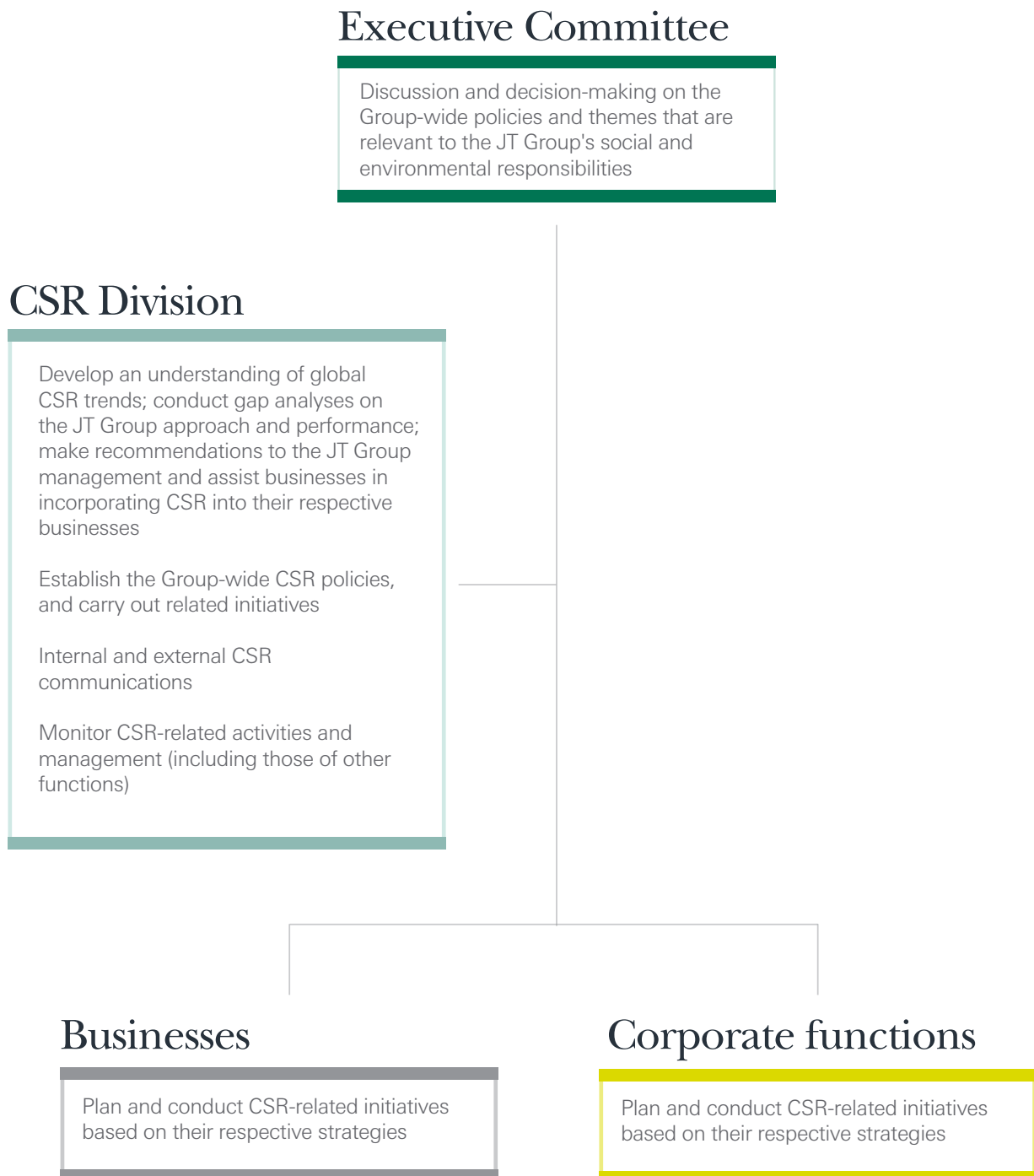
Our approach to addressing key financial and business risks is detailed in our Annual Report. Financial risks and disaster incidents are reported to the Board of Directors quarterly. As part of our risk management process, internal audits are conducted by the independent Operational Review and Business Assurance Division, which reports directly to the President of JT. We also have crisis management and disaster control systems in place.

Each of our business units has individual sustainability risks, based on the nature of their operations and geographical location. Identification and mitigation of sustainability risks is incorporated into our Group risk management approach. Our key Group-wide risks that relate to sustainability include instability in the procurement of key materials and natural disasters.

Sustainability governance

The Executive Committee holds responsibility for Group-wide sustainability decision-making and is supported by the Senior Vice President for CSR, who is a member of the Executive Committee and also leads the CSR Division. The CSR Division monitors Group-wide sustainability issues, initiatives, and performance; implements Group-wide policies and procedures; and is responsible for internal and external communication and knowledge sharing on sustainability. The CSR Division also helps Group businesses and corporate functions understand global CSR and sustainability trends.

Sustainability governance in the JT Group



Stakeholder engagement

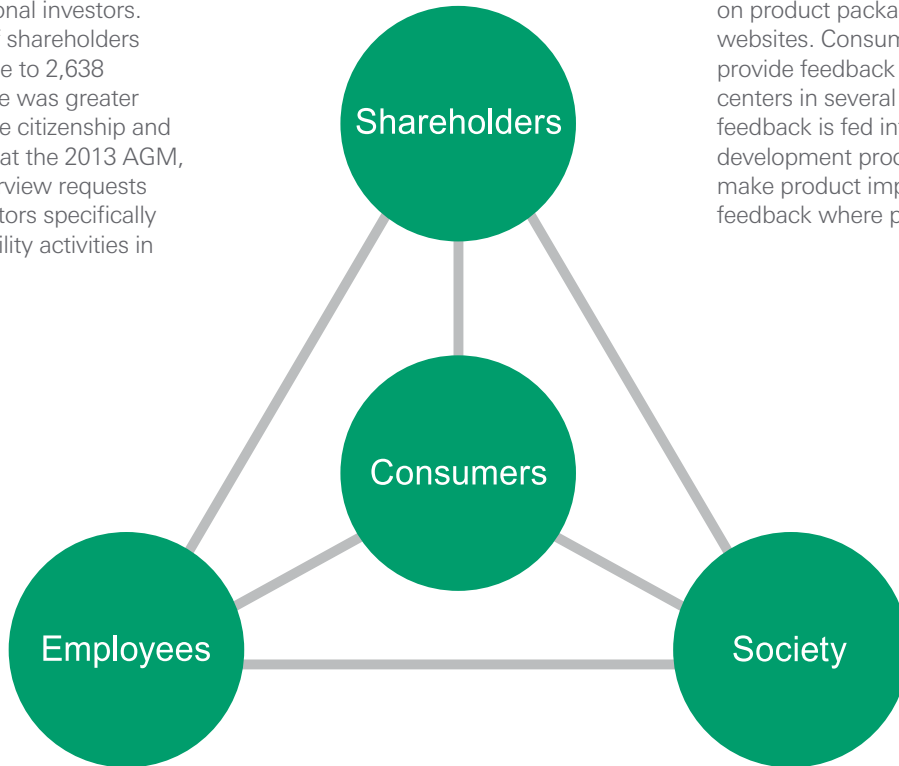
Stakeholder engagement across the JT Group is conducted under our “4S” model, which requires us to balance the interests of four stakeholder groups. We are working towards a Group-wide approach to stakeholder engagement on sustainability issues, and within our international tobacco business, we have begun to systematically seek and address feedback on issues relevant to our business sustainability from our various stakeholder groups. We will continue to develop our approach to stakeholder engagement as part of developing our new sustainability strategy in 2014 and 2015.

Shareholders

Along with the Annual General Meeting of Shareholders (AGM), we hold regular meetings with institutional investors. In 2013, the number of shareholders attending the AGM rose to 2,638 from 763 in 2012. There was greater interest in our corporate citizenship and sustainability activities at the 2013 AGM, and an increase in interview requests from institutional investors specifically covering our sustainability activities in 2013.

Consumers

We provide consumers with details of our products and their ingredients on product packaging and/or on our websites. Consumers can contact us and provide feedback through consumer call centers in several countries. Consumer feedback is fed into our product development processes, and we aim to make product improvements based on feedback where possible.



“4S” model

Employees

We use a variety of communication channels to keep our employees informed on important company matters and to gather their opinions and feedback. These include our intranet and regular employee engagement surveys. Our employee engagement surveys provide a view on employee satisfaction and highlight areas where changes or improvements can be made. We are members of organizations working on employee-related sustainability issues, such as the Japan Women’s Innovative Network (J-WIN) and the Japan Industrial Safety and Health Association.

Society

A range of stakeholders fit within the society category of our “4S” model. These include local communities, suppliers, retail customers, governments and regulators, and non-governmental organizations (NGOs). We engage with NGOs and local communities where we operate to understand their needs and concerns in relation to our operations, products, or specific issues. We have measures in place to engage with our suppliers in relevant parts of the business, and we work with our customers and regulators to address issues such as preventing youth access

to tobacco and combating the illegal tobacco trade. We are members of a number of bodies concerned with societal issues, including the Industrial Federation for Human Rights (Tokyo), the Business Ethics Research Center (Japan), the Institute of Business Ethics (U.K.), the ILO/United Nations Global Compact Child Labor Platform, the Eliminating Child Labor in Tobacco Growing Foundation, and the CEB Compliance & Ethics Leadership Council.

Trade and business associations

In general, we are members of national industry and business associations in the countries where we operate as well as being members of regional and international organizations that represent the interests of the sectors in which we work. These include, but are not limited to, KEIDANREN (Japan Business Federation), Tobacco Institute of Japan (TIOJ), Confederation

of European Community Cigarette Manufacturers (CECCM), European Cigar Manufacturers Association (ECMA), Japan Pharmaceutical Manufacturers Association (JPMA), Japan Soft Drink Association, Japan Frozen Food Association, and Japan-EU Business Dialogue Round Table.



Engaging with governments and regulators

We believe that appropriate and proportionate regulation of the tobacco sector is both necessary and right. All tobacco regulation should be evidence-based, practical, enforceable, and competitively neutral.

Open and transparent engagement

We have a right – and an obligation – to express our point of view regarding regulation that affects our business and products. Like other businesses, we actively seek open and transparent dialogue with governmental authorities, regulators, decision-makers, and opinion-formers around the world. If we see an issue or oversight within a government's proposed course of action, we offer alternative solutions wherever possible.

We believe that transparency and stakeholder participation are critical to ensuring that the resulting regulation is effective, proportionate, and meaningful. Open and honest engagement results in better and more informed regulation and is in the best interests of all relevant parties. We are opposed, therefore, to any efforts to exclude the tobacco industry from regulatory engagement. Political stakeholders and policy-makers should be independently minded and consider the merits of our position, as well as those of other legitimate stakeholders, before making any policy decisions.

Responsible engagement

We have certain responsibilities when we are consulted by governments or take part in consultation processes. Among these are:

- To be open and transparent in our dialogue with authorities
- To be respectful of each country's decision-making process
- To offer alternative solutions, whenever possible, that meet the principles of better regulation if issue is taken with a government's proposed course of action
- To provide credible evidence substantiating our positions and arguments

Within our international tobacco business, we have clear guidelines for political engagement and an anti-bribery policy that is embedded within our Code of Conduct (see page 23). We comply with all applicable requirements pertaining our relationship with governments, for example with the U.K. Bribery Act and the EU Transparency Register. For more information regarding our position and views on the regulation of tobacco products, see www.jti.com.

Identifying our material issues

Due to its international reach and exposure to a range of sustainability risks, we undertook a first-phase materiality assessment for our international tobacco business in 2013. As part of this process, we engaged with internal and external stakeholders to gather feedback on the JT Group's 2013 CSR Report. A benchmarking exercise against peers and competitors, and a media analysis were also carried out.

External stakeholders were identified based on their relevance to the tobacco industry as well as the nature and scale of their relationship with us. These included suppliers, NGOs, and academics.

Internal stakeholders were identified based on their relevance to the JT Group's strategic approach to sustainability and the sustainability reporting process. These included senior management across the international tobacco business from divisions including Human Resources; Regulatory Affairs; Corporate Strategy; Global Leaf; Global Supply Chain; and Environment, Health and Safety.

The outcome of the engagement was a materiality matrix (see below), which was reviewed and validated by senior management. Our approach to managing these material issues and, where relevant, our performance is provided in this report. Our materiality process is ongoing and we plan to expand it to better cover all of our business operations in the future.

Issues material to our pharmaceutical, beverage and processed food businesses were selected for reporting based on peer benchmarking and an internal prioritization exercise.

Materiality matrix for the JT Group international tobacco business



Performance highlights

11.5%

Decrease in total Scope 1 and Scope 2 greenhouse gas (GHG) emissions since 2009

3,071

Children withdrawn or prevented from child labor

51,563

Number of permanent employees

9,130

Number of temporary employees

57.1 billion Yen

R&D spend globally



24.9%

Female workforce

446

Number of new suppliers certified to Know Your Supplier (KYS)

0.73 tons per million cigarettes equivalent

GHG emissions intensity

100%

ISO 22000 certified frozen food factories

96.1%

Participation in Employee Engagement Survey in Japan



7,780 million Yen

global expenditure on community investment and corporate citizenship programs