
Message from our CEO

A sustainable society

Global affairs and regulations continued to evolve rapidly in 2018.

Reduced-Risk Products meanwhile have shown strong growth over the last few years and we have witnessed a surge in this new category.

Although the risks surrounding our business have increased, new opportunities have emerged, as the tobacco industry goes through a period of significant transformation.

In the meantime, we have seen major societal and business shifts towards sustainability around the world. Corporations are showing greater awareness for environmental issues triggered by climate change, a greater respect for human rights that extends to a corporation's supply chain, and a sustained uptake in Environmental Social and Governance (ESG) initiatives. Society now expects corporations to be proactive about creating a sustainable and inclusive future.

Sustainability at our Group

Our management principles and our approach to sustainability are governed by our 4S model, under which we strive to fulfill our responsibilities to our valued consumers, shareholders, employees, and the wider society, carefully considering the respective interests of these four key stakeholders, and exceeding their expectations wherever we can. We engage with our stakeholders and work on our sustainability issues to fulfill our responsibility as a member of society. The JT Group prioritizes investments in its business: we invest in our products and services, our production facilities, in innovation, our people, and, at times, through acquisitions. These investments enable our business to create value, which is distributed to our stakeholders in a balanced manner. Our ethos is to grow together, in a viable fashion.

With sustainability at the heart of our management, early 2019 saw a reorganization of our organizational structure. We created a Sustainability Management

Division at the JT Group head office in Tokyo, and appointed a dedicated Senior Vice President for Sustainability. This reflected our focus in 2018 as our sustainability strategy was formulated.

We outlined three 'absolute requirements' for sustainability, which apply to the whole Group: Respect for Human Rights, An Improved Social and Environmental Impact and Good Governance and Business Standards. Our core business, tobacco, has already set out its four focus areas, and each remaining business division will establish its own focus areas. Our pharmaceutical division and processed food business are currently defining their own approaches. Both our sustainability strategy and the philosophy of our 4S model is perfectly aligned with the objectives of the United Nations' Sustainable Development Goals (SDGs) which seek to achieve 17 global goals, for the realization of sustainable and inclusive society.



The JT Group's Sustainability Strategy

Let's look at our sustainability strategy in more detail. Our Group strategy is based on three absolute requirements for sustainability: 'Respect for Human Rights', 'An Improved Social and Environmental Impact', and 'Good Governance and Business Standards'.



RESPECT FOR HUMAN RIGHTS continues to be a priority for our Company. We have been building upon an important step forward we made in 2016, when we set out the JT Group Human Rights Policy. A Group-wide e-learning module enabled employees to gain a better understanding of this subject. We then initiated our human rights due diligence process, an ongoing management procedure for assessing human rights impacts, acting on the findings, tracking responses, and communicating our progress. We continue to work hard to embed this process into our organization's Plan-Do-Check-Action (PDCA) cycle.



IMPROVING OUR ENVIRONMENTAL IMPACT is critically important, as we seek to manage our business while simultaneously protecting the environment. The greenhouse gas (GHG) reduction target within our current plan, the 'JT Group Long-Term Environment Plan 2020' was achieved in 2017, three years ahead of target. Beyond 2020, we have set out a new plan, the 'JT Group Environment Plan 2030'. This outlines clear objectives for energy and emissions, natural resources (water and forestry), and waste. We will continue to engage with stakeholders such as CDP and have set and obtained approval for Science Based Targets for reducing our GHG emissions as well as employing scenario analysis. All this is to better understand the impact of climate change on our business and to integrate these findings into our organizational structure.

To serve the needs of society in the areas in which we operate, we consider **IMPROVING OUR SOCIAL IMPACT** to be an integral part of the JT Group's sustainability strategy. We specifically target three areas: reducing inequalities, improving community resilience, and protecting the environment. By offering volunteering opportunities to our employees, we can help make communities more sustainable and inclusive.



GOOD GOVERNANCE AND BUSINESS STANDARDS is a priority for the JT Group management as we seek to continuously improve our framework for corporate governance. To enforce our supervisory function and improve the transparency of our business, in March 2019 we welcomed one additional new external director, and one additional new external auditor and supervisory board member. An advisory panel on nomination and compensation* was also established, comprised mostly of external directors. These initiatives will help us to ensure transparent, fair, timely and effective decision-making.

Sustainability within our tobacco business

Our tobacco business has set out four focus areas for its sustainability strategy. These are 'Products and Services', 'People', 'Supply Chain' and 'Regulatory Environment and Illegal Trade'.

Within '**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. Specifically, we will lead in providing the widest range of consumer choice in the Reduced-Risk Products category.

Employees are one of the key stakeholders of our 4S model and investing in **PEOPLE** lies at the heart of what we do. Our efforts in this area have been recognized by a number of external institutions. Our Japanese operations was certified for a third consecutive year as an 'Outstanding Company in Health and Productivity Management 2019 White 500', a program that recognizes large companies that strategically engage in improving employee well-being. We were also recognized as a 'Nadeshiko Brand 2019' for our initiatives in encouraging women's empowerment in the workplace. I am also pleased to announce that our international tobacco business was certified as a Global Top Employer in 53 countries around the world, and a Global Top Employer for the fifth consecutive year.

Sourcing a sustainable supply of quality tobacco leaf at an optimum cost is essential for the sustainability of our business. In 2018, our Agricultural Labor Practice (ALP) program, the core program for managing our leaf **SUPPLY CHAIN**, showed solid progress: 96% of our directly contracted growers were observed against ALP, while 96% of our leaf merchants reported on ALP. Through ARISE (Achieving Reduction of Child Labor in Support of Education), we continued to tackle issues fundamental to eliminating child labor in our leaf supply chain.

The **REGULATORY ENVIRONMENT** surrounding the tobacco industry is becoming increasingly challenging; the way in which we operate in this heavily regulated environment is a key concern to our business. We will ensure that the Company is included in policymaking leading to fair and balanced regulation which meets societal concerns and supports business growth.

ILLEGAL TRADE is another factor that can seriously affect the sustainability of our business. We work hard to combat all kinds of illegal trade and will continue to engage in dialogue with law enforcement agencies to help reduce the presence of illegal tobacco products around the world.



Working towards a sustainable future

Sustainability calls for our management to have a broad long-term perspective, and to ensure the business continues to create value, thus ensuring the sustainability of our business and of society, over the long term. If all corporations make similar efforts, our society can grow and flourish. With the full rollout of our sustainability strategy, the JT Group is moving into a new phase. Our Group will act as one, and together with our stakeholders, we will jointly move towards sustainable growth.

Masamichi Terabatake,
President and Chief Executive Officer, Japan Tobacco Inc.

* The Advisory Panel on Nomination and Compensation is a voluntary advisory body to the Board of Directors, which was newly established on March 20, 2019 by merging the functions of the existing Meeting for Talent Development and the Compensation Advisory Panel.

Our year in brief

REDUCED-RISK PRODUCTS

We expanded our Reduced-Risk Products portfolio to provide consumers with greater choice:

E-Vapor LOGIC COMPACT LAUNCHED IN THE U.K.

T-Vapor PLOOM TECH+ AND PLOOM S LAUNCHED IN JAPAN (JANUARY 2019)

+100
BILLION YEN

We are investing 100 billion Yen in Reduced-Risk Product development between 2018 and 2020.



ANTI-ILLCIT TRADE

We provided information to law enforcement that led to:

+39 COUNTERFEIT TOBACCO FACTORIES AND STORAGE LOCATIONS RAIDED

+2.7 BILLION ILLEGAL CIGARETTES SEIZED



ENVIRONMENT

We created the **JT GROUP ENVIRONMENT PLAN 2030**. The scope extends beyond our own operations.

Our GHG emission reduction targets were approved by the Science Based Targets initiative (February 2019).

31% OF ELECTRICITY IN OUR INTERNATIONAL FACTORIES WAS EITHER PURCHASED OR GENERATED FROM RENEWABLE SOURCES.



HUMAN RIGHTS

5 HUMAN RIGHTS IMPACT ASSESSMENTS

We completed 5 Human Rights Impact Assessments in high-risk markets.



AGRICULTURAL LABOR PRACTICES

96% OF OUR DIRECTLY CONTRACTED LEAF GROWERS WERE OBSERVED BY LEAF PRODUCTION TECHNICIANS

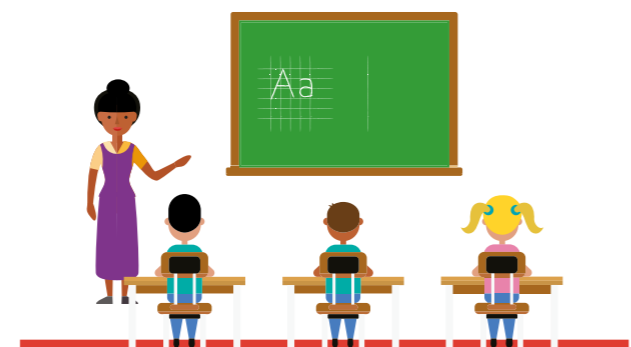
96% OF OUR LEAF MERCHANTS REPORTED ON ALP



ARISE

Achieving Reduction of Child Labor In Support of Education

7,123 CHILDREN OFF FARMS AND INTO SCHOOLS THROUGH THE ARISE PROGRAM



HUMAN RESOURCES

Our international tobacco business was certified as a **GLOBAL TOP EMPLOYER** for the 5th consecutive year.

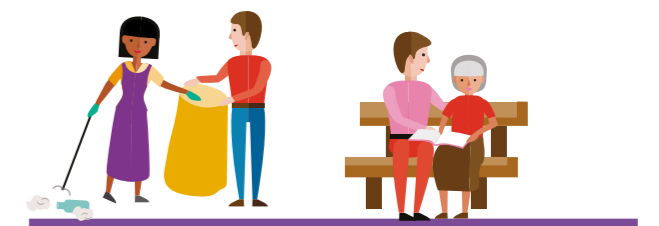
We were certified as Top Employer by the Top Employers Institute in 53 countries around the world.



COMMUNITY INVESTMENT

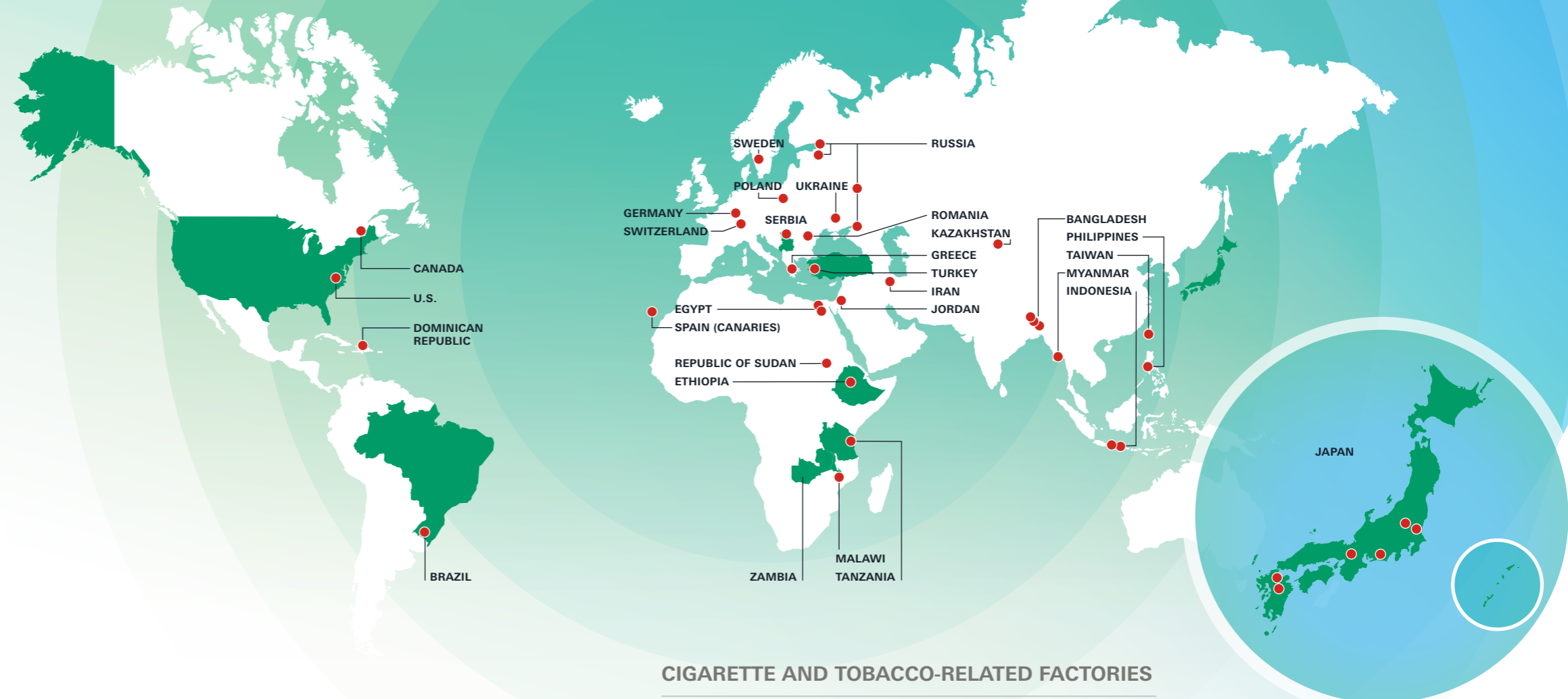
9,986 EMPLOYEES VOLUNTEERED 25,429 HOURS ON COMPANY TIME

4,694 EMPLOYEES SPENT 23,493 HOURS OF THEIR OWN TIME TAKING PART IN VOLUNTEERING ACTIVITIES ORGANIZED BY THE COMPANY



Corporate profile

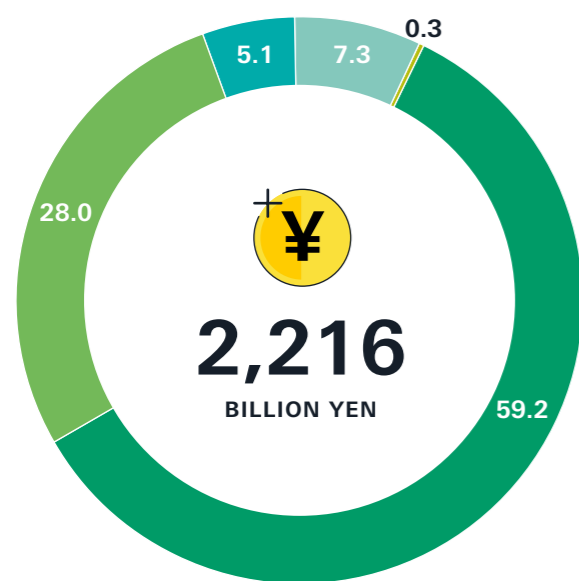
We are one of the world's leading tobacco companies, with offices and factories in more than 70 countries and regions, and products sold in more than 130 countries and regions. Headquartered in Tokyo, Japan Tobacco Inc. (TSE:2914) is listed on the Tokyo Stock Exchange. We also operate pharmaceutical and processed food businesses.



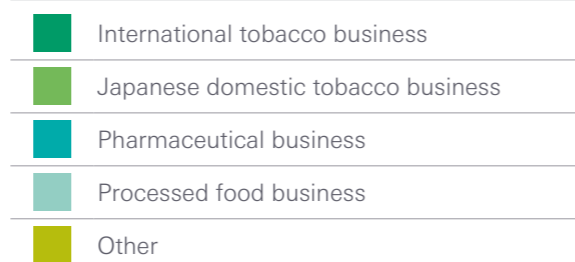
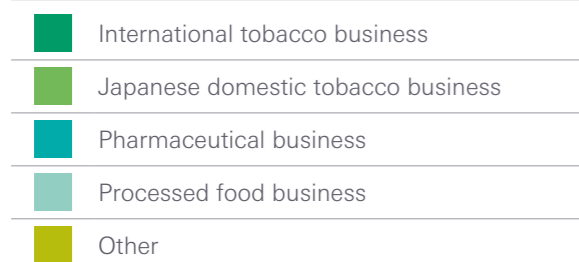
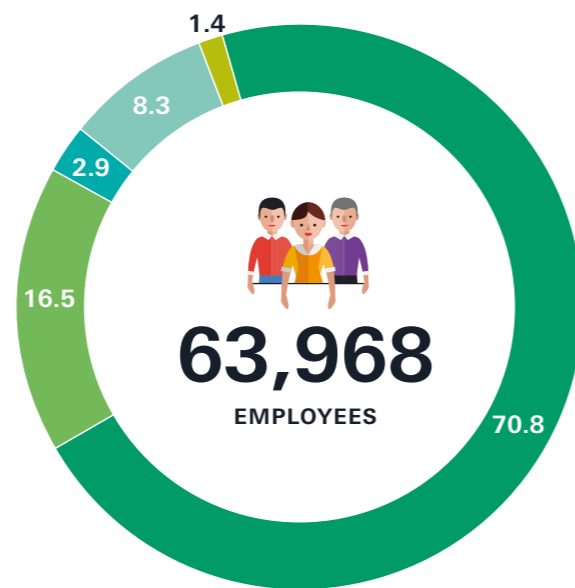
CIGARETTE AND TOBACCO-RELATED FACTORIES

● International	35
● Japanese domestic	6
TOTAL	41
■ Countries in which we directly source tobacco	9

TOTAL REVENUE IN 2018 (%)



NUMBER OF EMPLOYEES IN 2018 (%)



Our businesses

INTERNATIONAL TOBACCO

Our international tobacco business is headquartered in Geneva, Switzerland. We manufacture and sell ready-made cigarettes, fine cut, cigars, pipe tobacco, snus and kretek, water pipe tobacco, and Reduced-Risk Products.

Our main markets include France, Italy, Russia, Spain, Taiwan, Turkey, and the U.K.

The portfolio includes leading brands in cigarettes and fine cut, such as Winston, Mevius, Camel, and LD, as well as in Reduced-Risk Products, such as Ploom and Logic.

PHARMACEUTICALS

Our pharmaceutical business focuses on the research, development, production, and sales promotion activities of prescription drugs, based on three therapeutic areas: metabolic diseases, autoimmune/inflammatory and viral infections.

JAPANESE DOMESTIC TOBACCO

Our Japanese domestic tobacco business is headquartered in Tokyo, Japan, and manufacturing and sales are largely focused on the Japanese market. We are the market leader in Japan, which is one of the largest markets in the world.

Our Japanese portfolio includes key brands such as Winston, Mevius, Seven Stars, and Natural American Spirit as well as Ploom TECH for Reduced-Risk Products.

PROCESSED FOOD

Our processed food business manufactures and sells goods such as frozen noodles, frozen and packed cooked rice, frozen baked bread, pastries, and seasonings.