

Company Registration No. 1501573

Gallaher Limited

Report and Financial Statements

31 December 2014

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Gallaher Limited

Report and financial statements 2014

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Gallaher Limited

Report and financial statements 2014

Officers and professional advisers

Directors

Daniel Torras	<i>(appointed 1 February 2014)</i>
John Colton	
Jason Melling	
Robert Bisailon	
Charlie Cunningham-Reid	<i>(appointed 1 April 2015)</i>
Andrew Stevens	<i>(appointed 16 September 2014)</i>
Olivier Chimits	<i>(appointed 16 September 2014)</i>
Paul Williams	<i>(resigned 31 March 2015)</i>
Jorge da Motta	<i>(resigned 31 January 2014)</i>
Igor Dzaja	<i>(resigned 18 October 2014)</i>
Hubertus Ooms	<i>(resigned 16 September 2014)</i>

Secretary

Nicholas Craig	<i>(appointed 12 May 2015)</i>
Peter Ogden	<i>(resigned 12 May 2015)</i>

Registered Office

Members Hill
Brooklands Road
Weybridge
Surrey
KT13 0QU

Solicitors

Slaughter and May
Freshfields Bruckhaus Deringer LLP

Auditor

Deloitte LLP
Chartered Accountants and Statutory Auditor
London
United Kingdom

Gallaher Limited

Strategic report

Principal activities

The strategy of Gallaher Limited ("the Company" or "Gallaher") continues to be the manufacture, marketing and selling of tobacco products. The Company sells its products in its domestic market, including duty free outlets ("UK") and overseas markets ("International"). The Company also acts as an investment holding company.

Gallaher's parent company is Japan Tobacco Inc ("JT"). JT is an international manufacturer of tobacco products, headquartered in Tokyo, Japan. The Company's operations are integrated into the non-domestic tobacco business of JT, namely Japan Tobacco International ("JTI"), headquartered in Geneva, Switzerland.

Overview of the business

The Company's business activities are focused on selected geographical markets, notably the UK (both duty paid and duty free), the Republic of Ireland and CIS territories (mainly Russia, Kazakhstan and Ukraine). In the UK market the Company acts as a limited risk distributor and consignment manufacturer under contractual arrangements entered into with the brand owner, JTI International SA ("JTI SA"), while the Company undertakes its activities on its own account for brands it owns. Gallaher Limited is the sole distributor of JTI products for UK customers. In overseas territories, the Company's revenues principally derive from royalty income.

Gallaher Limited's management, administration and marketing functions are based at its head office in Weybridge, Surrey. Manufacturing and research & development facilities are located in Lisnafillan, Northern Ireland. The Company operates a National Distribution Centre in Crewe. Sales teams are located and work all across the UK.

Exceptional item

In October 2014, Gallaher received confirmation from JTI SA that it was proposing to cease sourcing products from the Company and that, if implemented, this proposal would lead to a reduction in volumes under the consignment manufacturing agreement and ultimately termination of that agreement. Following this confirmation, the Company reviewed the viability of retaining its manufacturing facilities for the production of its own brands and the directors also assessed the likelihood of securing alternative sources of contract manufacturing volumes. Following the outcome of this study, the Company announced a consultation on closing its site at Lisnafillan. Employees, works councils and trade unions were informed. The consultation process concluded in the first quarter of 2015.

An exceptional charge amounting to £51m has been recognised in the financial statements for the year-ended 31 December 2014. Under the terms of the consignment manufacture agreement and other contractual arrangements in place between the two companies, JTI SA is liable to settle certain severance and outplacement costs in respect of factory personnel. Further details of the charge are set out in note 5 to the financial statements.

The closure reflects declining volumes of tobacco product sales in European markets, impacted by tough economic conditions, increasing regulation and excise duty rates, as well as growth in illicit trade.

Production of tobacco products at Lisnafillan is anticipated to cease by the beginning of 2017. Thereafter, Gallaher will no longer act as consignment manufacturer for JTI SA and consequently will cease to earn the margin that it currently generates on the recharge of factory conversion costs to JTI SA.

Following the closure of its manufacturing facilities, Gallaher will continue to source its products from other European factories within the JTI group.

Key performance indicators

The Company's key performance indicators are UK market share and both UK and International operating profit before exceptional items and exchange gains/(losses). These indicators are included within the relevant sections of this Strategic Report.

UK market size and share

The Company estimates that the UK duty paid cigarette market contracted by 6.5% in 2014 as a consequence of continuing economic pressure and tax-led price increases, with the UK duty paid Roll Your Own ("RYO") market declining by 0.8%.

In 2014, the incidence of non-UK duty paid products is estimated at 14.5% of ready-made cigarette consumption (2013 13.5%) and 46% of RYO tobacco consumption (2013 48%). Down-trading continued to accelerate in an increasingly price sensitive market, with the value segment now representing 49% (2013 41%) of the ready-made cigarette market. RYO tobacco, although having declined slightly in volume, now represents 31.5% (2013 30.4%) of the combined cigarettes and RYO market.

Gallaher Limited

Strategic report

The Company's estimated cigarette market share, measured by Nielsen, was 40.7% (2013 40.6%), for RYO products 42.5% (2013 40.8%) and for combined cigarettes and RYO 41.3% (2013 40.7%)

Regulatory environment

Plain packaging

The Standardised Packaging of Tobacco Products Regulations 2015 were made into law on March 19, 2015. The Regulations require that RMC and RYO products are sold in plain packaging. The Regulations do not apply to the supply before May 21, 2017 of products produced before May 20, 2016. This means that retailers will have a one year sell through period. JTI and the other tobacco manufacturers have issued judicial review proceedings against the UK Government in response to the legislation and a Court Hearing is listed for six days commencing December 10, 2015.

Minimum Excise Tax

On 26 August 2014 HM Treasury published a consultation on Minimum Excise Tax (MET). The consultation document outlined that a recent trend in the cigarette market has been the significant growth of the cheapest cigarette category, a development which if indicative of a market shift towards cheaper cigarettes, could present a risk to the effectiveness of tobacco policy. The Government's consultation was a first step towards assessing whether a MET could help reduce this risk.

The consultation closed on 15 October 2014. During the Summer Budget in July 2015, the Chancellor made no reference to the consultation and we still await the Government's official response.

Tobacco Levy

On 10 December HM Treasury launched a consultation on a tobacco levy, seeking views on the potential design of a levy on tobacco manufacturers and importers and possible wider impacts. As part of the Summer Budget in July 2015, HM Treasury confirmed that the Government would not be introducing a levy on tobacco manufacturers and importers, and stated that analysis of responses received to the consultation showed the impact of a levy on the tobacco market would be similar to a duty rise, with tobacco manufacturers and importers passing the levy onto consumers.

Tobacco display ban

The tobacco display ban came into force in large shops (defined as having a selling area of more than 280 square metres) in England, Wales and Northern Ireland on 6 April 2012. On 29 April 2013, the display ban came into force in large shops in Scotland, in addition to the ban on sales from vending machines (the latter of which had also already been implemented in England, Wales and Northern Ireland). The tobacco display ban came into force for all remaining stores in England, Wales, Northern Ireland and Scotland on 6 April 2015.

The size of display allowed while serving customers or carrying out the other authorised activities in England, Wales and Northern Ireland is 1.5 square metres, for shops in Scotland, the permitted size of display is 1,000 square centimetres.

EU Tobacco Products Directive

On 29 April 2014, the revised EU Tobacco Products Directive (or 'TPD2') was published in the Official Journal of the European Union. The UK is expected to transpose the Directive into national law in April 2016. The Government has consulted on aspects of the Directive for which options are available. The consultation closed on 3 September 2015. After responses have been considered, it is anticipated that final regulations will be published in Q4 2015, however shorter consultations will be necessary on further secondary legislation still being worked on by the EU (e.g. track & trace regulations).

Non-compliant product will not be allowed to be manufactured in the UK after 20 May 2016. The UK sell-through deadline for existing products is 21 May 2017.

Smoking in cars

The Children and Families Act 2014 gave authority to the Secretary of State to introduce regulations to ban smoking in cars with anyone under 18 present. Regulations were passed by Parliament in February 2015 and come into effect on 1 October 2015.

Gallaher Limited

Strategic report

Proxy purchasing of tobacco

The Children and Families Act 2014 makes it an offence for a person aged 18 or over to buy, or attempt to buy, tobacco or cigarette papers on behalf of a person under the age of 18. The Nicotine Inhaling Products (Age of Sale and Proxy Purchasing) Regulations 2015, which were made into law on 25 March 2015, extended the offence to nicotine inhaling products (including e-cigarettes).

E-cigarettes age of sale restriction

The Nicotine Inhaling Products (Age of Sale and Proxy Purchasing) Regulations 2015 prohibit the sale of nicotine inhaling products (including e-cigarettes) to persons aged under 18. These regulations come into force on 1 October 2015.

Anti-forestalling

As part of the 2014 Budget the Government announced its intention to consult on options designed to tighten existing tobacco anti-forestalling controls. On 23 June 2014 HM Revenue & Customs launched an informal consultation with all affected tobacco businesses. The consultation asked several questions on potential controls for change to the current anti-forestalling restrictions on cigarettes. The Company submitted a response to the consultation, which closed on 4 August 2014.

On 3 December 2014 the Government published draft legislation for the Finance Bill 2015, which incorporated draft tobacco duty anti-forestalling restrictions legislation. To ensure the legislation would work as intended, the Government also launched a technical consultation on the draft legislation. The Company submitted a response to this consultation on 3 February 2015.

In the Budget 2015, the Government confirmed it “will be introducing measures to tighten tobacco anti-forestalling rules and apply penalties for non-compliance, in order to prevent tax avoidance. The measures will apply to forestalling behaviour ahead of Budget 2016 and beyond.”

The new anti-forestalling legislation was subsequently introduced in the Finance Act 2015 and the revised anti-forestalling notice explaining the restrictions on the number of cigarettes that can be removed for home-use in the period before Budget 2016 was published on 31 July 2015.

Raw Tobacco

On 20 October 2014 HM Revenue & Customs published a consultation on the Control of Raw Tobacco, to which the Company submitted a formal response. The Government has decided to introduce controls on the holding and movement of raw tobacco in order to reduce the risk of evasion of excise duty and the use of raw tobacco in illegal manufacture and sale. In the Budget 2015, the Government confirmed it would be introducing a registration scheme for users and dealers of raw tobacco before the end of 2016 in order to prevent raw tobacco being diverted into the illegal market. A further technical consultation in the latter part of 2015 is anticipated, before implementation.

The Company continues to closely monitor all changes in the regulatory environment and any potential impacts, and management have processes in place to address them in a manner consistent with local law and Group policy.

Gallaher Limited

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Financial performance

Operating profit

Operating profit in 2014 decreased by 23% to £133m (2013 £173m) Excluding exceptional charges of £51m (2013 £nil) and exchange gains of £10m (2013 losses of £2m), underlying operating profit from trading activities was broadly level at £174m (2013 £175m) The trading performance of the Company's two business segments, 'UK' and 'International', are set out below

UK

UK turnover increased by 0.7% to £4,802m (2013 £4,766m) largely reflecting price and excise duty increases in the domestic market Overall volume shipments declined by around 3.7% Within this volume decline, sales mix was adverse, higher sales of value cigarettes and roll-your-own tobacco being more than offset by volume declines in the premium, sub-premium and mid-price cigarette sectors, together with cigar and pipe, reflecting continued down-trading by consumers

UK operating profit amounted to £153m (2013 £152m) Profit attributable to Gallaher's own brands was down £9m, higher pricing being more than offset by the impact of year-on-year volume declines Marketing investment behind Gallaher's brands was comparable with that in 2013 The profit earned on JTI SA distributed brands decreased by £7m, reflecting lower contractual margin rates for JTI SA brands, coupled with adverse volume and mix, partly mitigated by higher pricing Within cost of sales, factory charges were £4m favourable, reflecting plant impairments and inventory write-offs in the prior year In 2013, the Company recognised a past service cost of £8m associated with a historical pensions rescheduling issue Other operating expenditure decreased by £5m compared to 2013 due to a combination of lower headcount related overheads and reduced media, government relations and IT expenditure

International

International turnover decreased by 10% to £28m (2013 £31m) The decrease was driven by lower royalties from CIS territories, reflecting adverse exchange rates and lower sales volumes, and the cessation of a contract manufacturing arrangement during the previous year

International operating profit of £21m was £2m (6%) lower than the previous year, reflecting the lower sales (£3m), partly offset by lower research & development expenditure behind new product lines in CIS markets and favourable trademark related expenditure (£1m)

Exchange gains/losses

Net exchange gains recognised during the year amounted to £10m (2013 net losses of £2m) Currency exposure relates to on-going trading activity and the Company's Euro denominated preference shares (note 13) Revaluation gains on the preference shares amounted to £10m in 2014 (2013 losses of £2m)

Exceptional item

An exceptional item amounting to £51m has been booked within operating profit for the year ended 31 December 2014 (2013 £nil) This charge relates to the Company's announced closure of its manufacturing and research & development facilities in Lisnafillan, Northern Ireland Further details of the exceptional item are set out in the Strategic Report (page 2) and in note 5 to the financial statements

Profits on disposal of subsidiaries, dividend income, interest and tax

Profit on disposal of subsidiary undertakings of £3m during the year relates to the sale of two captive insurance subsidiaries, The Galleon Insurance Company Limited and The Schooner Insurance Company Limited (note 10) Prior to the sales, the Company received gross dividends from these subsidiaries amounting to £4m (2013 £1m)

Net interest and financing charges amounted to £5m (2013 £14m) This decrease is driven by lower net interest paid due to the repayment in April 2014 of a €494.05m intra-group loan which bore interest at a comparatively high historic fixed rate (see note 14) and the impact of positive cash flows from trading activities. These factors have been partly offset by lower variable rates of interest earned on intra-group deposits and loan receivables and the full-year impact of the payment of a £2,000m ordinary dividend by the Company to the shareholder in October 2013

Net retirement benefit financing credits amounted to £7m (2013 net charge of £2m), the favourable movement being driven by a higher expected rate of return on pension scheme assets

Gallaher Limited

Strategic report

The Company's tax charge on its profits for the year amounted to £72m. An analysis of the charge together with a reconciliation to the UK statutory rate of corporation tax is presented in note 8.

As a result of the above factors, the Company's reported profit for the year was £70m (2013: £125m).

Net assets

The Company's net assets at 31 December 2014 were £25m lower than at 31 December 2013. Profit for the year amounted to £70m, while actuarial losses of £45m (after tax) related to the Company's retirement benefit plans were charged in the statement of total recognised gains and losses. In March 2014, the Company declared and paid an ordinary dividend of £50m to the shareholder, Benson & Hedges Limited.

Cash flow

Management's internal measure of "net cash" comprises bank balances and intra-group liquid deposits and loan receivables, less bank overdrafts and intra-group loan payables. Net cash at 31 December 2014 amounted to £1,206m, up from £1,155m at 31 December 2013. The increase of £51m was due to £101m of net cash generated by the business during the year, partly offset by the payment of a £50m ordinary dividend to the shareholder in March 2014.

Risks and uncertainties

This principal risk and uncertainties section provides an overview of those key risks affecting the business which the Company has identified as significant potential risks to the successful performance of the Company's business. It is not an exhaustive list of potential risks faced by the Company and should not be relied upon as such.

The principal risks and uncertainties that affect the Company include financial risk, regulatory risk and commercial risk.

Financial risks Financial risks include interest rate risk, liquidity risk, foreign currency risk and credit risk. Further information on financial risk management is contained in note 14 to these financial statements.

Regulatory risk The tobacco market is subject to significant regulatory influence from government and other regulatory authorities (see pages 3 and 4 of this Strategic Report). Adverse regulatory development could have an impact on sales and profits. This risk is closely monitored and the management is fully aware of the regulatory issues material to their operating environment and have processes in place to address them in a manner consistent with local law and Group policy.

Commercial risk The Company primarily operates in the UK market, which is highly competitive. The Company's comprehensive brand portfolio enables the Company to appeal to different market segments in order for the Company to maximise sales and profits.

Pension and retirement healthcare benefit plans The directors are aware that the Company's obligations relating to its pension and retirement healthcare benefit plans are accounted for using methods that rely on actuarial estimates and best-estimate assumptions that arrive at costs and liabilities for inclusion in the accounts. The Company takes advice from independent actuaries as to the appropriateness of the assumptions used and these estimates and associated assumptions are based on past experience and other factors considered applicable at the time. Any minor changes in the assumptions can have a significant effect on the Company's financial statements. These estimates and underlying assumptions are reviewed on an ongoing basis and further details can be found in note 16.

Assets held under trust by the Company's pension plans for the sole purpose to fund the Company's benefit obligations are reported in the accounts at fair market value.

Gallaher Limited

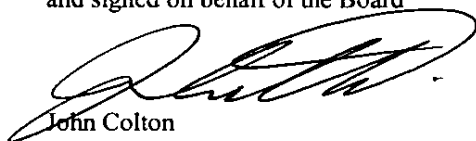
Strategic report

EU co-operation agreement

In December 2007, JTI and the European Commission ("EC") together with 26 Participating Member States of the European Union entered into a Cooperation Agreement to combat contraband products which impacts on the revenues of Member States. The multi-year Agreement includes an efficient system to fight against future cigarette smuggling and counterfeiting. Through the Agreement, JTI will work with the European Commission, its anti-fraud office OLAF, and law enforcement authorities of the Member States to help in the fight against contraband, including the problem of counterfeit cigarettes. Under the Agreement, JTI undertakes to make substantial payments to the EC over a fifteen year period and to deploy a technical solution to effectively track and trace all its products destined to any of the Participating Member States. In addition, upon notification by OLAF, JTI will pay all indirect taxes due on any seizure of smuggled product carrying its trademarks.

In 2010, JTI and Gallaher signed a cost sharing and services agreement under which the EC payments, track and trace deployment costs and taxes due to OLAF would be shared by JTI's affiliate companies, based on brand ownership. On-going track and trace project costs, which include certain modifications to the Company's factory equipment and logistics processes and the Company's share of annual EC payments, and charges received from OLAF, are included within "cost of sales".

Approved by the Board of Directors
and signed on behalf of the Board



John Colton
Director

29 September 2015

Gallaher Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2014

Results and dividends

The profit on ordinary activities after taxation is £70m (2013 profit of £125m) Ordinary dividends amounting to £50m were declared and paid to the shareholder, Benson & Hedges Limited, during the year (2013 £2,000m) A review of the Company's operating performance during the year is set out within the Strategic Report (pages 2 to 7)

Going Concern

The directors are of the opinion that the Company is a going concern and the financial statements have been prepared on that basis (see note 1)

Directors

The names of the directors, together with dates of appointment and resignation, are given on page 1 No director had any interest during the year in the shares of the Company or any subsidiary No director had any interests during the year in any material contract with the Company or any subsidiary The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report

The directors held no share options or shares in the Company

Research and development

The Company takes a positive approach to research and development Significant expenditure has taken place over the years and strenuous efforts will continue to be made to introduce new products, develop existing products and improve operational efficiency

Environmental policy

The Company has an environmental policy that commits it to ensuring that its activities are conducted in ways that comply with the law and, so far as is reasonably practicable, do not harm the environment Responsibility for compliance with the policy is vested at Board level

Donations

A total of £3,528,252 was paid during the year to UK charities (2013 £3,938,611) No political contribution was made during the year (2013 £nil)

Employee involvement

The Company depends on the skills and commitment of its employees in order to achieve its objectives Staff at every level are encouraged to make their fullest possible contribution to Gallaher's success Employees are kept regularly informed, both on matters affecting them as employees and on issues affecting the Company's performance, through information bulletins, team briefings and the Company's internal newspaper and intranet There are a number of consultative and negotiating bodies at national and divisional level

Equal opportunity policy

Gallaher has an equal opportunity policy and declaration of practice These principles are enshrined in specific selection, training, development and promotion policies They ensure that all decisions are based on merit The Company practises equality of opportunity for all employees irrespective of ethnic origin, religion, disability, political opinion, gender, marital status, age or sexual orientation

Gallaher Limited

Directors' report

Supplier payment policy

The Company applies an overall policy of agreeing and clearly communicating terms of payment as part of the commercial agreements negotiated with suppliers and then endeavours to pay for all items properly charged in accordance with these agreed terms. The Company pays creditors on a timely basis, which periods vary, according to the type of product and the territory in which the suppliers operate. The policy concerning the payment of the majority of trade creditors is to follow the CBI's Prompt Payers Code.

As at 31 December 2014 the Company's trade creditors represented 53 days of trade purchases (2013: 37 days)

Auditor

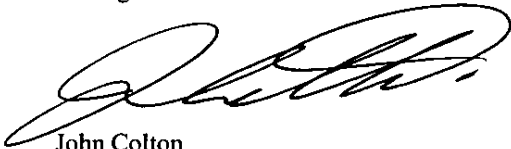
Each of the persons who is a director at the date of approval of this report confirms that

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself / herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor.

Approved by the Board of Directors
and signed on behalf of the Board



John Colton
Director

29 September 2015

Gallaher Limited

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Gallaher Limited

Independent auditor's report to the members of Gallaher Limited

We have audited the financial statements of Gallaher Limited for the year ended 31 December 2014 which comprise the profit and loss account, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds, the balance sheet and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2014 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.


Opinion on matter prescribed in the Companies Act 2006

- In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.


Anthony Morris (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

29 September 2015

Gallaher Limited

Profit and loss account Year ended 31 December 2014

	Note	2014 £m	2013 £m
Turnover	2	4,830	4,797
Duty		(3,915)	(3,935)
Exceptional item	5	(51)	-
Other cost of sales		(632)	(571)
Total cost of sales		(4,598)	(4,506)
Gross profit		232	291
Distribution, marketing and selling costs		(57)	(62)
Administrative expenses		(53)	(54)
Exchange gains/(losses)		10	(2)
Other income		1	-
Operating profit	2	133	173
Profit on disposal of subsidiary undertakings	10	3	-
Income from ordinary shares in subsidiary undertakings		4	1
Net interest and other finance charges	6	(5)	(14)
Net retirement benefit financing credits/(charges)		7	(2)
Total net interest and other finance charges		2	(16)
Profit before taxation	7	142	158
Taxation	8	(72)	(33)
Profit for the year		70	125

The turnover and profit figures above relate to continuing operations

There is no difference between the profit on ordinary activities before taxation and the profit for the year stated above and their historical cost equivalents

Gallaher Limited

Statement of total recognised gains and losses Year ended 31 December 2014

	Note	2014 £m	2013 £m
Profit on ordinary activities after taxation		70	125
Actuarial loss recognised on retirement benefits	16	(56)	(11)
Deferred tax relating to actuarial loss on retirement benefits		11	(1)
Total recognised gains for the year		25	113

Reconciliation of movements in shareholders' funds Year ended 31 December 2014

	2014 £m	2013 £m
Profit on ordinary activities after taxation	70	125
Dividends paid on ordinary equity shares	(50)	(2,000)
Retained profit/(loss) for the year	20	(1,875)
Actuarial loss recognised on retirement benefits	(56)	(11)
Deferred tax relating to actuarial loss on retirement benefits	11	(1)
Net decrease in shareholders' funds	(25)	(1,887)
Shareholders' funds at 1 January	944	2,831
Shareholders' funds at 31 December	919	944

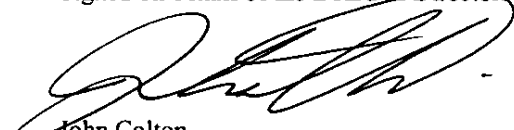
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Balance sheet 31 December 2014

	Note	2014 £m	2013 £m
Fixed assets			
Tangible fixed assets	9	121	182
Investments	10	3	6
		<u>124</u>	<u>188</u>
Current assets			
Stocks	11	97	83
Debtors amounts falling due within one year	12	1,768	2,106
Debtors amounts falling due after more than one year	12	87	4
Cash at bank and in hand		3	-
		<u>1,955</u>	<u>2,193</u>
Creditors amounts falling due within one year	13	(642)	(1,055)
Net current assets		<u>1,313</u>	<u>1,138</u>
Total assets less current liabilities		<u>1,437</u>	<u>1,326</u>
Creditors amounts falling due after more than one year	13	(433)	(405)
Provisions for liabilities	15	(89)	-
Net assets excluding net retirement benefits asset		<u>915</u>	<u>921</u>
Net retirement benefits asset	16	4	23
Net assets including net retirement benefits asset		<u>919</u>	<u>944</u>
Capital and reserves			
Called up share capital	17	50	50
Profit and loss account	18	869	894
Shareholders' funds		<u>919</u>	<u>944</u>

The financial statements of Gallaher Limited (registered number 1501573) were approved by the Board of Directors on 29 September 2015

Signed on behalf of the Board of Directors


John Colton
Director

Gallaher Limited

Notes to the accounts

Year ended 31 December 2014

1. Accounting policies

Basis of accounting

The financial statements have been prepared on the going concern basis, in accordance with the historical cost basis of accounting and accounting standards currently applicable in the United Kingdom. The Company's principal accounting policies have been applied consistently throughout the year and the preceding year.

As permitted under section 400 of the Companies Act 2006, the Company has not prepared consolidated financial statements since it is a wholly owned subsidiary undertaking of Japan Tobacco Inc., a company registered in Japan, which prepares consolidated financial statements.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 to 7. The financial risks of the Company, including its liquidity position, are described in note 14 to the Financial Statements. This includes an explanation as to how its financial risk management and exposures to liquidity risk are managed at the Group level, as well as how credit risk is managed by the Company. The directors have considered the risks to the Company's trading performance and cash flows as a result of the difficult UK and global economic environment.

The Company currently has no reliance on bank overdrafts or loans. Surplus cash balances are deposited with financing entities within the JT Group. Cash deposits at the balance sheet date remain substantial, despite the payment of a large dividend to the shareholder during the year. The liquidity risk management section in note 14 includes amounts owed to Group undertakings that the Company could legally be called upon to repay within one year of the balance sheet date. Any liabilities that do become repayable are more than covered by amounts due from Group undertakings in the same period.

The Company has been consistently profitable over the last few years, and holds the number 2 position in the UK domestic tobacco market with an estimated combined market share of over 40%. The Company's comprehensive portfolio of owned and distributed brands includes the two top selling cigarette brands in the UK, as well as the number one RYO brand and number two cigar brand.

The directors fully expect that the Company will generate sufficient profits and cash to meet all its obligations as they fall due.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Cash flow

The Company has adopted the provisions of Financial Reporting Standard No. 1 (Revised). Accordingly, a cash flow statement has not been included in these financial statements as the Company is a wholly owned subsidiary undertaking of Japan Tobacco Inc., which prepares a consolidated cash flow statement that incorporates the cash flows of the Company.

Gallaher Limited

Notes to the accounts

Year ended 31 December 2014

1. Accounting policies (continued)

Critical accounting judgment and areas of estimation uncertainty

In the process of applying the Group's accounting policies, management has made the following assumptions and judgements in respect of the retirement benefit assets recognised in the financial statements

In assessing the recoverability of the pension asset, management have calculated the present value of the liabilities expected to arise from future service of the employees (less any employee contributions) based on the year-end FRS 17 assumptions and discount rates as detailed in note 16 to the financial statements

In assessing the Company's obligations relating to retirement benefits, management has made key assumptions relating to current and future mortality, expected returns on plan assets and discount rates as detailed in note 16

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into pounds sterling at rates of exchange ruling at the balance sheet date. Gains and losses on exchange on transactions in foreign currencies are dealt with in the profit and loss account

Turnover

Turnover represents amounts charged for goods sold, services supplied and licence fees, and includes excise duties but not VAT or its equivalent. The Company recognises such turnover when the risks and rewards of ownership are transferred significantly (which is generally when goods are received by the customer), and collection of the related receivable is reasonably assured

Sales and marketing incentives paid to distributors and vendors of the Company's products are deducted from turnover. These incentives primarily comprise the following - retrospective payments made to customers for specific performance, normally targeted volume sales, ranging and stock availability, and payments to customers to support shelf price reduction in relation to promotional activity

Certain financial recharges and profit equalisation payments made in accordance with contractual arrangements between the Company and related parties, including the consignment manufacture, distribution and general services contracts with JTI SA, are not included within turnover. Such amounts are netted against the appropriate functional cost category within the profit and loss account where the initial expenditure has been recorded. The directors are of the opinion that this presentation more fairly reflects the Company's operating performance in the profit and loss account

Excise duties

Excise duties incurred by the Company are accounted for as a component of cost of sales and, accordingly, are not shown as a deduction from turnover

Exceptional items

Items that are both material in size, and unusual and infrequent in nature, are presented as exceptional items in the profit and loss account. The directors are of the opinion that the separate recording of exceptional items provides helpful information about the Company's underlying business performance. Examples of events, inter alia, which may give rise to the classification of items as exceptional include the restructuring of the business, gains and losses on the disposal of individual assets, and asset impairments

Marketing

All marketing expenditure, including that related to new brands, is charged to the profit and loss account in the year in which it is incurred

Gallaher Limited

Notes to the accounts

Year ended 31 December 2014

1. Accounting policies (continued)

Research and development

Research and development expenditure is charged to the profit and loss account as incurred

Government grants

Grants related to expenditure on tangible fixed assets are treated as deferred income and credited to profit over a period approximating to the lives of qualifying assets. Revenue based grants are credited to profit in the same period as the related expenditure.

Leases

All leases are Operating lease and expenditure is charged over the lease term on a straight-line basis.

Tangible fixed assets

Tangible assets are stated at cost less depreciation. Depreciation is calculated to write down the cost of the tangible assets to their residual value, on a straight-line basis, over their estimated useful lives, namely:

Land and buildings

Freehold land	Not depreciated
Freehold buildings	up to 50 years
Long leasehold (lease term 50 years or more)	up to 50 years

Plant and machinery	8-20 years
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Fittings and equipment (including computer hardware)	3-10 years
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Assets in the course of construction	Not depreciated
--------------------------------------	-----------------

Assets in the course of construction relate mainly to new premises under construction and deposits paid in respect of the installation of certain plant and machinery. Depreciation commences when these assets become operational.

Stocks

Stocks comprise consumables (principally machine spare parts) and finished goods. The Company converts raw materials owned and supplied by JTI SA into finished goods under a consignment manufacturer contract. The purchase of finished goods by the Company from JTI SA takes place "ex-factory" at agreed transfer prices, which equate to the cost of manufacture, including all direct expenditure and production overheads based on the normal level of activity, plus an incremental margin which is set out in the distribution contract entered into between the parties. Finished goods include excise duty where the liability has crystallised. Stocks are valued at the lower of cost and net realisable value. Provision is made for obsolete, slow-moving or defective items where appropriate.

Current taxation

Current taxation, including UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

The Company recognises provisions in respect of uncertain tax positions whereby additional current tax may become payable in future periods. The recognition of provisions for uncertain tax positions and the classification as current or non-current liabilities is based upon management's assessment of the likely outcome (and timing thereof) of issues associated with assumed timing differences and interest that may be applied, including the possible disallowance of tax credits and penalties. Provisions for uncertain tax positions are reviewed regularly and adjusted to reflect events such as the expiry of limitation periods for assessing tax, administrative guidance given by the tax authorities and court decisions.

Gallaher Limited

Notes to the accounts

Year ended 31 December 2014

1. Accounting policies (continued)

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future, have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results, as stated in the financial statements, that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Pensions and retirement healthcare benefits

Pension and retirement healthcare benefits are accounted for in accordance with FRS 17 (Retirement Benefits). The regular cost of providing the retirement benefits to employees during the year and the full cost of providing amendments to those benefits in respect of past service are charged to operating profit. A credit representing the expected return on assets held by the Company's pension plans is included within net interest. This expected return is based on the fair market value of those assets at the start of the financial year. An interest cost is also included within net interest. This interest cost is the expected increase during the period in the present value of the Company's benefit obligations because the benefits are one period closer to settlement. Differences between actual and expected returns on assets are recognised in the statement of total realised gains and losses, together with differences arising from changes in actuarial assumptions. The difference between the fair market value of the assets held in the Company's pension plans and the present value of the Company's benefit obligations is shown as an asset or liability on the balance sheet, net of deferred tax where appropriate.

In addition, annual contributions paid by the Company into its sponsored defined contribution plans are charged to the profit and loss account on a cash basis.

Financial instruments

Financial instruments are reported and measured in accordance with FRS 25, FRS 26 and FRS 29. Financial instruments comprise non-derivative financial assets and liabilities and derivative financial instruments.

Non-derivative financial assets are classified as fixed asset investments, debtors or cash.

The Company uses derivative financial instruments to hedge exposure to foreign exchange risks arising from financing activities and to hedge exposure to interest rate risks arising from financing and investing activities. In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes. Further details of derivative financial instruments are disclosed in note 14 to the financial statements.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The fair value of the derivatives is classified as a non-current asset or non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months.

Gallaher Limited

Notes to the accounts Year ended 31 December 2014

1. Accounting policies (continued)

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit and loss immediately, together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedge items attributable to the hedged risk are recognised in the line of the income statement relating to the hedged items.

Hedge accounting is discontinued when the Company revokes the hedging relationship, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged items arising from the hedged risk is amortised to the profit or loss from that date.

Derivative financial instruments are separately recognised at fair value in the financial statements. Changes in the fair value of derivative financial instruments are recognised immediately in the profit and loss account.

The Company does not have any derivative embedded in any other financial instruments or other host contracts.

Fixed asset investments

Fixed asset investments are carried at cost less amortisation and/or provision for impairment, where appropriate.

Trade and other debtors

Trade debtors and other debtors are measured at amortised cost using the effective interest method less impairment.

Cash

Cash includes cash in hand, deposits held on call with banks and interest receivable on money market deposits. Interest income is recognised by applying the effective interest rate.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the underlying contractual arrangements.

Trade and other creditors

Trade and other creditors are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Borrowings

Interest-bearing loans and bank overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis to the profit and loss account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. All other borrowing costs are recognised in the profit and loss account in the period in which they are incurred.

Bank overdrafts are included within current liabilities on the balance sheet.

Provisions

A provision is recognised when either a legal or constructive obligation as a result of a past event exists at the balance sheet date, it is probable that an outflow of economic resources will be required to settle the obligation and a reasonable estimate can be made of the amount of the obligation.

Gallaher Limited

Notes to the accounts

Year ended 31 December 2014

2. Segment reporting

The Company is engaged in a single business, namely the manufacture, marketing and selling of tobacco products. Accordingly, segment reporting is provided only by geographic region.

In the UK market (domestic and duty free), the Company sells a comprehensive, unified portfolio of tobacco products. This portfolio comprises brands distributed on behalf of JTI SA, as well as a small number of brands owned directly by the Company. Accordingly, the UK market operating profit includes margins earned from acting as a limited risk distributor and consignment manufacturer under contractual arrangements entered into with JTI SA, together with profit earned by the Company from the brands it owns.

The International segment mainly comprises royalty income received by the Company in respect of brands it owns in selected overseas markets, less specific costs incurred as brand owner, notably research and development charges, marketing expenditure and trademark costs.

The Company operates a centralised financing policy and considers that any segmental apportionment of interest and exchange gains/(losses) would not be meaningful.

The Company's manufacturing assets, which are physically located in the UK, produce tobacco products for both UK and overseas markets. Accordingly, any segmental apportionment of net assets and of exceptional items related to the restructuring or closure of production facilities, would not be meaningful.

	2014 £m	2013 £m
Turnover		
UK (domestic and duty free)	4,802	4,766
International	28	31
	<u>4,830</u>	<u>4,797</u>
Operating profit		
UK (domestic and duty free)	153	152
International	21	23
	<u>174</u>	<u>175</u>
Operating profit before exceptional items and exchange gains/(losses)	174	175
Exceptional items (note 5)	(51)	-
Exchange gains/(losses)	10	(2)
	<u>133</u>	<u>173</u>

Turnover for the UK domestic market includes excise duty amounting to £3,915m (2013: £3,935m) which is charged within cost of sales.

Gallaher Limited

Notes to the accounts Year ended 31 December 2014

3. Directors' emoluments

	2014 £m	2013 £m
Directors' remuneration		
Aggregate emoluments (including bonuses and benefits in kind)	2.1	2.1
Awards under long-term incentive plans	0.9	0.9
Company contributions to money purchase pension schemes	0.2	0.2
	<u>3.2</u>	<u>3.2</u>

All of the current directors of the Company are members of a money purchase pension scheme

The remuneration above excludes that of Olivier Chimits and Hubertus Ooms who are also directors of other Group companies where they received remuneration. They do not receive any remuneration specifically for their services provided to the Company.

	2014 £m	2013 £m
Highest paid director		
Aggregate emoluments (including bonuses and benefits in kind)	0.7	0.4
Awards under long-term incentive plans	0.3	0.2
	<u>1.0</u>	<u>0.6</u>

4. Employees

The monthly average number of persons employed by the Company during the year, including executive directors and part-time employees, was

	2014 Number	2013 Number
Production, purchasing and research and development	903	922
Selling, marketing and distribution	465	485
Central administration, IT and management	177	175
	<u>1,545</u>	<u>1,582</u>

	2014 £m	2013 £m
Employment costs (for the above persons)		
Wages and salaries - including termination benefits paid of £1m (2013: £nil)	87	85
Social security costs	9	9
Retirement benefit costs, including pensions - defined benefit plans - current service cost	13	13
Retirement benefit costs - defined benefit pension plans - past service cost	-	8
Retirement benefit costs - defined benefit pension plans - curtailment gain	(13)	-
Retirement benefit costs - money purchase pension scheme	5	4
	<u>101</u>	<u>119</u>

Gallaher Limited

Notes to the accounts

Year ended 31 December 2014

5. Exceptional item

As set out in the Strategic Report on page 2, in October 2014, the Company announced the closure of its manufacturing and research & development facilities in Lisnafillan, Northern Ireland. As a consequence of this announcement, a pre-tax charge of £51m has been booked as an exceptional item within operating profit in the 2014 financial statements. An analysis of the main components of the charge is set out below. The tax credit associated with this charge is £6m.

	£m
Redundancy payments, covering severance packages and associated outplacement costs	85
Curtailment gain recognised on the Company's defined benefit pension plan	(13)
Impairments of property, plant and equipment	50
Post-closure, site decommissioning and other costs	5
Amounts receivable from JTI SA as contractual reimbursement for certain severance costs	(76)
Net exceptional charge	<u>51</u>

No exceptional items were reported within operating profit in the 2013 financial statements.

6 Net interest and other financing charges

	2014 £m	2013 £m
Interest receivable and other financial income		
Loans to related group undertakings	3	11
Interest rate swaps	-	1
	<u>3</u>	<u>12</u>
Interest payable and other finance charges		
Loans to related group undertakings	(5)	(21)
Preference shares	(3)	(3)
Fair value loss on derivative financial instruments	-	(1)
Unwinding of discount on long-term liabilities	-	(1)
	<u>(8)</u>	<u>(26)</u>
Net interest and other financing charges	<u>(5)</u>	<u>(14)</u>

Gallaher Limited

Notes to the accounts

Year ended 31 December 2014

7. Profit before taxation

	2014 £m	2013 £m
Profit on ordinary activities is stated after charging/(crediting)		
Depreciation of tangible fixed assets	28	23
Impairment of tangible fixed assets	50	-
Profit on sale of subsidiary undertakings	(3)	-
Research and development expenditure	4	5
Net exchange (gains)/losses	(10)	2
Operating lease rentals - land and buildings	1	2
Auditor remuneration:	2014 £m	2013 £m
Audit fees payable in respect of the accounts of the Company	0.3	0.3
Non audit services tax compliance services	0.2	0.2
Total auditor remuneration	<u>0.5</u>	<u>0.5</u>

8. Taxation charge

a) Analysis of the charge for the year

	2014 £m	2013 £m
UK Corporation tax		
Current tax on profits of the year	49	31
Adjustments to current tax charge in respect of prior periods	39	2
Current year group relief	3	5
Total current tax	<u>91</u>	<u>38</u>
Deferred tax		
Origination and reversal of timing differences	(19)	(4)
Adjustments to deferred tax in respect of prior periods	-	(1)
Taxation charge	<u>72</u>	<u>33</u>

b) Factors affecting tax charge for the year

The tax assessed for the year is higher (2013 higher) than the standard rate of corporation tax in the UK at 21.5% (2013 23.25%). The differences are explained below

	2014 £m	2013 £m
Profit before tax	<u>142</u>	<u>158</u>
Profit multiplied by standard rate of corporation tax in the UK of 21.5% (2013 23.25%)	31	37
Effects of		
Non-deductible expenditure and other items	4	1
Accelerated capital allowances and other timing differences	20	(3)
Non-taxable income/ capital gain and credits received	(3)	1
Adjustments to tax charge in respect of prior periods	39	2
Current tax charge for the year	<u>91</u>	<u>38</u>

Gallaher Limited

Notes to the accounts Year ended 31 December 2014

8. Taxation charge (continued)

b) Factors affecting tax charge for the year (continued)

The corporation tax rate will decrease to 20% from 1 April 2015 as enacted in the Finance Act 2013. Further decreases have been announced to 19% from 1 April 2017 and then to 18% from 1 April 2020, subject to the enactment of future law.

c) Analysis of deferred tax

	2014 £m	2013 £m
Movements during the year in the net deferred taxation liability		
At 1 January	13	17
Amount (credited)/charged in the profit and loss account	(19)	1
Amount credited in the profit and loss account - effect of tax rate change	-	(6)
Amount credited in the statement of total recognised gains and losses	(11)	(3)
Amount charged in the statement of total recognised gains and losses - effect of tax rate change	-	4
At 31 December	(17)	13

The net deferred taxation liability comprises

	2014 £m	2013 £m
Accelerated capital allowances	(11)	(3)
Retirement benefits	13	17
Capital losses	(1)	(1)
Other timing differences	(18)	-
Net deferred taxation (asset)/ liability	(17)	13

	2014 £m	2013 £m
The net deferred taxation (asset)/liability is reconciled to the balance sheet as follows		
Deferred taxation assets (note 12)	(30)	(4)
Deferred taxation relating to retirement benefits (note 16)	13	17
	(17)	13

A deferred tax asset of £82m (2013: £82m) in respect of capital losses has not been recognised because in the opinion of the directors it is not forecast to be utilised in the foreseeable future.

Gallaher Limited

Notes to the accounts Year ended 31 December 2014

9. Tangible fixed assets

	Land and buildings £m	Plant and machinery £m	Fittings and equipment £m	Assets in the course of construction £m	Total £m
Cost					
At 1 January 2014	57	299	60	26	442
Additions	2	6	4	9	21
Disposals	-	(2)	(13)	-	(15)
Reclassifications	4	21	1	(26)	-
At 31 December 2014	63	324	52	9	448
Depreciation and impairment					
At 1 January 2014	(20)	(197)	(43)	-	(260)
Depreciation charge for the year	(1)	(21)	(6)	-	(28)
Impairment charge for the year	(23)	(24)	(1)	(2)	(50)
Disposals	-	-	11	-	11
At 31 December 2014	(44)	(242)	(39)	(2)	(327)
Net book value					
At 31 December 2014	19	82	13	7	121
At 31 December 2013	37	102	17	26	182

The net book value of land and buildings relates to freehold property

Impairment charges of £50m relate to the write-down of property, plant and equipment to their recoverable amount, due to the announced closure of the Company's manufacturing and research & development facilities in Lisnafillan, Northern Ireland (note 5)

Gallaher Limited

Notes to the accounts Year ended 31 December 2014

10. Fixed asset investments

	Cost £m	Provisions for impairment £m	Net book value £m
Shares in subsidiary undertakings			
At 1 January 2014	10	(4)	6
Disposals	(3)	-	(3)
Impairments	-	-	-
At 31 December 2014	<u>7</u>	<u>(4)</u>	<u>3</u>

In September 2014, the Company disposed of two captive insurance subsidiaries, The Galleon Insurance Company Limited ("Galleon") and The Schooner Insurance Company Limited ("Schooner") to a related company, JT International Holding B V. The transfers were made at fair market value for cash consideration of £2,089,000 for Galleon and £3,411,000 for Schooner. Gains arising on these transactions amounted to £1,839,000 for Galleon and £811,000 for Schooner, and these gains have been included in the profit and loss account for the year ended 31 December 2014.

No impairments have been identified as part of the Directors' annual review of the carrying value of the Company's investment in subsidiaries at 31 December 2014.

The Company is the beneficial owner of all of the equity ordinary share capital of its subsidiaries. The subsidiaries at 31 December 2014, all of which are held directly and are unlisted, are shown below.

Name	Country of incorporation	Principal activity
Teofani Limited	UK	Dormant
Gallaher International Limited	UK	Dormant
JRF Realty, Inc	USA	In liquidation
Hergall (1981) Limited	UK	In liquidation

Gallaher Limited

Notes to the accounts Year ended 31 December 2014

11. Stocks

	2014 £m	2013 £m
Raw materials and consumables	3	4
Finished goods and goods for resale	94	79
	<u>97</u>	<u>83</u>

At 31 December 2014, provisions for obsolete, slow-moving or defective items amounted to £2m (2013 £1m). There is no material difference between the balance sheet value of stocks and their replacement cost.

12. Debtors

	2014 £m	2013 £m
Amounts falling due within one year		
Trade debtors	507	505
Amounts owed by Group undertakings - loan receivables and deposits	1,203	1,569
Amounts owed by Group undertakings - interest receivable	-	1
Amounts owed by Group undertakings - trading balances	35	29
Amounts owed by Group undertakings - receivable from JTI SA (note 5)	19	-
Other debtors	1	-
Prepayments and accrued income	3	2
	<u>1,768</u>	<u>2,106</u>
Amounts falling due after more than one year		
Amounts owed by Group undertakings - receivable from JTI SA (note 5)	57	-
Deferred tax assets (note 8c)	30	4
	<u>87</u>	<u>4</u>

The directors consider that the carrying amount of trade and other debtors approximates to their fair value, due to the short-term duration of the majority of trade and other debtors.

Trade receivables

At 31 December 2014, trade receivable balances within the UK business that are past due and have a provision for impairment amounted to £0.3m (2013 £0.5m). The recoverability of all other trade receivable balances is considered highly probable and this is supported by the collection history of the Company.

The debtor days calculation for the year is 30 days (2013 30 days).

In 2014, the profit and loss account included a credit in respect of bad debts of £0.1m (2013 charge of £0.1m).

Gallaher Limited

Notes to the accounts

Year ended 31 December 2014

13. Creditors

	2014 £m	2013 £m
Amounts falling due within one year		
Bank loans and overdrafts	-	1
Trade creditors	14	14
Amounts owed to Group undertakings - loan payables	-	413
Amounts owed to Group undertakings - loan interest	-	14
Amounts owed to Group undertakings - group relief	3	5
Amounts owed to Group undertakings - trading balances	75	54
Corporate tax	31	13
Other taxes, duties and social security contributions	471	472
Liability under exit from joint venture arrangement (see below)	-	22
Other creditors	2	1
Other accruals and deferred income	46	46
	642	1,055
Amounts falling due after more than one year		
Preference shares (see below)	153	163
Corporate tax (see below)	280	241
Accruals and deferred income - unamortised capital government grants	-	1
	433	405

The carrying value approximates the fair value

Preference shares

Preference shares comprise 195 million non-voting variable rate cumulative preference shares of €1 each. Shareholders receive dividends based on 3-month Euribor plus 1.25% per annum, payable quarterly in arrears. On winding up, the preference shareholders rank above ordinary shareholders and are entitled to €1 per share and any dividends accrued but unpaid in respect of their shares.

Joint venture exit payments

R J Reynolds-Gallaher International Sarl, a joint venture operated by Gallaher and Reynolds American Inc, was terminated with effect from 31 December 2007. In February 2008, pursuant to the terms of the joint venture agreement, an agreement was entered into whereby Gallaher Limited agreed to pay a subsidiary of Reynolds American Inc a total of €265m. The first instalment of this amount, comprising 40% of the total, was paid in April 2008, with the remaining 60% being paid in six equal annual instalments, commencing April 2009. The liability was discounted to present value at 31 December 2007 using EURIBOR plus 1.25% margin. The final payment was made in April 2014.

Corporate tax

During the year ended 31 December 2014 the corporation tax liability was increased by £39m. The total liability amounting to £280m has been presented as falling due after more than one year as it is considered to only become payable upon the occurrence of future triggering events which are not expected to occur within 12 months of the balance sheet date.

Gallaher Limited

Notes to the accounts

Year ended 31 December 2014

14. Financial risk management

The management of financial risks relating to the Company's exposure to funding and liquidity, interest rate and foreign exchange is managed in line with the JT Group's treasury policy framework

Foreign currency risk management

The Company has historically financed several fellow subsidiaries of the ultimate holding company, Japan Tobacco Inc. The Company has a number of foreign currency denominated intercompany and external debtors and creditor balances and, consequently, the Company is exposed to foreign currency risk. The majority of foreign currency risk is managed at the Company level through the use of foreign currency deposits and borrowings, plus forward foreign exchange contracts. The key exposure risk which is unhedged within the Company's financial statements (that associated with Euro denominated preference shares) is fully mitigated within JT's UK group of entities rather than at the business unit level.

In August 2009, as part of a wider UK corporate re-organisation within the JT Group, Gallaher Group Limited transferred three fixed interest rate loans payable to a related company, JTI (UK) Finance PLC, to Gallaher Limited at book value, including accrued interest. The loans have principal values of £249.35m, €800.24m and €494.05m respectively. Consideration for the two loans denominated in Euro was by way of a fixed Sterling equivalent, based on prevailing JTI corporate exchange rates. The €800.24m loan was repaid in June 2011, the £249.35m loan was repaid in February 2013 and the €494.05m loan was repaid in April 2014.

Gallaher Group Limited's derivative financial instruments, comprising interest rate swaps, were also transferred to Gallaher Limited during 2009 at fair value as part of the restructuring. These swaps matured in February 2013.

As a result of the loan transfers noted above, together with other inter-group loan transactions undertaken during 2009, the Company substantially matched its Euro denominated loan receivables with equivalent Euro denominated loan payables by 31 December 2009. In addition, hedging arrangements were put in place during 2011 in respect of the Euro denominated liabilities associated with future joint venture exit payments. However, a degree of foreign currency exposure remains due to ongoing trading activity denominated in foreign currencies, and the Company's Euro denominated preference shares.

Foreign currency sensitivity analysis

The Company is mainly exposed to the Euro. The exposure arises primarily on preference shares issued by the Company. The table below details the Company's sensitivity to a 10% increase and decrease in the sterling rate against the Euro for both years, with all other variables remaining constant. A 10% movement in exchange rate based on the level of foreign currency denominated monetary assets and liabilities, represents management's assessment of a reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items.

	Increase/(decrease) in profit	
	2014 £m	2013 £m
10% strengthening of sterling Euro	14	15
10% weakening of sterling Euro	(17)	(19)

Gallaher Limited

Notes to the accounts Year ended 31 December 2014

14. Financial risk management (continued)

Interest rate risk management

The Company has both interest bearing financial assets and liabilities

The Company's financial assets are held for short periods before being used for working capital funding and the Company does not actively manage the interest rate risk on these assets. The interest rate exposure on borrowings was managed with an appropriate mix between fixed and floating rate borrowings. In 2009, as part of the corporate re-organisation detailed on the previous page, the Company acquired interest rate swaps from Gallaher Group Limited with a notional principal of £250m. These swap contracts, which matured in February 2013, effectively converted the interest payable on the £249.35m loan from a fixed rate to a floating rate.

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date. A 1% movement has been used and represents management's assessment of a reasonable possible change.

If interest rates had been 1% higher/lower and all other variables were held constant, the impact on the profit/loss for the year ended 31 December 2014 would be an increase/decrease of £11.0m (2013: increase/decrease of £14.0m). This is mainly attributable to the Company's exposure to interest rates on its variable rate cash deposits and borrowings.

Credit risk management

The customer base of the Company is primarily based in the UK and this is mainly in the wholesale and retail industry. The Company has implemented policies to ensure that sales of products are made to customers with an appropriate credit history and obtains guarantees or other means of securities to reduce the risk where this is considered to be necessary. The credit information is supplied by independent rating agencies where available, and in addition, the Company uses other publicly available financial information and its own trading records to assess the creditworthiness of the major customers. The Company's exposure and the credit ratings of its customers are continuously monitored and ongoing credit evaluation is performed on the financial condition of trade receivables. Whilst there is a customer concentration risk, the credit risk is not considered an issue and there is no provision for impairment. This is supported by the history of collection by the Company.

The carrying amount of financial assets recorded in the financial statements, represents the Company's maximum exposure to credit risk.

Liquidity risk management

The settlement dates of financial instruments at the balance sheet date are set out below. In the case of financial derivatives, settlement is on a gross basis. The Company manages the liquidity risk of financial liabilities by maintaining sufficient liquid financial assets and the availability of funding through an adequate amount of committed credit facilities.

At 31 December 2014 the Company held cash and cash equivalents of £3m (2013: £nil) and no undrawn overdraft facilities (2013: £nil). Surplus cash balances are deposited with financing entities within the JT Group.

At 31 December 2014, there are no financial liabilities measured at fair value in the balance sheet (31 December 2013: £nil). Accordingly, no fair value hierarchy is presented in accordance with the amendment to FRS 29.

At 31 December 2014, there were no amounts owed to group undertakings bearing fixed interest rates. At 31 December 2013, amounts owed to group undertakings included a fixed interest bearing loan of €494.05m from JTI (UK) Finance PLC which bore a fixed rate of interest of 4.6792%. This loan was repaid at its scheduled maturity date in April 2014 utilising the proceeds from euro-denominated loan receivables that were repaid to the Company at that time.

At 31 December 2014, there were no amounts owed to group undertakings bearing variable interest rates (2013: £nil).

At 31 December 2014, the Company had no derivative financial instruments outstanding (31 December 2013: £nil).

Gallagher Limited

Notes to the accounts

Year ended 31 December 2014

14. Financial risk management (continued)

Liquidity risk management (continued)

The table below analyses the maturities of the undiscounted cash flows relating to non-derivative financial liabilities of the Company based on the remaining period to the expected maturity date at the balance sheet date. Although certain loans payable to other Group entities are repayable on demand, at the option of either party, the loans, and the accrued interest thereon, are expected to be settled in line with the table below. In respect of preference shares with no fixed repayment date, the Company is subject to a stream of dividend payments in relation to this perpetual liability, based on an interest rate of 3-month Euribor plus 1.25% per annum applied to the principal amount of €195,000,000. As at 31 December 2014, the annual undiscounted dividend amount payable in perpetuity is £2m (2013: £2m).

	Less than 1 year £m	1 - 2 years £m	Between 2 and 5 years £m	More than 5 years £m	Total £m
At 31 December 2014					
Non-derivative instruments					
Preference shares	2	2	6	153	163
Trade creditors	14	-	-	-	14
Amounts owed to Group undertakings	79	-	-	-	79
Other creditors and accruals	550	-	-	241	791
	<u>645</u>	<u>2</u>	<u>6</u>	<u>394</u>	<u>1,047</u>
At 31 December 2013					
Non-derivative instruments					
Preference shares	2	2	8	163	175
Trade creditors	14	-	-	-	14
Amounts owed to Group undertakings	490	-	-	-	490
Other creditors and accruals	557	-	-	241	798
	<u>1,063</u>	<u>2</u>	<u>8</u>	<u>404</u>	<u>1,477</u>

Trade payables, other creditors and accruals are interest free and mostly fall due within one year. Therefore the carrying amount for creditors due within less than one year equals the sum of future cash flows.

15. Provisions for liabilities

	£m
At 1 January 2014	-
Charge to profit and loss account	89
Utilised	-
At 31 December 2014	<u>89</u>

Provisions at 31 December 2014 relate to the announced closure of the Company's manufacturing and research & development facilities in Lisnafillan, Northern Ireland (note 5). Provisions have been established in respect of redundancy payments (covering severance packages and associated outplacement costs), post-closure and site decommissioning costs, legal fees and committed capital expenditure. The majority of the provisions are expected to be utilised during 2016.

Gallaher Limited

Notes to the accounts

Year ended 31 December 2014

16. Pension and retirement healthcare benefit plan assets and liabilities

Section (i) of this note contains the aggregated disclosures for the Company's pension and retirement healthcare plans. Section (ii) provides further details on the disclosure information related to the Company's pension plans while section (iii) provides further details on the disclosure information related to the Company's retirement healthcare plans. Section (iv) provides five year summary information on the Company's pension and retirement healthcare plans and experience gains/losses.

i) Results for pension and retirement healthcare plans

	Pension plans		Retirement healthcare plans		Total	
	2014	2013	2014	2013	2014	2013
	£m	£m	£m	£m	£m	£m
The amounts recognised in the balance sheet are as follows:						
Present value of funded liabilities	1,280	1,237	-	-	1,280	1,237
Present value of unfunded liabilities	2	2	47	47	49	49
Fair value of plan assets	(1,460)	(1,328)	-	-	(1,460)	(1,328)
Funded status (surplus)/deficit	(178)	(89)	47	47	(131)	(42)
Unrecoverable surplus	114	2	-	-	114	2
Net (asset)/liability before deferred tax	(64)	(87)	47	47	(17)	(40)
Related deferred tax liability	13	17	-	-	13	17
Net (asset)/liability	(51)	(70)	47	47	(4)	(23)
Movements in plan liabilities:						
At 1 January	1,239	1,122	47	50	1,286	1,172
Employer service cost	13	12	-	1	13	13
Curtailment gain	(13)	-	-	-	(13)	-
Past service cost	-	8	-	-	-	8
Interest cost	54	49	2	2	56	51
Actuarial losses/(gains)	52	106	(1)	(5)	51	101
Contribution by plan participations	-	-	-	-	-	-
Benefits paid	(63)	(58)	(1)	(1)	(64)	(59)
At 31 December	1,282	1,239	47	47	1,329	1,286
Movements in plan assets:						
At 1 January	(1,328)	(1,225)	-	-	(1,328)	(1,225)
Expected return on plan assets	(63)	(49)	-	-	(63)	(49)
Actuarial gains	(107)	(83)	-	-	(107)	(83)
Employer contributions	(25)	(29)	-	-	(25)	(29)
Contributions by plan participants	-	-	-	-	-	-
Benefits paid from plan assets	63	58	-	-	63	58
At 31 December	(1,460)	(1,328)	-	-	(1,460)	(1,328)
Actual return plan assets	170	132	-	-	170	132

Gallagher Limited

Notes to the accounts Year ended 31 December 2014

16. Pension and retirement healthcare benefit plan assets and liabilities (continued)

i) Results for pension and retirement healthcare plans (continued)

	Pension Plans		Retirement healthcare plans		Total	
	2014	2013	2014	2013	2014	2013
	£m	£m	£m	£m	£m	£m
The amounts recognised in the profit and loss account are as follows:						
Current employer service cost	13	12	-	1	13	13
Interest cost	54	49	2	2	56	51
Expected return on plan assets	(63)	(49)	-	-	(63)	(49)
Curtailment gain (see below)	(13)	-	-	-	(13)	-
Past service cost recognised (see below)	-	8	-	-	-	8
	<u>(9)</u>	<u>20</u>	<u>2</u>	<u>3</u>	<u>(7)</u>	<u>23</u>
Analysis of STRGL:						
Actuarial (gain)/loss	(55)	23	(1)	(5)	(56)	18
Unrecoverable surplus increase/(decrease)	112	(7)	-	-	112	(7)
	<u>57</u>	<u>16</u>	<u>(1)</u>	<u>(5)</u>	<u>56</u>	<u>11</u>

ii) Further details of the Company's defined benefit pension plans

The Company operates two material funded final salary defined benefit pension plans in the UK. Both of these plans are administered and financed in accordance with local legislation and practice. Pension assets are held in trust separately from the assets of the Company.

Both defined benefit pension plans were closed to new entrants on 30 June 2003. Because the plans are closed, the average age of the active members is likely to increase in future, leading to an increasing current service cost of the plan benefits. This may be offset by a falling total pensionable salary resulting from leavers and retirements.

The pension obligations and costs related to these plans are assessed in accordance with the advice of independent qualified actuaries using the projected unit credit actuarial method. The latest full actuarial valuations of both plans were undertaken as at 31 March 2014, and the results of these valuations have been updated to 31 December 2014.

The latest agreed contribution rates (as a percentage of pensionable pay) payable by the Company into the Company's pension plans are 45.6% for the "A" Scheme and 45.6% plus £11.47m per annum for the "M" Scheme. The total expected Company contribution for 2015 is around £24m.

During 2014, the Company announced the closure of its manufacturing and research & development facilities in Lisnafillan, Northern Ireland. It is expected that amongst the redundancies will be approximately 560 'A' and 'M' Scheme members. On leaving employment with the Company these members will cease future benefit accrual and the link between their accrued benefits and salaries will be replaced by statutory inflation based revaluation. The schemes' liabilities will reduce reflecting removal of the salary link. The liability reduction has been reflected in the profit and loss account for the year ended 31 December 2014 as a curtailment gain of £13m within exceptional items (comprising £11m for the 'A' Scheme and £2m for the 'M' Scheme). The curtailment gain has been calculated using 31 December 2014 market conditions and reflects expectations about members leaving the Company, and the schemes, between late 2015 and December 2016.

In 2013, the Company and Trustees concluded an extensive investigation into an administration discrepancy in the "A" and "M" Schemes related to "rescheduling". As a result of the investigation, the actuarial reserves of "A" and "M" Schemes were increased by £8m in aggregate. This amount was recognised in the profit and loss account for the year ended 31 December 2013 as a past service cost.

The Company also sponsors an unfunded individual retirement pension benefit to a former executive who is now retired. The obligations and costs related to this arrangement are included in the disclosure results.

Gallaher Limited

Notes to the accounts

Year ended 31 December 2014

16. Pension and retirement healthcare benefit plan assets and liabilities (continued)

ii) Further details of the Company's defined benefit pension plans (continued)

The principal actuarial assumptions used in the valuation of the Company's pension plan liabilities are as follows

	2014	2013
	%	%
Discount rate	3.6	4.4
Rate of increase in salaries	3.09	4.1
Rate of increase of pensions in payment	3.10	3.6
Rate of price inflation - RPI	3.10	3.6
Rate of price inflation - CPI	2.25	2.9
Expected rate of return on plan assets	n/a	4.8
Life expectancy at age 60 for a male aged 60 at end of year	27.4	26.6
Life expectancy at age 60 for a male aged 45 at end of year	28.9	27.8
Life expectancy at age 60 for a female aged 60 at end of year	29.6	29
Life expectancy at age 60 for a female aged 45 at end of year	31.1	30.3

A detailed investigation into the mortality experience of the Company's pension plans is carried out as part of each full actuarial valuation (every three years), with interim reviews performed between full valuations as appropriate. During these reviews, the Company also considers any developments and their suitability for the Company's pension plans in terms of newly published mortality tables and/or life expectancy projections. In 2014 the Company adopted revised mortality tables in the valuations of its pension plans as a result of the review that was carried out during the year.

The expected rate of return on assets assumption has been developed using a building block approach based on the plan's target asset allocation at the measurement date and the expected return on assets for each asset category. The aggregate actual asset allocation of the Company's funded pension plans is shown below which is broadly in line with the target asset allocation at each reporting date.

	2014	2013
	£m	£m
Pension plan assets allocation		
Equities	565	564
Debt securities	792	689
Cash	41	16
Other	62	59
	<u>1,460</u>	<u>1,328</u>

The Company's pension plan assets do not include a material exposure to securities of any companies related to the Japan Tobacco group, or any real estate occupied by the Company.

At 31 December 2014, £94m (2013: £2m) of the "A" Scheme's accounting surplus and £20m (2013: £nil) of the "M" Scheme's accounting surplus is deemed "irrecoverable". The net surplus recognised by the Company in its balance sheet at 31 December 2014 in respect of pension plans has therefore been restricted to £64m (2013: £87m). The irrecoverable surplus has increased significantly at this year end. This is due to a combination of strengthening of the funding positions for both schemes which increased the total surplus and reduction of expected future service costs following the announced closure of the Company's manufacturing and research & development facilities in Lisnafillan, Northern Ireland which have reduced the amount of "recoverable" surplus.

This capping of the surplus results from the strict application of the accounting rules contained within the accounting standard FRS 17 (Retirement Benefits) and has no impact on the Scheme's members.

Gallaher Limited

Notes to the accounts Year ended 31 December 2014

16. Pension and retirement healthcare benefit plan assets and liabilities (continued)

iii) Further details of the Company's retirement healthcare plans

The method of accounting, actuarial assumptions and the frequency of valuations of these are similar to those used for the Company's defined benefit pension plans. Other relevant assumptions are included below

	2014	2013
Medical cost trend rate		
- Initial rate (%)	3.5	3.5
- Ultimate rate (%)	5.1	6.0
- Years to ultimate	3	3

The sensitivity analysis is outlined as follows

	2014 £m	2013 £m
Effect of one percentage point increase in assumed medical cost trend rate		
- Increase in the liability	7.1	5.4
Effect of one percentage point decrease in assumed medical cost trend rate		
- (Decrease) in the liability	(5.9)	(6.5)

iv) Five year summary

	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Defined benefit pension plans					
Defined benefit obligation	1,282	1,239	1,122	1,040	1,043
Plan assets	1,460	1,328	1,225	1,158	1,094
Surplus	178	89	103	118	51
Unrecoverable surplus	114	2	9	17	-
Experience (gain)/loss on plan liabilities	30	16	(55)	(55)	(1)
Retirement healthcare benefit plans					
Defined benefit obligation	47	47	49	46	31
Experience (gain)/loss on plan liabilities	-	-	-	(2)	-

17. Called up share capital

	2014 £m	2013 £m
Allotted, called up and fully paid		
100,747,049 ordinary shares of 50p each	50	50

The Company has unlimited authorised share capital

The 195 million non-voting variable rate cumulative preference shares of €1 each have been disclosed as a financial liability

Gallaher Limited

Notes to the accounts Year ended 31 December 2014

18. Reserves

	Profit and loss account £m
At 1 January 2014	894
Profit for the year	70
Dividends paid on ordinary equity shares	(50)
Actuarial loss recognised on retirement benefits	(56)
Deferred tax relating to actuarial loss on retirement benefits	11
At 31 December 2014	<u>869</u>

At 31 December 2014, the profit and loss account reserve of the Company included a £10m surplus in respect of retirement benefits (2013 surplus of £23m)

19. Operating lease commitments

The Company had annual commitments under non-cancellable operating leases at 31 December 2014 which expire as follows

	2014 £m	2013 £m
Within one year	1	-
Between two and five years	-	1
	<u>1</u>	<u>1</u>

These commitments relate mainly to land and buildings

20. Capital commitments

At 31 December 2014 the Company had capital commitments of £22m (2013 £25m) in respect of contracts placed but not provided for in the accounts. These commitments relate mainly to factory plant and machinery

21. Related party transactions

In accordance with the exemptions offered by Financial Reporting Standard No 8, there is no disclosure in the financial statements of transactions with entities that are part of Japan Tobacco Inc and its subsidiaries

Gallaher Limited

Notes to the accounts

Year ended 31 December 2014

22. Contingent liabilities

At 31 December 2014, the Company had contingent liabilities for guarantees given in respect of Group undertakings which amounted to £1m (2013 £1m) At 31 December 2014, the Company had no contingent liabilities for guarantees given in respect of third parties (2013 £nil)

There are a number of instances where litigation proceedings, hearings, or claims negotiations are pending or threatened against Group companies To date, there has been no recovery of damages against any Group company in any action alleging that its tobacco products have resulted in human illnesses It is not possible to predict the outcome of the pending litigation Management believes that there are meritorious defences to these actions and claims and that the pending actions will not have a material adverse effect upon the results of the operations, the cash flow, or financial condition of the Company The pending actions and claims will be vigorously contested There can, however, be no assurance that favourable decisions will be achieved in the proceedings pending against Group companies, that additional proceedings will not be commenced in the UK or elsewhere against Group companies, that the Company will not incur damages, or that, if incurred, such damages will not have a material impact on the Company's operating performance or financial condition Regardless of the outcome of the pending litigation, the costs of defending these actions and claims could be substantial and will not be fully recoverable from the plaintiffs, irrespective of whether or not they are successful

There are a number of disputes between one of the Company's subsidiaries, Gallaher International Limited, and certain of its former distributors Full disclosure is given in the financial statements of Gallaher International Limited To date, Gallaher International Limited has successfully defended all claims made against it, and the directors do not anticipate that any material loss will arise from these actions

23. Ultimate holding company and consolidation

The Company is a wholly-owned subsidiary of Benson & Hedges Limited, a company incorporated in the UK and registered in England and Wales

Japan Tobacco Inc, which is registered in Japan, is regarded as the ultimate holding company and the ultimate controlling party, and is both the smallest and largest group in which the results of the Company are consolidated Copies of the consolidated financial statements of Japan Tobacco Inc may be obtained from 2-2-1 Toranomon, Minato-ku, Tokyo, 105-8422, Japan

The Accounts of Japan Tobacco Inc
are being filed in conjunction with the Accounts
of Gallaher Limited under the consolidation
exception under Section 400 of the Companies
Act 2006

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Japan Tobacco Inc. Annual Report FY2014

Year ended December 31, 2014

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Available at
www.jt.com/investors/results/annual_report/index.html

Unless the context indicates otherwise, references in this Annual Report to "we", "us", "our", "Japan Tobacco", "JT Group" or "JT" are to Japan Tobacco Inc. and its consolidated subsidiaries. References to "JTI" are to JTI Holding B.V., our consolidated subsidiary and its consolidated subsidiaries. References to "TableMark" are to TableMark Holdings Co., Ltd., TableMark Co., Ltd. and its group companies. References to "Japan Tobacco Inc." are only to Japan Tobacco Inc. and references to "JT International Holding B.V." are only to JTI Holding B.V. References to "audit & supervisory board" are to "kansayaku-kai" (as defined in the Companies Act of Japan) that performs certain supervisory functions through its monitoring and audit activities within the overall scheme of corporate governance pursuant to the Companies Act of Japan. References to "audit & supervisory board member" are to a member or members of an audit & supervisory board also referred to in Japanese as "kansayaku" (as defined in the Companies Act of Japan).

Forward-looking statements

This report contains forward-looking statements. These statements appear in a number of places in this report and include statements regarding the intent, belief, or current and future expectations of our management with respect to our business, financial condition and results of operations. In some cases, you can identify forward-looking statements by terms such as "may", "will", "should", "would", "expect", "intend", "project", "plan", "aim", "seek", "target", "anticipate", "believe", "estimate", "predict", "potential" or the negative of these terms or other similar terminology. These statements are not guarantees of future performance and are subject to various risks and uncertainties. Actual results, performance or achievements, or those of the industries in which we operate, may differ materially from any future

results, performance or achievements expressed or implied by these forward-looking statements. In addition, these forward-looking statements are necessarily dependent upon assumptions, estimates and data that may be incorrect or imprecise and involve known and unknown risks and uncertainties. Forward-looking statements regarding operating results are particularly subject to a variety of assumptions, some or all of which may not be realized.

Risks, uncertainties or other factors that could cause actual results to differ materially from those expressed in any forward-looking statement include, without limitation:

- 1 decrease in demand for tobacco products in key markets,
- 2 restrictions on promoting, marketing, packaging, labeling and usage of tobacco products in markets in which we operate
- 3 increases in excise, consumption or other taxes on tobacco products in markets in which we operate
- 4 litigation around the world alleging adverse health and financial effects resulting from, or relating to, tobacco products
- 5 our ability to realize anticipated results of our acquisition or other similar investments
- 6 competition in markets in which we operate or into which we seek to expand
- 7 deterioration in economic conditions in areas that matter to us,
- 8 economic, regulatory and political changes, such as nationalization, terrorism, wars and civil unrest, in countries in which we operate
- 9 fluctuations in foreign exchange rates and the costs of raw materials, and
- 10 catastrophes, including natural disasters

Financial Highlights

FY2014 Results for the fiscal year ended December 31, 2014

In this fiscal year, the Company and its subsidiaries have elected to unify their fiscal year ends to December 31 which will enhance and improve the efficiency of the closing and management systems

FY2014, a transitional period for the change in accounting period, covers nine months from April 1, 2014 to December 31, 2014 for the Japanese domestic businesses and for the Company's consolidated subsidiaries whose current closing date was other than December 31. For the international tobacco business and its subsidiaries, accounting period remains the same, from January – December 2014 (Reported basis)

For the purpose of fair business performance comparison, we are providing figures for the twelve-month period from January 1, 2014 to December 31, 2014 (Like-for-Like basis) with regard to all business segments

- In Financial Statements and Notes, FY2014 results are shown on a Reported basis
- Excluding Financial Statements and Notes, for the purpose of fair comparison of business performance 2014 results are shown on a January to December (Like-for-Like) basis

Like-for-Like basis

(January-December 2014)

Adjusted Operating Profit
(JPY BN)

660.1

Year-on-year
change

+7.8%

Year-on-year change
Constant Exchange Rates

+10.6%

Dividend Payout Ratio
(%)

—

Adjusted EPS
(JPY)

239.01

Year-on-year
change

+7.7%

Year-on-year change
Constant Exchange Rates

+11.1%

Reported basis

(Nine months ended December 31, 2014)

Adjusted Operating Profit
(JPY BN)

588.6

Dividend Payout Ratio
(%)

50.1

Adjusted EPS
(JPY)

224.75

Results for FY2014

2014 results (Like-for-Like basis, comparison with Jan-Dec 2013)

	Jan Mar	Apr Jun	Jul Sep	Oct Dec	Jan Mar	Apr Jun	Jul Sep	Oct Dec
Domestic								
International								
	2013 Jan – Dec				2014 Jan – Dec			

Excluding Financial Statements and Notes

2014 results (Reported basis)

	Jan Mar	Apr Jun	Jul Sep	Oct Dec	Jan Mar	Apr Jun	Jul Sep	Oct Dec
Domestic								
International								
	FY2013				FY2014			

Financial Statements and Notes

FY2015 Forecasts

2015 forecasts (comparison with Jan-Dec 2014)

	Jan Mar	Apr Jun	Jul Sep	Oct Dec	Jan Mar	Apr Jun	Jul Sep	Oct Dec
Domestic								
International								
	FY2014				FY2015			

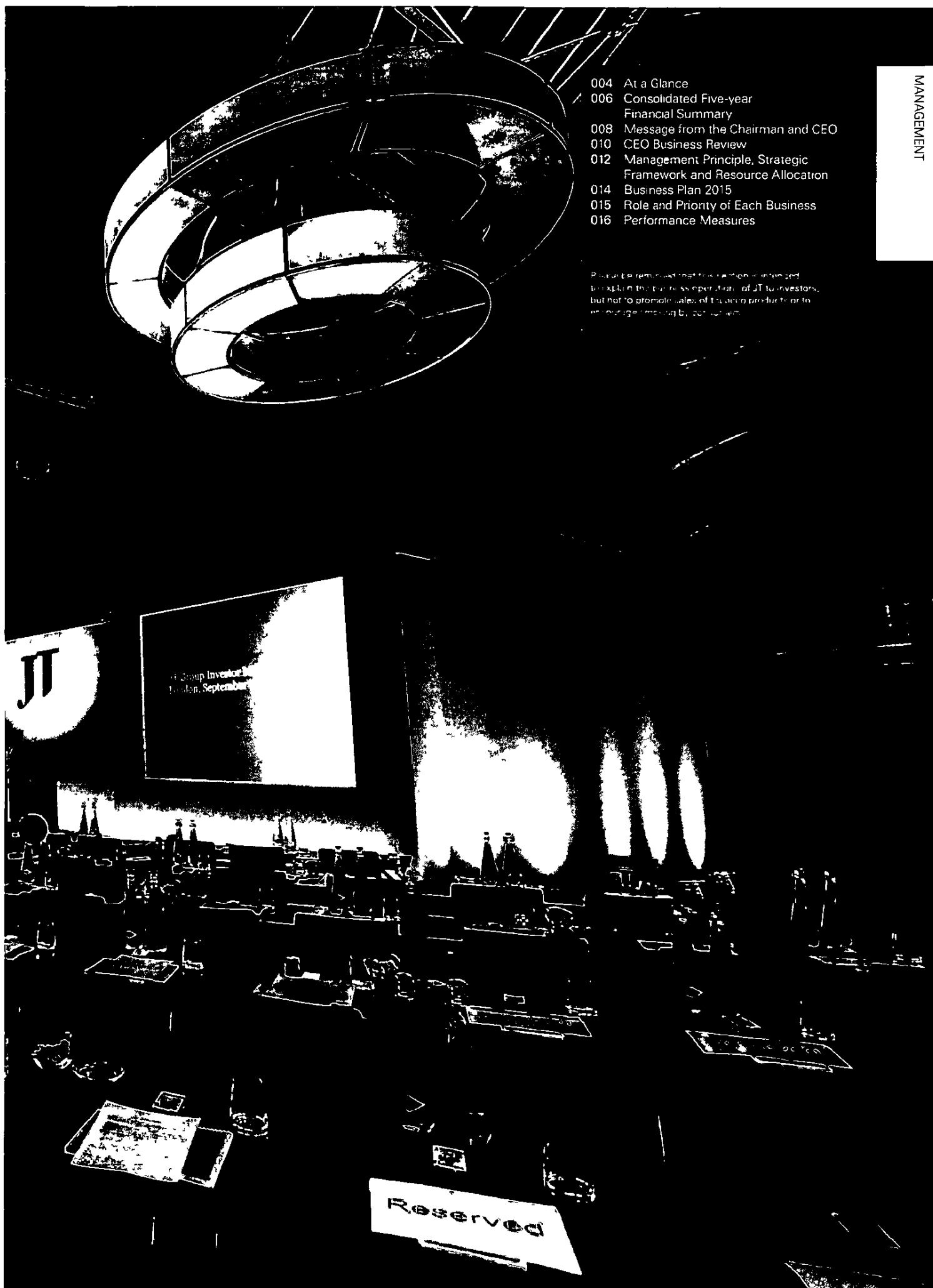
With regards to the forecast for FY2015 the figures are presented on a January to December basis

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Please be reminded that this section is intended to explain the business operation of JT to investors, but not to promote sales of the asset product or to encourage trading by customers.



At a Glance

Our Businesses

FY2014 Results for 2014 January-December

The JT Group is a leading international tobacco company with operations in over 70 countries. Our products are sold in over 120 countries and our internationally recognized brands include Winston, Camel, MEVIUS and LD. We are also active in pharmaceutical, beverage and processed food businesses and we expect them to establish a foundation for future profit contribution, as we strive for sustainable growth.*

International Tobacco

Today the international tobacco business generates more than 65% of the consolidated profit¹ and it is expected to further increase its contribution in the years to come, enabling the JT Group to continue delivering sustainable profit growth in the mid- to long-term.

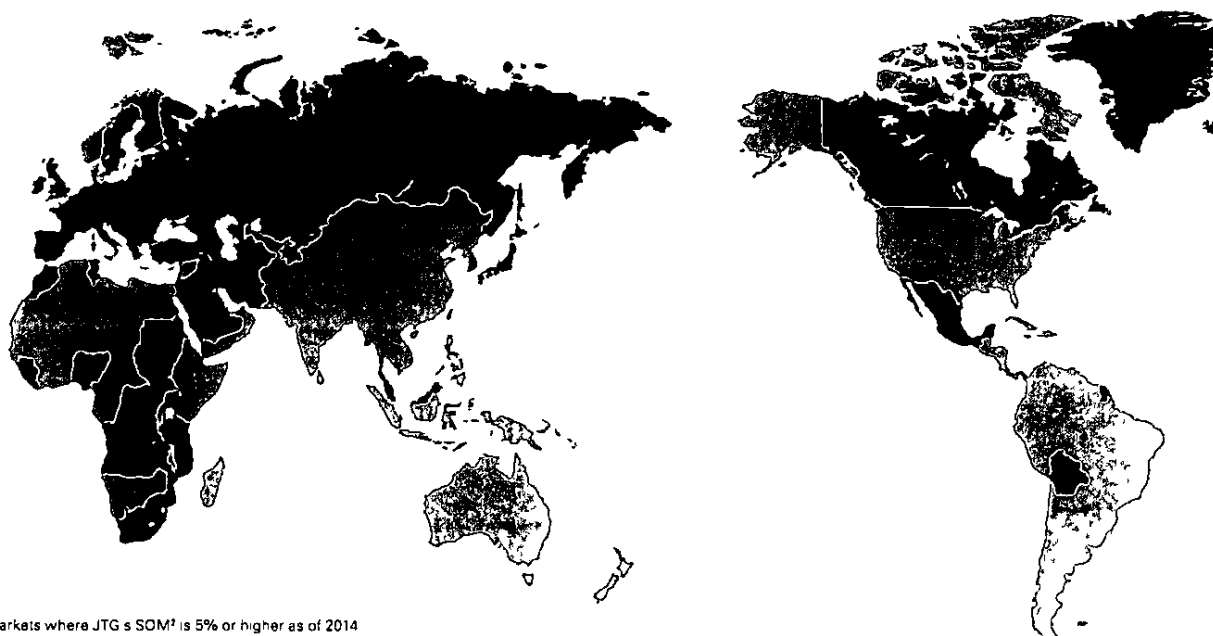
Our brand portfolio is competitive and well-balanced, allowing us to capture down-traders in mature markets and up-traders in emerging markets. We have structured our portfolio into three broad categories including ready-made cigarettes, fine cut and emerging products.

Results for 2014

Strong double-digit profit growth at constant exchange rates

Key drivers

- Robust pricing
- GFB share of market gains
- Total and GFB share of value growth
- Broadened business base



Source: Euromonitor JTI Estimate

Note: The brand rankings of Winston and Camel include sales by Reynolds American Inc.

Global brand ranking

(excluding China National Tobacco Corp.)



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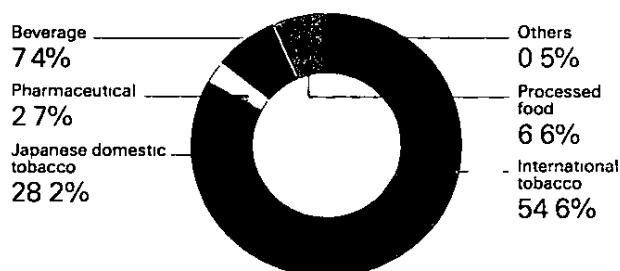


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#13

Revenue breakdown by business segment

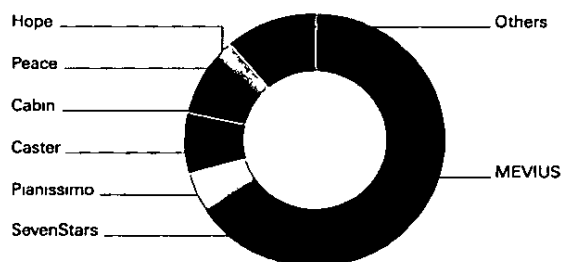


Tobacco business generated more than 80% of the consolidated revenue. In 2014, revenue of International tobacco business and Japanese domestic tobacco business increased 2.7% year-on-year to JPY 2,013.9 billion.

Japanese Domestic Tobacco

We are the market leader in Japan, one of the largest markets in the world, with over 60% market share, mainly driven by MEVIUS.

Our Japanese domestic tobacco business continues to be a significant profit contributor to the JT Group, generating over 35% of our consolidated profit¹.

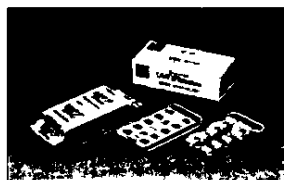
Composition of JT SOM² as of 2014

32.1% of our SOM² is coming from MEVIUS, showing resilience in the context of intensified competition.

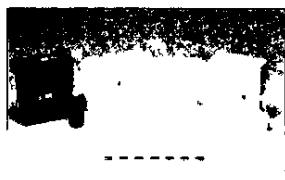
Pharmaceutical

We aim to build a unique, world-class pharmaceutical business driven by R&D, and to increase our market presence through original and innovative drugs. The pharmaceutical business is currently focusing on the development, production, and sale of prescription drugs.

During 2014, Group company Torii Pharmaceutical Co., Ltd. launched 'Riona Tablets 250mg' and 'Cedartolen Sublingual Drop' in Japan.



Riona Tablets 250mg
For treatment of hyperphosphatemia

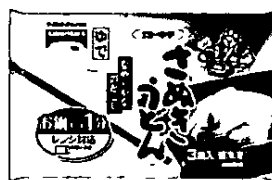


Cedartolen Sublingual Drop
Sublingual immunotherapy drug for Japanese cedar pollinosis

Processed Food

With Group company TableMark Co., Ltd. taking a central role, the processed food business is primarily engaged in business concerning frozen and ambient processed food, mainly staple food products such as frozen noodles, frozen rice, packed rice and frozen baked bread, and seasonings, including yeast extracts and oyster sauce.

We solidified our number 3 position in the frozen food industry with several top-selling products within respective categories, such as frozen Udon noodles and frozen Okonomiyaki.



¹ Consolidated profit / Consolidated adjusted operating profit

² SOM: Share of market

* We announced the withdrawal from the manufacture and sale of JT beverage products in February 2015.

Consolidated Five-year Financial Summary

Japan Tobacco Inc. and Consolidated Subsidiaries

FY2014 Results for the fiscal year ended December 31, 2014

FY2014 a transitional period for the change in accounting period covers nine months from April 1, 2014 to December 31, 2014 for the Japanese domestic business and for the Company's consolidated subsidiaries whose current closing date was other than December 31. For the international tobacco business and its subsidiaries, accounting period remains the same from January – December 2014 (Reported basis).

For the purpose of fair business performance comparison, we are providing figures for the twelve-month period (Like-for-Like basis) with regard to all business segments.

	FY2010 (IFRS)	FY2011 (IFRS)	FY2012 (IFRS)	FY2013 (IFRS)	2013 (Jan-Dec)	2014 (Jan-Dec)
Billions of yen						
For the year						
Revenue (Note 1)	2,059.4	2,033.8	2,120.2	2,399.8	2,372.2	2,433.5
International Tobacco	963.5	966.3	1,010.7	1,270.0	1,270.0	1,328.0
Japanese Domestic Tobacco	665.8	646.2	687.1	710.3	690.5	685.9
Pharmaceutical	44.1	47.4	53.2	64.4	58.2	65.8
Food	367.5	359.4	–	–	–	–
Beverage		188.8	185.5	184.5	183.8	181.3
Processed Food		170.7	168.7	156.9	157.2	161.2
Others	18.5	14.6	15.0	13.6	12.6	11.3
Core revenue (Note 2)						
International Tobacco	887.8	894.6	943.1	1,200.7	1,200.7	1,258.2
Japanese Domestic Tobacco	632.2	611.9	654.0	676.2	656.3	649.8
Operating profit (Note 3)	401.3	459.2	532.2	648.3	642.7	571.8
International Tobacco	225.9	252.4	289.4	376.4	376.4	379.5
Japanese Domestic Tobacco	202.3	209.3	241.3	258.1	235.6	181.5
Pharmaceutical	(13.3)	(13.5)	(16.2)	(9.0)	(13.7)	(7.3)
Food	(3.6)	2.0	–	–	–	–
Beverage		4.5	2.3	(2.1)	(2.1)	(0.5)
Processed Food		(2.5)	(5.8)	(0.2)	0.7	(1.2)
Others	(9.9)	9.0	21.2	25.0	45.7	19.9
Adjusted EBITDA/Adjusted operating profit (Note 3)	522.0	577.1	622.0	641.8	612.6	660.1
International Tobacco	277.9	314.8	343.2	410.8	410.8	447.1
Japanese Domestic Tobacco	247.2	262.3	281.3	257.7	234.6	238.7
Pharmaceutical	(9.8)	(10.0)	(12.7)	(9.0)	(13.7)	(7.3)
Food	17.7	20.0	–	–	–	–
Beverage		14.6	12.4	(2.1)	(2.1)	(0.5)
Processed Food		5.4	7.4	0.6	0.6	1.4
Others	(11.0)	(9.8)	(9.6)	(16.2)	(17.6)	(19.3)
Depreciation and amortization (Note 3)	118.0	118.8	116.5	132.9	132.7	139.5
Profit (attributable to owners of the parent) (Note 4)	243.3	320.9	343.6	428.0	443.0	389.1
Free cash flow (FCF) (Note 5)	300.4	451.3	316.0	212.6	316.4	455.4

FY2014 Results for the fiscal year ended December 31, 2014

	Billions of yen				
	FY2010 (IFRS)	FY2011 (IFRS)	FY2012 (IFRS)	FY2013 (IFRS)	FY2014 (IFRS)
At year-end					
Assets	3,655.2	3,667.0	3,852.6	4,616.8	4,704.7
Interest-bearing Debts (Note 6)	709.1	502.4	327.2	375.9	228.2
Liabilities	2,053.9	1,952.4	1,960.1	2,020.7	2,082.2
Equity	1,601.3	1,714.6	1,892.4	2,596.1	2,622.5
Major Financial Ratios					
ROE (Note 7)	15.3%	20.3%	20.0%	19.9%	14.4%
ROA (Note 8)	10.2%	12.1%	13.5%	15.0%	10.8%
Equity Ratio (Note 9)	41.7%	44.6%	46.9%	54.3%	53.9%
Amounts per share (in yen)					
Diluted EPS (Notes 10/11)	25.407	168.44	180.98	235.35	199.56
Book value per share (attributable to owners of the parent) (Note 11)	160.180	858.09	993.98	1,378.57	1,395.74
Dividend per share (Note 11)	6.800	50	68	96	100.0
Dividend payout ratio (Note 12)	26.8%	29.7%	37.6%	40.8%	50.1%

Notes

- 1 Excluding tobacco excise taxes and revenue from agent transactions
- 2 Excluding revenue from distribution business of imported tobacco among others in the Japanese domestic tobacco business in addition to the distribution private label contract manufacturing and other peripheral businesses in the International tobacco business
- 3 (Before FY2012) Adjusted EBITDA = Operating profit + depreciation and amortization ± adjusted items (income and costs)*
*adjusted items (income and costs) = impairment losses on goodwill ± restructuring income and costs ± others
(Since FY2013) Adjusted operating profit = Operating profit + amortization cost of acquired intangibles + adjusted items (income and costs)*
*adjusted items (income and costs) = impairment losses on goodwill ± restructuring income and costs ± others
- 4 Under IFRS profit is presented before deducting non-controlling interests. For comparison we show the profit attributable to the owners of the parent company.
- 5 FCF = (cash flows from operating activities + cash flows from investing activities) excluding the following items
From "cash flows from operating activities" Interests and dividends received and their tax effect/interest paid and its tax effect
From "cash flows from investing activities" Purchase of securities/proceeds from sale and redemption of securities/payments into time deposits/Proceeds from withdrawal of time deposits/others (but not business related investment securities which are included in the investment securities item)

- 6 Including lease obligation
- 7 Return on equity (attributable to owners of the parent company)
- 8 ROA=(Profit before income taxes)/Total assets [average of beginning and ending balance of the period]
- 9 Equity ratio (attributable to owners of the parent company)
- 10 Based on profit (attributable to owners of the parent company)
- 11 A 700 for one share split is done effective as of July 1, 2012. Calculated on the assumption that this share split was conducted at the beginning of FY2011 (April 1, 2011)
- 12 Based on profit (attributable to owners of the parent company)
- 13 Financial data disclosed herein are basically rounded

Message from the Chairman and CEO

In 2014 we once again proved our ability to grow even in a challenging operating environment

We would like to celebrate with you another successful year for the JT Group. Despite a challenging operating environment illustrated by fragile economy, increased regulations and intensified competition, our adjusted operating profit and adjusted EPS grew strongly on a comparable basis.

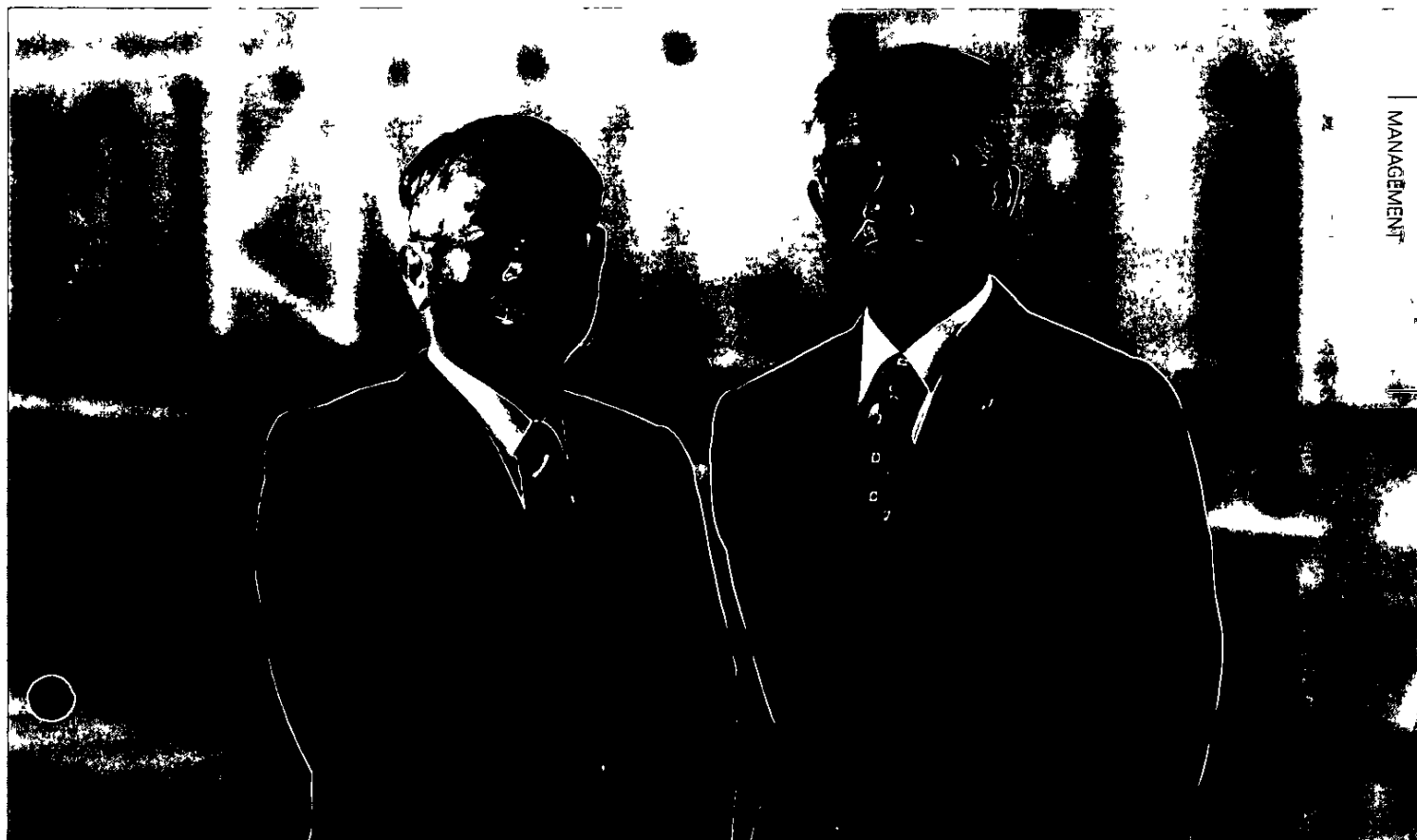
Superior tobacco brands were key in delivering our strong results. Leveraging the equity of its brands, the international tobacco business most contributed to the Group's profit growth. More importantly, this performance was achieved without compromising investment. We continued to strengthen our brands, broaden geographical reach and expand capability in emerging products for future top-line growth.

In addition, we adapted to changing market dynamics by re-shaping organizations. In Europe, we proposed a restructuring plan for two manufacturing facilities to optimize our manufacturing footprint. In Japan, the reorganization program for our tobacco business operations, announced in October 2013, progressed as planned. Furthermore, in February 2015 we announced the withdrawal from manufacturing and sales operation of JT branded beverages following a thorough business review and considering the Group's optimal resource allocation.

Return to shareholders

Underpinned by robust business and financial performances, our annual dividend per share was increased from the previous year, even though, in relation to the change in accounting period, the Group's reported results for fiscal year 2014 included only nine months of Japanese operations. We have consistently raised our dividend since the JT Group was listed in 1994, and during the recent six-year period to 2014, compounded annual growth rate of our annual dividend well exceeded 20%.

Moreover, on February 5, 2015, we announced a share repurchase program of up to 100 billion yen, or 36 million shares which has completed in March 2015. Implementation of this program further ensures high single-digit growth rate of adjusted EPS for mid- to long-term on a currency neutral basis, which is one of our management targets.



Yasutake Tango
Chairman of the Board

Mitsuomi Koizumi
President and CEO and Representative Director

Sustainability

Our management principle, the "4S" model, best describes the JT Group's approach to sustainability. Under the "4S" model, we strive to balance the interests of stakeholders and fulfill our responsibilities towards them.

Given investors' increasing interest in company's agenda for social and environmental responsibilities as well as governance, we have been reinforcing communication of sustainability performances to enhance visibility for our activities. Such an effort led to immediate outcomes. In 2014 JT was included in the Dow Jones Sustainability Index Asia Pacific for the first time. JT Group Sustainability Report FY2014 will be issued sometime in June, in which you will find more about our sustainability initiatives. We continue to contribute to society and remain responsible in conducting businesses, while embracing diversity within the Group.

In the years to come

Our well-conceived strategy and its excellent execution drove the strong results in 2014. Looking ahead, the operating environment is not expected to significantly improve anytime soon. In fact, our plan for 2015

assumes industry volume declines in key markets for our tobacco business and significant currency headwinds which are forecast to impact financials on a reported basis. However, we stay on the right course towards future sustainable profit growth by prioritizing business investment. In 2015 and beyond, the JT Group is looking to adjusted operating profit growth rate of mid- to high- single digit at constant currency, as we believe our business fundamentals are and will remain sound and solid supported by investment.

This firm belief in business fundamentals leads us to a shareholder return commitment for 2015, dividend payout ratio of 50%, which is a comparable range to the global FMCG players we have been benchmarking. Accordingly, dividend per share will continue to increase. In addition, the completed share repurchase program should contribute to EPS growth.

We have confidence in our strategy, our people and our brands. Above all, we share the same value through our management principle, which encourages and motivates each member of the organization. We have good reasons to believe that the JT Group will continue to grow in the years to come.

CEO Business Review

Business investment remains our first priority

We will increase investment in 2015 to secure long-term sustainable growth



Mitsuomi Koizumi
President and CEO
and Representative Director

Strong business momentum

The JT Group's profit growth continued. After 2009 when severely hit by economic turmoil and negative currency movements, our profit has been consistently increasing. In 2014, we grew adjusted operating profit at 7.8% year over year, or 10.6% excluding adverse FX impact. Our international tobacco business was the growth driver, while the Japanese domestic tobacco and other businesses delivered solid results.

Tobacco industry experienced various challenges in 2014. Economy was fragile across the globe, excise tax hikes were steep in several markets, geopolitical tension was mounting in certain areas, and regulations became increasingly restrictive. As a result, we faced severe industry contractions and accelerated down-trading in some of our key markets. In addition, in the competitive environment, aggressive tactical pricing was observed in several markets, against which we reluctantly responded in some cases.

Despite these difficulties, our international tobacco business repeated a double-digit adjusted operating profit growth of 13.1% on a currency neutral basis driven mainly by strong pricing and supplemented by continued cost control.

Our confidence in brand equity, built through continuous investment particularly in GFB, allowed us to pursue pricing opportunities in various markets including Russia, the UK and Ukraine among others. Furthermore, efficiency was sought across operations, and we successfully managed material cost increases and inflation. Consequently, the international tobacco business overcame negative volume development due to industry volume decline and fulfilled its role as the profit growth engine of the JT Group.

At the same time, eyeing on the future growth, the international tobacco business rigorously expanded earnings base both in geographical and product fronts. We started to build foundations for our cigarette business in Brazil, Egypt and Myanmar as well as in markets where we are under-represented. In the emerging product area, we took a meaningful step in the E-Vapor category through the acquisition of Zandera, the owner of E-Lites brand. The addition of this well-established brand will accelerate our progress toward leadership in emerging products.

In Japan, consumption tax, generally known as value added tax, was hiked in April 2014. The Government requested all industries including tobacco to take appropriate price increases, indicating that companies were advised not to look for excessive gains from tax-led pricing. Accordingly, we revised our price list by taking higher price increases for certain brands and lower for others so that our average price increase met the Government's intention.

Impact of the price increase on industry volume was felt, but within our expectation. However, there has been a noticeable change in the competitive tactics, which conceivably target down-traders. In fact, competitors launched a number of new extensions below the brand's base price after the tax and price hike.

Under such a circumstance, we clearly distinguished ourselves and focused our sales efforts on brands of higher price increase to retain consumers. Moreover, underpinned by strong brand equity, our new product offerings were focused on higher end with an aim to further improve profitability. Consequently, the Japanese domestic tobacco business defended its market share of over 60% despite intensified competition.

Improved unit selling price as well as efficient cost management more than offset volume downside, leading to year-on-year increase in adjusted operating profit

The pharmaceutical business is on the path to generate profit and its step-by-step progress continued during 2014. Most notably, we introduced two promising new drugs in Japan, Riona Tablets for hyperphosphatemia and Cedartolen Sublingual Drop for Japanese cedar pollinosis. In addition, we out-licensed JTE-052, JAK inhibitor for topical use in dermatological indication worldwide excluding Japan, to a partner renowned in the relevant therapeutic area. We believe that these achievements, solid performance of Torii Pharmaceutical and growing loyalty revenues from Strbild and Mekinist will turn our pharmaceutical business to a profit contributor in the foreseeable future, as early as in 2016.

The processed food business weathered another difficult year. Japanese economy saw a sign of recovery, but the deflationary mindset of the population persisted. Material cost increases mainly due to weaker yen and increased competition among other factors put additional pressure on earnings. However, solid performance of staple food products, our focus area, and successful cost management resulted in adjusted operating profit improvement from the previous year.

The beverage business experienced unfavorable weather condition in summer as well as intensive competition, and these factors collectively brought negative impact on our revenue. Despite that, additional focus on cost optimization contributed to a year-on-year earnings improvement.

Reshaping foundation

In 2014 our businesses remained strong. Notwithstanding, with an aim to achieve sustainable profit growth for a mid- to long-term, we engaged in initiatives to strengthen our business foundation, most of which required tough decisions.

In February 2015 we announced the exit from manufacturing and sales operations of JT branded beverages, expecting the timing of the exit by the end of September 2015. The JT Group started these operations in 1988, and marketed several unique brands since then. However, according to our analysis the overall beverage industry has matured and certain scale of business is required for the market players to sustain profit growth. After carefully considering the growth strategy for these operations, we concluded that it would be difficult for them to make a profitable contribution to the JT Group in the mid- to long-term. Meanwhile, we will continue the beverage vending machine operation conducted by our subsidiaries, and seek various options for these subsidiaries.

The international tobacco business made a difficult proposal to optimize product sourcing by adjusting and relocating manufacturing capability within Europe. This initiative is to respond to the expected market

development in this region, notably industry contraction and the planned introduction of new regulations, known as "Revised European Tobacco Product Directive", which will cause a significant impact on the entire EU tobacco industry. As of March 2015 we started discussing the closure of manufacturing operations of two facilities, one in Lisnafillan, Northern Ireland and the other in Wervik, Belgium. Under the current proposal, their production as well as most of OTP manufacturing function in Trier, Germany, will be moved to existing factories in Poland and Romania.

The processed food business will be implementing a program to transfer certain employees to the TableMark Group companies in April 2015. This program to move employees within the JT Group ensures the unity of the TableMark Group employees coming from various backgrounds after a series of acquisitions.

Reorganization of the Japanese domestic tobacco business is on track, re-arranging the organizations and preparing for office and factory closures. As part of the process, approximately 1,750 employees applied for a voluntary retirement program, and most of the applicants will leave the JT Group at the end of March 2015.

Investing now, delivering in the future

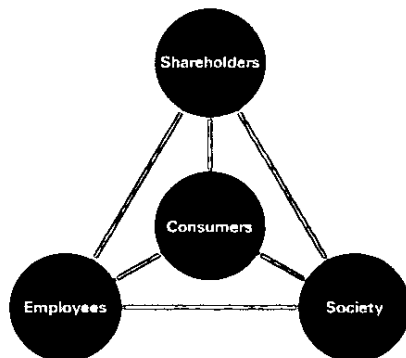
The JT Group prioritizes business investment that leads to sustainable profit growth. This policy is reflected in our 2015 plan to increase investment from the previous year, notably with an aim to accelerate development of emerging products and "seeding" markets. These two areas represent points of strategic emphasis on top of continuous brand equity enhancement. We are not expecting immediate return from the investments in these areas, rather we regard them as future growth drivers. The current operating environment is all the more challenging and uncertain. Thinking short-term, it would be tempting to reduce investment to secure profit, but this approach cannot be sustainable. Instead, we think long-term, we continue to invest during this difficult time, to enjoy the most benefit from the investment when the environment stabilizes. This approach proved successful in the past in helping us weather similar turmoil. Incorporating the additional investments, the JT Group plans year-on-year adjusted operating profit growth of approximately 7% in 2015 at constant currency driven by our core tobacco business.

Our proven strategies remain unchanged. We will continue to enhance our brand equity and broaden earnings base for quality top-line growth. In and after 2015, cost reduction will be realized from certain initiatives taken in 2014. We will stay committed to pursuing efficiency to build a competitive cost base. Our efforts to further establish robust business foundation will continue. We will respond to the evolving environment and reshape our organizations so that our talented and diverse employees can perform up to or even exceed their capabilities. With these strategies in place, the JT Group is well-positioned to achieve sustainable growth in the mid- to long-term.

Management Principle, Strategic Framework and Resource Allocation

Management Principle

The “4S” model, our management principle, is the most shared value among JT Group employees across businesses and countries



The “4S” model is JT Group’s core competency. Our decision making has been and will continue to be based on this management principle. To balance the interests of and fulfill responsibilities towards stakeholders and exceed their expectations,

- For our consumers, we will offer superior products which meet or even go beyond their evolving needs. To achieve that, we will make the most of JT Group’s diversity to enhance our capability in innovation.
- For our shareholders, we will continue to seek an optimal balance between profit growth through business investment and shareholder returns comparable to global FMCG players.
- For our employees, we will further evolve to become an attractive and respected company so that employees feel proud to be a part of it. For that, we will highly value the employees with a strong sense of commitment to deliverables and properly reward their accomplishments.
- The growth of the JT Group is dependent on sustainability of society. We will continue to contribute to society and eventually enhance our company value.

Strategic Framework

Our track record proves that our strategy is right, and we believe that it will continue to underpin the strong performance of the JT Group

Quality top-line growth

Among the strategic pillars, the JT Group places a particular emphasis on quality top-line growth, which is indispensable for sustainable growth. We aim to grow top-line by consistently offering innovative products. For example, in both international and Japanese domestic tobacco businesses, innovative offerings such as XS and capsule supported share of market and share of value performances in 2014. Also, we emphasize on key areas, brands or products to achieve top-line growth. In tobacco businesses, we continued to focus on GFB and certain local brands. Our pharmaceutical business concentrated its R&D efforts on glucose and lipid metabolism, virus research as well as immune disorders and inflammation as in the past. And staple foods remained the focus area for processed food business.

Competitive cost base

The JT Group has a history to proactively address cost optimization, even before cost increase becomes a serious problem. 2014 was no exception. As explained in the previous sections, we implemented various initiatives across businesses which will enhance efficiency. More importantly, these initiatives were

intended not merely to reduce costs, but to strengthen the business operations. We continuously seek to improve cost base, while not compromising investments for future sustainable growth.

Robust business foundation

Business environment surrounding the JT Group has been changing fast. In order to respond to and even take advantage of the changes, we encourage each employee and organization to challenge the status quo for continuous improvement. We believe that our talented and diverse employees are the cornerstone of business growth. We have been offering various development opportunities for them and listening to their feedback via employee engagement survey conducted regularly.

Resource Allocation

First, we grow profit through business investment. Then, use this profit to return cash to our shareholders

Business investment and capital policy

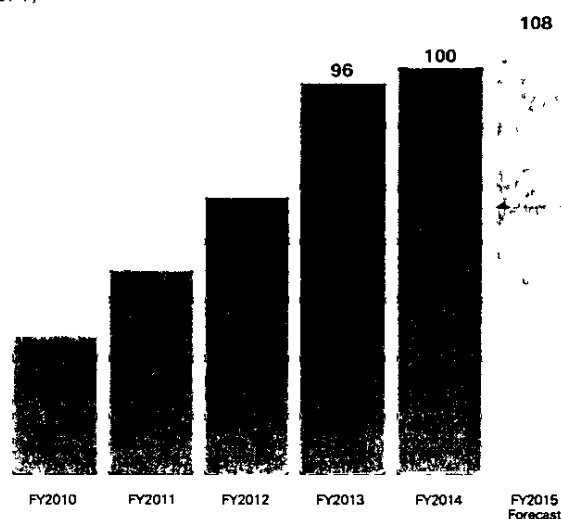
The JT Group is a growth company. Investing for both external and organic growth, we historically increased profit, and eventually corporate value. We believe that opportunities exist to expand earnings base especially for tobacco business. Our investment will mainly focus on this core business to fuel its growth. As we expect pharmaceutical and processed food businesses to contribute to the Group profit in the future, we will allocate our funds to best utilize existing assets and improve their profitability.

Under the Japan Tobacco Inc. law, we are subject to restriction in issuing new shares. Given the circumstance, we plan to maintain a strong balance sheet for debt financing and not to cancel treasury stock. With sufficient debt capacity, we can consider share repurchase when the Government, who holds one-third of our outstanding shares, releases them, in whole or in part, in the future.

Shareholder Return

As profit increased, we have consistently improved return to shareholders. Our benchmark in this regard is global FMCG players, not tobacco peers, and we aim to offer shareholders a return comparable to FMCG companies. We set targets for dividend payout ratio and EPS growth. As for EPS, our objective is to grow adjusted EPS at constant FX, which excludes one-off financial influences from such as restructuring as well as impact from currency movements. We intend to achieve the target for EPS growth through profit increase from operations, however, we would consider a share buy-back program to supplement the EPS growth, if necessary to reach our target.

Dividend per share (JPY)



Business Plan 2015

The JT Group's Business Plan covers a three-year period, and is rolled-over annually to reflect the changes in our business environment including economics, geopolitics and competition. By leveraging and enhancing our ability to adapt to changes, we will achieve sustainable profit growth

Group profit target

- Adjusted operating profit at constant currency over mid- to long-term
 - Mid to high single-digit annual average growth rate

Shareholder return targets:

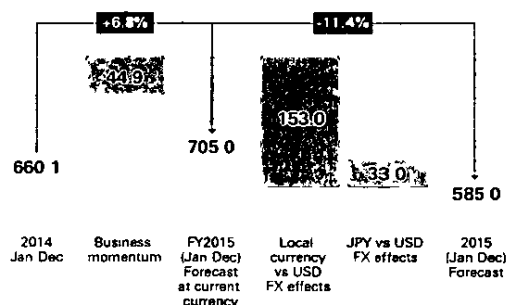
- Consolidated dividend payout ratio
 - A level comparable to global FMCG players and no less than 50%
 - 50% in FY2015
- Adjusted EPS at constant currency over mid- to long-term
 - High single-digit annual average growth rate

* Adjusted items (income and costs) = impairment losses on goodwill ± restructuring income and costs ± others

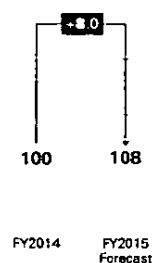
Forecast for FY2015

- Adjusted operating profit is forecast to grow 6.8% at constant currency. International tobacco business, the profit growth engine, is expected to grow its currency neutral adjusted operating profit at 8% driven by top-line. Japanese domestic tobacco business is projected to increase adjusted operating profit at approximately 5% mainly through cost optimization.
- On a reported basis, adjusted operating profit is forecast to decline 11.4%, as negative currency impact, most notably weak Russian ruble, exceeds strong business performance.
- We will achieve dividend payout ratio of 50% in FY2015. Accordingly, dividend per share will continue to increase and reach 108 yen. In addition, share repurchase program of up to 100 billion yen or 36 million shares was initiated in February 2015 and completed in ensuring month. This program aims to complement the EPS growth to ensure that we achieve the target in Business Plan 2015 and beyond.

Adjusted operating profit
(JPY BN)



Dividend per share
(JPY)



Role and Priority of Each Business

In view of Business Plan 2015, the role and priorities of each business in the mid- to long-term are as follows.

Tobacco Business

Grow adjusted operating profit at mid- to high single digit rate per annum over the mid- to long-term as the core business and profit growth engine of the JT Group.

International Tobacco Business



Continue to strengthen its role as the group's profit growth engine

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Japanese Domestic Tobacco Business



Maintain its highly competitive platform of profitability

p34

- Prioritize quality top-line growth
 - strengthen our brand equity with focus on core brands
 - grow or maintain market share in existing key markets
- Continue to improve cost base
- Strengthen business base
 - broaden geographical earnings base
 - develop emerging products categories

Pharmaceutical Business

Strive to strengthen the profit base through value maximization of each product and the 2) promotion for next generation of strategic technologies.

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Processed Food Business

Achieve operating profit margin on par with industry average, allocate make-profit contribution to the JT Group.

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Performance Measures

FY2014 Results for the fiscal year ended December 31, 2014

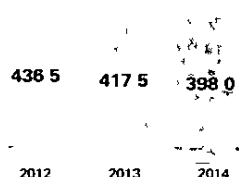
In our Business Plan 2015, targets are set for adjusted Operating Profit growth rate at constant exchange rates as well as consolidated dividend payout ratio and adjusted EPS growth rate at constant exchange rates. While they are mid- to long-term targets, we also monitor these performance measures annually.

In our strategic framework to achieve adjusted Operating Profit growth rate, the JT Group places a particular emphasis on "quality top-line growth", while, at the same time, focusing on building a "competitive cost base" and "robust business foundations". In line with our strategic emphasis, the measures to review our business performance are skewed towards top-line related indicators. As for shareholder return, we have selected three indicators to monitor the improvement.

Tobacco sales volume

International tobacco (BnU)

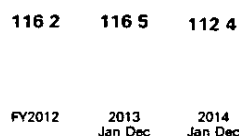
Calendar
year basis



-4.7% to **398.0** BnU

For the international tobacco business, total shipment volume includes fine cut, cigars, pipe tobacco and snus, but excludes contract manufactured products, waterpipe tobacco products and emerging products.

Japanese domestic tobacco (BnU)



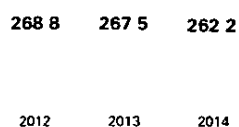
-3.6% to **112.4** BnU

For Japanese domestic tobacco, total sales volume excludes sales volume of Japanese domestic duty free and the China business.

GFB shipment volume

GFB shipment volume (BnU)

Calendar
year basis

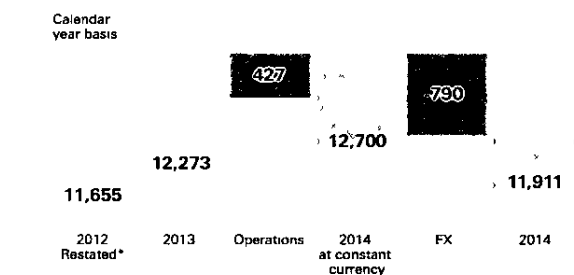


-2.0% to **262.2** BnU

Shipment volume of GFBs, namely Winston, Camel, MEVIUS, LD, B&H, Silk Cut, Glamour and Sobranie in the international tobacco business.

Core revenues

International tobacco (US\$ MM)

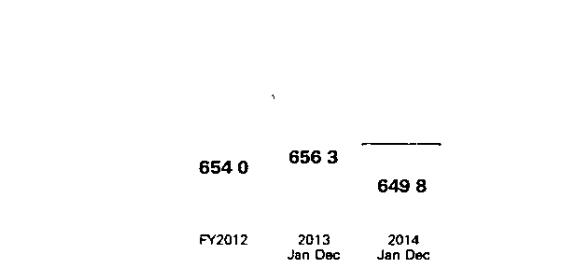


* See glossary of terms

+3.5% at constant exchange rates to US\$ 12 700 MM

For the international tobacco business, US dollar-based core revenue includes revenue from waterpipe tobacco products and emerging products, but excludes revenues from distribution, contract manufacturing and other peripheral businesses.

Japanese domestic tobacco (JPY BN)

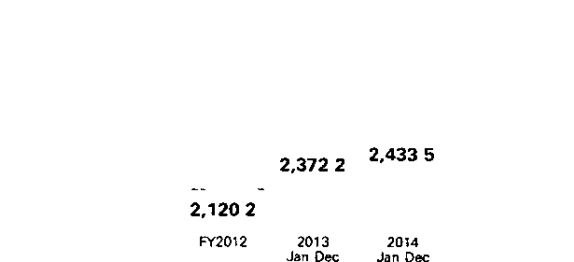


-1.0% to JPY **649.8 BN**

For the Japanese domestic tobacco business, core revenue excludes revenue from distribution of imported tobacco in Japan, among others.

Revenue

Revenue (JPY BN)



+2.6% to JPY 2 433.5 BN

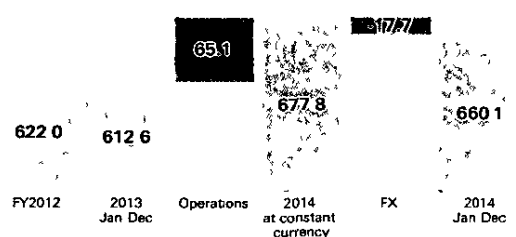
Revenue on a consolidated basis which, for the avoidance of doubt, excludes excise and other similar taxes, as well as sales from transactions in which the JT Group acts as an agent.

Performance Measures *continued*

FY2014 Results for the fiscal year ended December 31, 2014

Adjusted Operating Profit

Adjusted Operating Profit
(JPY BN)



+10.6%

at constant exchange rates
to JPY 677.8 BN

+7.8%

including currency impact
to JPY 660.1 BN

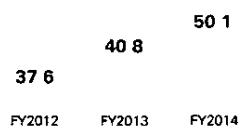
Adjusted operating profit is calculated as follows

Adjusted operating profit = Operating profit + Amortization cost of
acquired intangibles + Adjustment items (income and costs)*

* Adjustment items (income and costs) are impairment losses on goodwill,
restructuring related income and costs and others

Dividend payout ratio

Dividend payout ratio
(%)



Dividend per share divided by profit attributable to owners
of the parent company per share

CAGR 13.2%

adjusted operating profit (JPY) growth rate¹ over the past five years

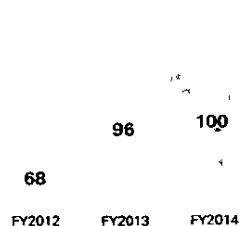
¹ The calculation was based on operating profit for FY2010, FY2011 and FY2012
and adjusted operating profit for Jan-Dec 2013 and 2014

CAGR 31%

dividend per share growth over the past five years

Dividend per share

Dividend per share
(JPY)

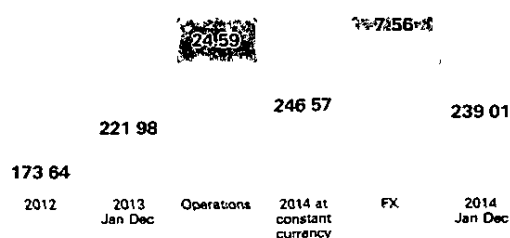


+4 yen to 100 yen

The sum of interim and year-end dividends per share the record dates of which fall in the relevant fiscal year

Adjusted EPS (diluted)

Adjusted EPS (diluted)
(JPY)



+11.1%

at constant exchange rates
to JPY 246.57

+7.7%

including currency impact
to JPY 239.01

Adjusted EPS is calculated as follows

Adjusted EPS = (Profit or loss attributable to owners of the parent company ± adjustment items (income and costs) ± tax and minority interests adjustments) / (weighted-average common shares + increased number of ordinary shares under subscription rights to shares)

* Adjustment items (income and costs) are impairment losses on goodwill restructuring related income and costs and others



Factory floor of Kansai factory

*One of the key tobacco manufacturing
plants in Japan*



022	Industry Overview
026	Review of Operations
045	JT Group and Sustainability
046	Risk Factors
050	Corporate Governance

Please be reminded that this section is intended to explain the business operations of JT to investors, but not to promote sales of tobacco products or to encourage smoking by consumers

Industry Overview

Tobacco

Tobacco industry

Market dynamics

There are many types of tobacco products available in today's marketplace. Cigarettes remain the most popular choice for consumers, while fine-cut, cigars, pipe tobacco, snuff, chewing tobacco and water-pipe tobacco continue to draw consumers' interest, with some of these product categories increasing their volumes worldwide.

In addition, the next generation of emerging products such as electronic cigarettes (e-cigarettes) have become widely popular, particularly in the US and European markets. E-cigarettes use vaporized liquid solutions often containing nicotine, and vapor is inhaled to offer a different experience. Recently, other type of emerging products referred to as 'E-Vapor' or 'Heat-not-Burn' cigarette products, have become available to consumers. Unlike e-cigarettes, E-Vapor products often use tobacco leaf and are therefore taxed and regulated as cigarette products. Although market size for e-cigarettes or E-Vapor is still small, further innovation and product offerings are anticipated, as market players take keen interest in this new growing category.

Approximately 5.7 trillion cigarettes are consumed around the world. China is by far the largest market, accounting for over 40% of global consumption, but it is almost exclusively operated by a state monopoly. Russia, the U.S., Indonesia and Japan are the next four largest markets, according to a survey conducted in 2013^{*}.

In general, the market dynamics are distinctively different between mature and emerging markets. In mature markets, industry volume tends to decline reflecting various factors such as limited economic growth, tax increases, tightening regulations, and demographic changes, among others. In addition, down-trading is prevalent in these markets. Consumers are inclined to seek more value as they feel tobacco products become less affordable in the context of limited growth of disposable income. Recently, these trends have been notable in EU countries, as weak economic conditions accelerate industry contraction and down-trading.

In emerging markets, on the other hand, total consumption tends to increase, driven by population growth and economic development, particularly in Asia, the Middle East and Africa. As their disposable income increases, consumers look for quality and trade up to products in higher price bands.

Overall, when we exclude China, global industry volume has been slightly decreasing according to a survey conducted in 2013^{*}. However, more importantly,

industry value continues to grow even in the current difficult operating environment, mainly driven by price increases. This is a sign of the resilience of the industry. These trends – decline in volume and increase in value – are expected to continue in the years ahead.

Regulations

The regulatory environment continues to be more restrictive for the tobacco industry. Restrictions on promotions and advertisements are the most common around the world. An increasing number of markets are introducing bans on smoking in public places and promoting larger health warnings on product packaging, in some cases with pictorial health warnings.

Recent regulations are focusing more on the product itself. Plain packaging has been introduced in some markets and furthermore, regulators are becoming more aggressive by restricting ingredients and emissions, following the guidelines on these attributes proposed by the Framework Convention on Tobacco Control. In Europe, a revised European Tobacco Directive adopted extended health warnings, reduction in the number of pack formats or restrictions on the use of additives, among others. We expect to see EU member states complying with these restrictions by May 2017. These moves to commoditize tobacco products will undermine fair competition among tobacco manufacturers trying to meet increasingly diverse consumer preferences. Worse, they could result in an undesired increase in illicit trade, as commoditized products with less uniqueness are easier to counterfeit and more difficult to detect when smuggled.

Excise taxes were raised in various markets during the past year, and in general, tax increases are passed onto prices. However, repeated tax increases in a short period of time, or steep tax increases, could lead to a decline in industry volume. Often, tax increases coincide with an increase in illicit trade, which could in turn affect our business.

Competition

Excluding China, two-thirds of world industry volume is produced by four major global tobacco companies, namely Philip Morris International Inc., British American Tobacco Plc., Japan Tobacco Inc. and Imperial Tobacco Group Plc^{*}. The competition within the industry is intense and, as consumers' needs and preferences continue to diversify, a strong portfolio with established brands is increasingly important to support market share gains. Therefore, major global companies are focusing on brand equity enhancement to strengthen their brand portfolios by introducing innovative products. In addition to the pursuit of organic growth, M&A is an effective way to supplement growth opportunities in this industry.

Industry data will be updated on JT web site around June 2015.

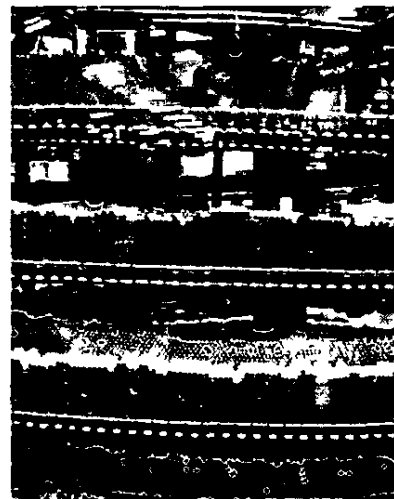
^{*} Source: Euromonitor, excluding e-cigarettes (2013 data)

Industry data will be updated on JT web-site around June 2015

Top 10 countries by volume

Country	Billion units				
	2009	2010	2011	2012	2013
China	2,229.2	2,316.7	2,406.2	2,477.9	2,517.8
Russia	390.0	383.1	375.1	370.8	347.2
U.S.	320.7	309.1	299.1	292.7	285.2
Indonesia	173.8	181.6	191.8	203.1	221.2
Japan	235.1	217.9	195.9	197.4	195.0
India	98.7	98.6	102.8	102.1	100.9
Turkey	107.5	93.4	91.2	95.3	92.2
South Korea	94.2	90.5	89.9	89.3	88.5
Philippines	94.8	101.4	97.4	102.5	86.7
Vietnam	76.0	79.7	82.6	83.5	85.3

Source: Euromonitor



Top market players

	Share of market (%)				
	2009	2010	2011	2012	2013
Philip Morris International Inc.	22.2	24.3	24.6	25.1	25.1
British American Tobacco Plc	19.5	19.7	20.0	20.2	20.5
Japan Tobacco Inc.	16.6	16.2	15.5	16.2	16.6
Imperial Tobacco Group Plc	8.9	8.8	8.7	8.6	8.5

Source: Euromonitor and JT estimate
Excluding China National Tobacco Corp (CNTC)

Top brands

Brand	Company	Billion units				
		2009	2010	2011	2012	2013
Marlboro	• Philip Morris International Inc. • Altria Group Inc.	425.7	420.8	414.4	416.9	402.7
Winston	• Japan Tobacco Inc. • Reynolds American Inc.	122.1	122.4	122.4	130.2	136.3
Pall Mall	• British American Tobacco Plc. • Reynolds American Inc.	90.4	99.4	101.0	101.6	104.5
LSM	• Philip Morris International Inc.	84.8	84.7	87.3	88.1	89.5
Mevius	• Japan Tobacco Inc.	103.7	95.2	81.2	84.4	83.7
Gold Flake	• ITC Ltd. • British American Tobacco Plc.	60.3	59.0	58.8	61.6	62.7
Kent	• British American Tobacco Plc.	57.6	57.0	60.2	63.6	61.8
Gudang Garam	• Gudang Garam Tbk PT	48.8	52.3	53.7	57.8	60.5
Camel	• Japan Tobacco Inc. • Reynolds American Inc.	68.7	63.9	60.2	59.6	58.7
Dunhill	• British American Tobacco Plc.	45.8	48.0	47.1	47.0	51.5

Source: Euromonitor
Excluding China National Tobacco Corp (CNTC)

Industry Overview *continued*

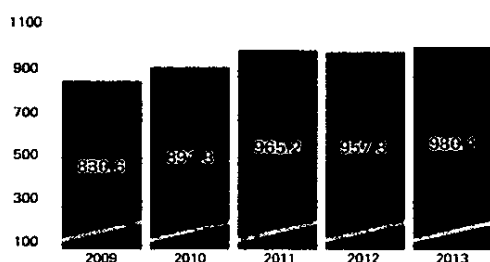
Pharmaceutical

Market dynamics

The global pharmaceutical market continues to grow, reaching sales of approximately US\$980 billion in 2013 according to IMS Health

In emerging countries, demand for modern medicine is rapidly growing due to multiple factors including growing consciousness of health, increase in population, and development of public healthcare systems, among others. Mature markets also see a value increase, though the pace of growth is moderate. Facing a rapidly aging society and a fiscal deficit, the governments in these markets try to contain healthcare costs through wider promotion of generic drugs. In addition, patents of commercially successful drugs have been expiring during recent years, which accelerates the global trend of industry consolidation.

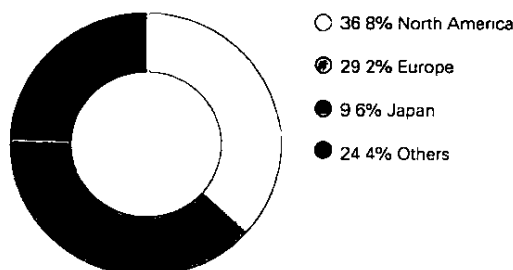
Worldwide Pharmaceutical Market (US\$ BN)



Source: 2014 IMS Health

Mature markets hold majority of share in global pharmaceutical markets. North America is the largest market and accounts for 37% of the worldwide market, followed by Europe and Japan, representing 29% and 10%, respectively.

2013 Regional Composition



Source: 2014 IMS Health

In Japan, the main market for our pharmaceutical business, prescription drugs comprise the majority of the market in terms of net sales. The Japanese generic drug market for prescription drugs is still small compared with that in the U.S. and Europe. However, it has been expanding more recently due in part to government promotion of generic drugs in order to control medical care expenses.

In Japan, the government determines the price of pharmaceutical products with revisions being made every two years. In April 2014, the latest round of price revisions led to an industry-wide reduction of drug prices by 5.6% on average excluding consumption tax increase.

Competition

The pharmaceutical industry is highly competitive worldwide. Our pharmaceutical business focuses on building a R&D-led operational platform. Based on this platform, original compounds are developed and marketed as leading products in major global markets. As such, we face competition with Japanese and multinational pharmaceutical companies. These companies are also focused on their research and development pipelines.



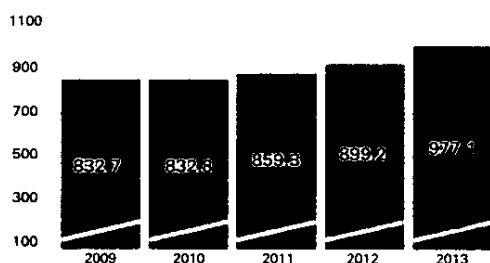
Processed Food

Market dynamics

JT's processed food business is operated through our subsidiary TableMark Co., Ltd. (TableMark) which plays a central role in our processed food business. TableMark focuses on frozen food such as frozen noodles, frozen rice and bread, ambient processed food represented by packed-cooked rice, seasoning business utilizing our yeast technology, and bakery business.

The size of the Japanese frozen food market in 2013 on a consumption basis including imports was ¥977.1 billion, up 8.7% year-on-year (Source: Japan Frozen Food Association). This was due to an increase in household consumption of frozen food arising from stronger preference for eating-in after the Great East Japan Earthquake. Product development efforts by manufacturers also contributed to the growth, as well as the use of frozen food in restaurants, so demand for them remained solid throughout the year.

Japanese Frozen Food Market
(JPY BN)



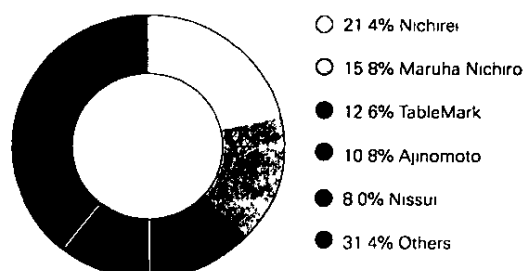
Source: Japan Frozen Food Association

For the Japanese processed food industry, we expect to see additional price increases in imported raw materials and prices of raw materials remaining at high levels. The

processed food business is also significantly impacted by developments in the wholesale and retail sales channels, particularly by their consolidation. We will continue to monitor the development of these channels, especially in the area of M&A.

In response to the April 2014 consumption tax increase, whereby consumption tax was raised from 5% to 8%, food manufacturers managed the tax hike in a number of ways, for example by raising prices in conjunction with product renewals or reducing cost by amending product specifications.

2013 Share of Market by Frozen Food Manufacture



Source: The Nikkei Business Daily

Competition

TableMark is competing against major players like Nichirei, Maruha Nichiro, Ajinomoto and Nissui as well as a multitude of mid-or small-scale producers. We are seeing a polarization of retailers as well as reorganization and oligopolization of the wholesale sector led by sogo-shosha, the general trading companies, resulting in stronger price negotiation power against manufacturers. We are also seeing an increase in private label brands.

Review of Operations

Tobacco Business Value Chain



R&D

Create value for the business through innovation and quality

- We focus on fundamental research and product technology development taking advantage of our global research platform in close collaboration with other functions. In particular, focus areas in our R&D activities are
 - Develop products and analytical capabilities in line with market needs and our anticipation of regulatory trends
 - Maintain existing products to comply with regulatory changes
 - Develop new technologies and improve production processes to maintain competitiveness and increase efficiency
 - Drive product innovation to enhance brand equity from various aspects including tobacco leaves, blends, filters, printing techniques and packaging
 - Develop emerging products



Procurement

Ensure stable supply of quality tobacco leaf

- Tobacco leaf is the most important material for our products, and we dedicate our efforts to strengthen our capability to ensure a stable supply of quality leaf in the long term
 - Increase the proportion of leaf from our vertical integration bases in Africa, Brazil and the U.S.
 - Enhance sustainability of tobacco farming by helping farmers to improve productivity as well as taking initiatives to support their communities
 - Maintain good relationships with external suppliers to ensure sufficient supply at competitive prices
- With regard to non-tobacco materials, we aim to mitigate cost increases due to design enhancements and investment in innovative products by, among others, effectively managing procurement lot-size



Manufacturing

Support top-line growth by delivering quality products

- Our emphasis on product quality is increasing to meet consumer expectations for innovative offerings. In addition, we consistently pursue an optimal manufacturing footprint which ensures efficient and timely product deliveries to markets.
 - Strengthen our ability for business continuity in times of emergency
 - Ensure high quality of products and enhance flexibility in the manufacturing process, overcoming complexity in manufacturing due to an increase in number of products
 - At the same time, seek efficiency by containing cost increases through continuous improvement and reviewing manufacturing footprint for further optimization



Marketing

Enhance equity of flagship brands

- Our strategic focus is placed on our flagship brands and we strive to enhance their equity through effective communications with consumers.
 - Allocate appropriate resources to support GFB's equity building
 - Implement effective marketing programs, in compliance with applicable laws and regulations as well as our own marketing code



Sales & Distribution

Expand product availability by leveraging our trade marketing excellence

- There are various sales channels for tobacco products such as supermarkets, convenience stores, street and train station kiosks, small independent retailers and vending machines. Key channels are different depending on market and we develop win-win relationships with them to increase the availability of our products.
 - Strengthen relationship with key accounts, leveraging our trained sales forces
 - Develop trade marketing initiatives for each market, taking into account the channel development as well as consumer trends and competitors' actions

Review of Operations *continued*

International Tobacco Business

FY2014 Results for the fiscal year ended December 31, 2014



Thomas A. McCoy
President & CEO, JTI

"In 2014, JTI yet again delivered strong financial results with adjusted operating profit growing 13.1% at constant rates of exchange driven by robust pricing and share momentum.

Our continued investment behind our brands enabled us to maintain our total share of market while growing total share of value, despite industry volume contraction in some key markets. We also grew both Global Flagship Brands (GFB) share of market and share of value.

In the fine cut category, we continued to grow both volume and share of market. This was driven by our GFBs and strong brands like Amber Leaf and Old Holborn.

JTI enhanced its presence in the growing emerging products category with the acquisition of Zandera, owner of E-Lites, a leading e-cigarette brand in the UK.

Another cornerstone of our growth is our people. The recently awarded Top Employer Global 2015 certification recognizes the high standards we have set ourselves globally in fostering a work environment where employees can excel.

Importantly, solid pricing, combined with cost efficiencies and benefits related to Megapolis, resulted in another year of double-digit profit growth at constant currency.

For 2015, we forecast GFB volume growth and continued market share momentum. We will step up investments in our emerging products portfolio while also enhancing our organic growth by focusing on areas where our presence is limited and by pursuing opportunities to expand into new markets.

While the environment will remain challenging, we expect our 2015 earnings to grow by 8% at constant currency, enabling JTI to continue to be the profit engine of the JT Group."

398.0
Total Shipment Volume (BnU)

-4.7%
Year-on-year change

262.2
GFB Shipment Volume (BnU)

-2.0%
Year-on-year change

11,911
Core Revenue (US\$ MM)

-3.0% **+3.5%**
Year-on-year change Constant currency

4,253
Adjusted operating profit (US\$ MM)

+1.1% **+13.1%**
Year-on-year change Constant currency

JTI represents the international activities of the JT Group's tobacco business. JTI manufactures and sells some 90 brands in more than 120 countries. It is the profit growth engine of the Group, driven by its diversified geographic profile and the strength of its brands and people.

Our strategies

Our priorities are to continue achieving quality top-line growth and broadening our earnings base. JTI's business strategies are guided and underpinned by the principle of continuous improvement.

Our key strategies are:

- Build and nurture outstanding brands
- Continuously enhance productivity
- Maintain focus on responsibility and credibility
- Strengthen human resources as a cornerstone of growth

Review of operations

Despite fine cut volume growing 11.1%, total shipment volume was down 4.7% to 398.0 billion cigarette equivalent units, due to significant industry contraction. Our total share of market remained at the same level as 2013 while our GFBs continued to gain market share, building on their momentum.

We also grew total share of value and GFB share of value. This is the result of focused and consistent investment over many years to enhance the equity of our brands and ensure the highest standards in our trade marketing.

Another key success factor is the well-balanced structure of our portfolio capturing both down-traders and up-traders according to local market trends.

Pricing was the key financial driver of our financial growth. Core revenue at constant currency increased 3.5% driven by price/mix improvements of US\$958 million, mainly in Russia, Taiwan, the UK and Ukraine. On a reported basis, core revenue decreased 3.0% due to unfavorable currency movements.

Global Flagship Brands (GFB) Portfolio

Our GFBs form the core of our brand portfolio. We have eight GFBs providing a well-balanced portfolio to address consumer needs globally

Winston



129.6 BnU
Global Sales

First introduced in 1954, Winston is one of our key growth drivers. The second largest cigarette brand worldwide since 2007, Winston is currently sold in more than 100 markets.



In 2014, Winston gained share and global reach. It consolidated its number 2 global ranking, growing its market share 0.4ppt to 9.6%. Winston achieved record market share in 27 markets, including Russia where it is the leading brand. Notable gains were also achieved in Azerbaijan, Germany, Sweden, Switzerland and Taiwan where the brand was historically under-represented. Winston continued expanding with launches in Brazil, Egypt, Hungary, Oman and Sudan.



Winston grew volume in 21 of its top 30 markets, reaching over 1 billion units in 26 markets. In fine cut, shipment volume momentum continued with an increase of 34.1% and market share growing across Europe.



Both pillars of the Winston portfolio architecture, Winston Core and Winston XS contributed.

Our Core pillar delivers an authentic, high quality, premium smoking experience. It continues to grow steadily driven by mainstream products such as Winston King Size, Winston Super Slims and Winston Fine Cut. Our XS pillar offers a more style focused product, created specifically to open up new segments and territories to Winston. Despite being a new player, XS is the number 1 offering in the King Size Super Slim segment and the number 2 in fat slim globally.

Camel



46.4 BnU
Global Sales

Launched in 1913 and originator of the American blend, Camel has stood the test of time. It is sold today in more than 85 countries and is one of the top five premium brands in many of our key markets. Camel continues to successfully reinvent itself, building on its strong heritage and genuine taste.



In 2014, Camel grew market share 0.5ppt to 3.6% and achieved new records in the Czech Republic, Greece, the Netherlands, Poland and Turkey.



Following its price repositioning in Turkey in May 2014, Camel grew volume and share to become the number 1 cigarette brand by the fourth quarter. Its market share increased 6ppt to reach 7.9%, with all line extensions contributing to the growth.

On a global basis, all Camel line extensions grew volume, including Black & White, Essential and Activate. Camel also grew its fine cut volume and remained the number 1 brand in the fine cut category in France. In 2014, Camel achieved a record high shipment volume since the brand was acquired by JTI in 1999.

Camel volumes (billion of cigarette equivalent units)

	46.4
	30.3
1999	2014

Disclaimer: market share for brands is based on the markets they are sold in.

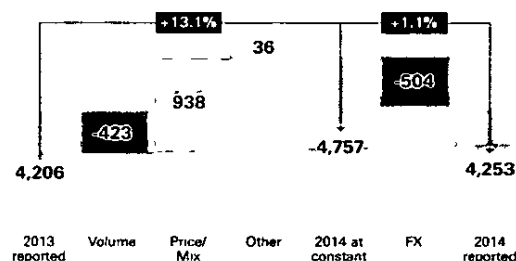
Please be reminded that this section is intended to explain the business operations of JTI to investors, but not to promote sales of tobacco products or to encourage smoking by consumers.

Review of Operations *continued*

International Tobacco Business *continued*

Adjusted operating profit grew 13.1% at constant exchange rates driven by pricing, cost efficiencies and by broadening our business footprint which now includes a 20% ownership in Megapolis, a Russian distributor. Reported profit was impacted by unfavorable foreign exchange rates, growing 1.1%.

Adjusted Operating Profit (US\$ MM)



GFB shipment volume performance

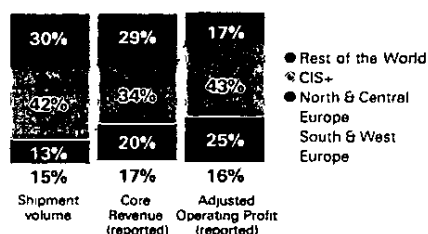
In 2014, while their shipment volume declined 2% to 262.2 billion cigarette equivalent units, GFBs continued to gain market share across the different markets they are sold in.

The strength and resilience of our GFBs, in combination with innovative propositions, resulted in a 0.5ppt market share increase versus the prior year, reaching 14.3%. In addition, GFBs retained brand leadership positions in the Caucasus, Ireland, Jordan, Russia, Taiwan and Turkey.

Overall, the weight of our GFBs in our total shipment volume increased 1.8ppt to 65.9%. This increase, combined with pricing opportunities, enabled our GFBs to also grow their share of value 0.6ppt to 14.4%.

Cluster performance

Cluster breakdown



BnU

	South & West Europe	North & Central Europe	CIS+	Rest-of-the-World	Total JTI
Total shipment volume	59.8	51.6	165.7	120.8	398.0
GFB shipment volume	51.4	27.8	115.7	67.2	262.2

South & West Europe

The economic environment showed early signs of improvement throughout the second half of 2014 with a slow down in the rate of industry volume decline compared to 2013.

Total shipment volume declined 2.2% while GFB shipment volume was flat as growth in Benelux markets, Portugal and Spain offset the decline in Italy.

We grew share of market across almost the entire cluster with gains in Belgium, France, Greece, Luxembourg, the Netherlands, Spain and Switzerland.

In France, total and GFB shipment volumes declined 2.1% and 1.0% respectively, over-performing the industry volume. Fine cut shipment volume was up 7.1%. Market share gained 0.8ppt to 20.8% led by Winston and Camel.

In Italy, Benson & Hedges grew volume 28.6% following its launch in the value segment. Fine cut volume was up 8.3% led by our GFBs. Our business fundamentals remain solid and we anticipate a turnaround in the profit contribution in 2015.

In Spain, total and GFB shipment volumes increased 0.6% and 4.9% respectively, driven by Winston, Camel and Benson & Hedges. Fine cut shipment volume also grew 2.2% driven by Winston and Camel. Our market share was up 0.7ppt to 21.7%.

Core revenue and adjusted operating profit were significantly impacted by the overall volume decline and the lack of price increases in France and Italy. Core revenue was down 5.1% while adjusted operating profit declined 10.3%, both at constant currency rates.

Mevius



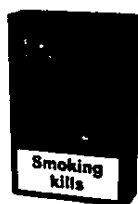
17.8 BnU
Global Sales



Launched as Mild Seven in 1977, Mevius is the top-selling brand in Japan. Internationally, Mevius is present in over 18 countries, mainly in Asia. We have started expanding the reach of Mevius with launches in Azerbaijan and Switzerland, with more markets planned for the future.

In 2014, Mevius delivered 17.8 billion cigarette equivalent units affected by downtrading in Taiwan.

Market share declined 0.1ppt to 2.4% but Mevius grew its share of the premium segment in its top Asian markets. Mevius also became the number 1 premium brand in the Far East region of Russia.



Benson & Hedges

10.9 BnU
Global Sales



Originally established in 1873, Benson & Hedges has a proud British heritage.

In 2014, B&H volume delivered 10.9 billion cigarette equivalent units despite growth in the North & Central Europe cluster. B&H increased its market share 0.1ppt to 1.9%.

Silk Cut

2.9 BnU
Global Sales



Launched in 1964, Silk Cut established its credentials as one of the first low tar brands in the 1970s, long before it became the norm of other manufacturers.

In 2014, Silk Cut volume declined to 2.9 billion cigarette equivalent units due to industry volume contraction in Ireland and the UK.

LD



44.9 BnU
Global Sales



LD was launched in 1999 in the Russian market. The brand achieved immediate success and is now recognized as a compelling international brand in the value segment.

Since 2007, LD has grown continuously in all clusters, reaching 42 countries. LD has also constantly expanded its portfolio to meet consumer aspirations, including in fine cut.

In 2014, LD volume was almost flat at 44.9 billion cigarette equivalent units, mainly impacted by industry contraction and intense competitive pressure in Russia. Excluding Russia, LD grew volume a strong 7.3% driven by new slimmer formats and its performance in fine cut.

Overall, the brand grew its share of market by 0.4ppt to reach 5.9%.

Glamour

7.2 BnU
Global Sales

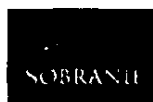


Glamour is JTI's leading super slims brand, launched in 2005.

In 2014, due to industry contraction in its main markets, its volume declined to 7.2 billion cigarette equivalent units. Glamour share of market declined 0.1ppt to 1.0%.

Sobranie

2.6 BnU
Global Sales



Sobranie is one of the world's oldest tobacco brands and has been synonymous with luxury cigarettes since 1879.

In 2014, despite the difficult environment, Sobranie grew volume by 15.1% to 2.6 billion cigarette equivalent units. Its market share grew 0.1ppt to 0.6%.

Disclaimer: market share for brands is based on the markets they are sold in.

Please be reminded that this section is intended to explain the business operations of JTI to investors, but not to promote sales of tobacco products or to encourage smoking by consumers.

Review of Operations *continued*

International Tobacco Business *continued*

North & Central Europe

We achieved a strong overall performance in this cluster in 2014. Total and GFB shipment volume were up 0.8% and 5.4% respectively. This positive volume performance was mainly driven by the Czech Republic, Germany and Hungary.

We continued to grow share of market and share of value in this cluster, particularly in the Czech Republic, Germany, Hungary, Ireland, Poland and the UK.

In Austria, GFB shipment volume grew 5.6% driven by Winston, Camel and Benson & Hedges while total shipment volume decreased 2.0%. Market share declined 0.2ppt to 32.0%.

In the UK, despite industry volume contraction affecting our volumes, we continued to grow share of market and share of value to over 40%. Our consistent commitment to invest in our brands secured our number 1 brand ranking in the ready-made cigarettes with Sterling and the number 1 brand position in the fine cut category with Amber Leaf. Amber Leaf is now the number 1 tobacco brand in the UK.

Thanks to a robust pricing environment and positive volume performance, core revenue and adjusted operating profit grew strongly by 7.7% and 12.8% respectively, at constant currency rates.

CIS+

Industry contraction in Kazakhstan, Russia and Ukraine in 2014 resulted in a 10.5% decline in the cluster's total shipment volume. Despite the strong equity of our brands, GFB volume declined 6.5%. However, in the second half of the year, trend in total shipment volume improved in Russia driven by our GFBs.

We grew GFB market share across the cluster.

In Russia, the industry contracted 9.5% in 2014 yet uptrading into the sub-premium and mid-price segments continued, both segments in which we lead. Winston continued its growth momentum achieving a record share of market of 15.0%, gaining 0.7ppt. Camel and Sobranie maintained their share of market level compared to the previous year. As expected, LD's market share increased in Q4.

Driven by relatively predictable excise tax regimes, pricing opportunities are still available in this cluster. As a result of such opportunities, core revenue and adjusted operating profit grew 8.5% and 31.5% respectively, at constant currency rates.

Rest-of-the-World

Total and GFB shipment volumes increased 0.8% and 2.1% respectively, despite continued geopolitical unrest in several Middle East markets.

We grew market share in Canada, Malaysia and Turkey.

In Taiwan, we continued to lead both in share of market and share of value. Winston grew market share 1.2ppt to 4.8%, partially offsetting the market share loss of Mevius. In the last quarter of 2014, we observed a positive turnaround in volume and market share for Mevius.

In Turkey, total and GFB shipment volumes grew 2.3% and 0.7% respectively, driven by the continued growth of Camel. Overall market share was up 2.4ppt to 29.0% with Camel and Winston now representing a combined 20% market share.

Core revenue was flat while adjusted operating profit declined 3.8%, both at constant currency.

Outlook

JTI will continue to be the profit growth engine of the JT Group.

In 2015, we expect the operating environment to remain very challenging and highly volatile across a number of geographies. GFB volume is forecast to resume growth driven by our on-going share of market momentum as we continue to enhance our brand equity and geographic reach.

Following the acquisition of Zandera, we plan to step up investments primarily in our emerging products portfolio. We will also enhance our organic growth in areas where we have limited presence and we will pursue opportunities to expand into new markets to secure future growth.

Our 8% earnings target at constant currency for 2015 represents a balanced approach between short-term profit delivery and investing to secure long-term sustainable growth.

Other Tobacco Products Portfolio

In line with our strategy to broaden our base for future growth, we have carried out several acquisitions and entered into to expand our portfolio

Ploom & E-Lites

In November 2014 we acquired Zandera Limited, the owner of E-Lites, a leading e-cigarette in the UK. E-Lites brings a wealth of knowledge to our emerging products team.

We are today active in both the heat-not-burn and e-cigarettes categories in a number of markets. Ploom is now available in 6 markets: Austria, France, Italy, Japan, Korea and the UK. Currently, E-Lites is only present in the UK.

We consider ourselves to be still in the learning phase of developing our business in these categories. We will continue to pioneer early commercial launches as we did with Ploom and Zero style. This will enable us to accumulate valuable experience of developing, marketing and selling our emerging products.

In 2015, we will step up our investments in our emerging products portfolio. We plan to upgrade and re-launch Ploom, expand E-Lites and test new innovative propositions in a series of markets.



Fine Cut

JTI continued to grow its fine cut presence in Europe. This category encompasses roll-your-own and make-your-own tobacco products. With an 11.1% increase, our fine cut volume growth has accelerated in 2014, driven by the strong performance of our GFB fine cut volume growing 32.7%. This growth mainly came from Winston, Camel, LD and, to a lesser extent, Benson & Hedges.

In addition, our fine cut share of market in Europe reached 18.8%, an increase of 1.6ppt versus prior year, following gains in France, Ireland, Poland, Spain, Switzerland and the UK.

Amber Leaf continued to perform well, growing share in Ireland, Spain and the UK. Old Holborn increased market share in Greece and the UK.

JTI maintained its number 1 or 2 market share position in Austria, France, Greece, Ireland, Luxembourg, Spain, Switzerland and the UK.

Going forward, we will continue to enrich our fine cut product pipeline with innovative product features to keep delivering solid results in this category.



Shisha

We entered the shisha tobacco business in 2013 and since then we have focused our attention on improving the quality of the products, rationalizing the portfolio and rejuvenating the offering.

We have continued expanding our presence and consolidating our positions in existing markets.

In 2014, shisha tobacco volume reached 21 thousand tons.



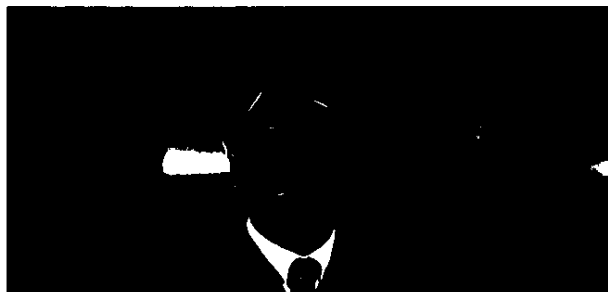
Disclaimer: market share for brands is based on the markets they are sold in.

Please be reminded that this section is intended to explain the business operations of JTI to investors, but not to promote sales of tobacco products or to encourage smoking by consumers.

Review of Operations *continued*

Japanese Domestic Tobacco Business

FY2014 Results for Jan-Dec 2014 (Like-for-Like basis)



Akira Saeki
President, Tobacco Business

Japanese domestic tobacco business is a highly competitive platform of profitability. In the year ended December 2014, industry volume was 186.2 billion units in Japan, making it one of the largest markets in the world. We own 9 of the top 10 selling products in this large market. We are the undisputed market leader in Japan with over 60% market share.

Since the consumption tax hike in April 2014, we have strengthened sales promotion activities to retain consumers, with a particular focus on our core brands.

The industry volume in Japan, however, has been declining over the past years. In this challenging environment, we prioritized quality top-line growth by investing in brand equity enhancement and launching new products to meet consumers' needs.

After this summer, we have been actively launching new extensions with additional value, most notably from the Peace, Cabin and Caster brands.

649.8

Core Revenue (JPY BN)

-1.0%

Year on-year change

238.7

Adjusted Operating Profit (JPY BN)

+1.8%

Year on year change

We continue to be a significant profit contributor to the JT Group by further quality top-line growth and continuous cost improvement.

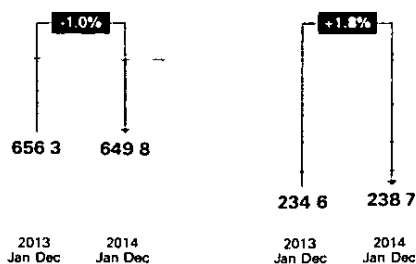
Business results (vol /financial performance)

- Enhanced brand equity enabled price/mix improvement
 - JT sales volumes decreased 3.6% from the previous year in line with our forecast in 2014
 - Core revenue decreased 1.0% year-on-year to ¥649.8 billion as our average unit price improved, supported by additional marketing investments in brands with higher price increase as well as successful launches of value-added products
 - Adjusted operating profit grew 1.8% year-on-year to ¥238.7 billion driven by price/mix improvement and effective cost management


Sales volume
(BnU)




Core Revenue and Adjusted Operating Profit
(JPY BN)




Our Core Brands




MEVIUS
imagineering the future




- Our leading brand in Japan is MEVIUS evolved from Mild Seven in February 2013. MEVIUS inherits Mild Seven's strong consumer base which has commanded the number 1 share in the Japanese domestic market for more than 30 years since 1978
- The MEVIUS family encompasses 33 products (as of February 28, 2015) reflecting the evolution that it has undergone in step with the changing times and brand expansion



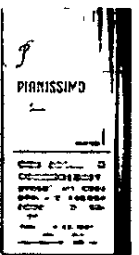
Seven Stars
★★★★★★



- Launched in 1969, Seven Stars featured Japan's first domestically produced charcoal filter in pursuit of better taste
- Since its launch, Seven Stars has consistently offered unique value in terms of taste, aroma, and product design
- The Seven Stars family comprises a line-up of 14 products (as of February 28, 2015)



Pianissimo



- In August 1995, the Pianissimo family saw the launch of Japan's first 1mg-tar menthol cigarette product featuring function of less smoke smell**
- The pianissimo family comprises a line-up of 9 products (as of February 28, 2015)

* Source: TIOJ
 ** Less smoke smell: Less smoke is released from the tip of cigarette based on a visual comparison with conventional JT cigarette products

Review of Operations *continued*

Japanese Domestic Tobacco Business *continued*

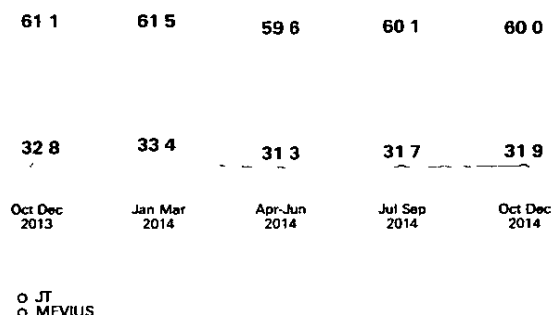
FY2014 Results for Jan-Dec 2014 (Like-for-Like basis)

Business results (market share performance)

- MEVIUS performance led to resilient market share in the context of intensified competition
 - In FY2014, JT market share decreased 0.1 percentage points to 60.4%

Share evolution of JT and MEVIUS

(%)



In 2014, our market share has been resilient amid an intensified competitive environment, where competitors have been taking more aggressive marketing approach, including strategic pricing.

In particular, a MEVIUS has performed strongly, mainly led by MEVIUS Premium Menthol Option. The strong performance demonstrates the outstanding equity that is underpinned by the investments have made so far in this brand.

カプセルで、香るメンソールへ。

MEVIUS PREMIUM MENTHOL OPTION 430m

喫煙は、あなたにとって健康の害の一つとなり、心臓疾患、肺癌等の発症性や肺がんを悪化させる危険性を高めます。
未成年者の喫煙は、健康に及ぼす悪影響やたばこへの依存をより強めます。周りの人から禁煙を求められても決して喫煙してはいけません。
人により程度は異なりますが、ニコチンにより喉嚨への依存が生じます。

Our strategies

We focus on quality top-line growth by increasing share of market and promoting consumers to shift to higher unit price products. In order to achieve this goal, we will continue to invest in brand equity enhancement and business foundation building with a mid- to long-term vision.

In addition, we also continue to pursue efficiencies to further strengthen our profitability.

- Priority on quality top-line growth
 - Continue to strengthen our brand equity, with focus on our core brands
 - Grow or maintain market share in existing key markets
 - Develop emerging product categories
- Continuous cost improvement

Outlook

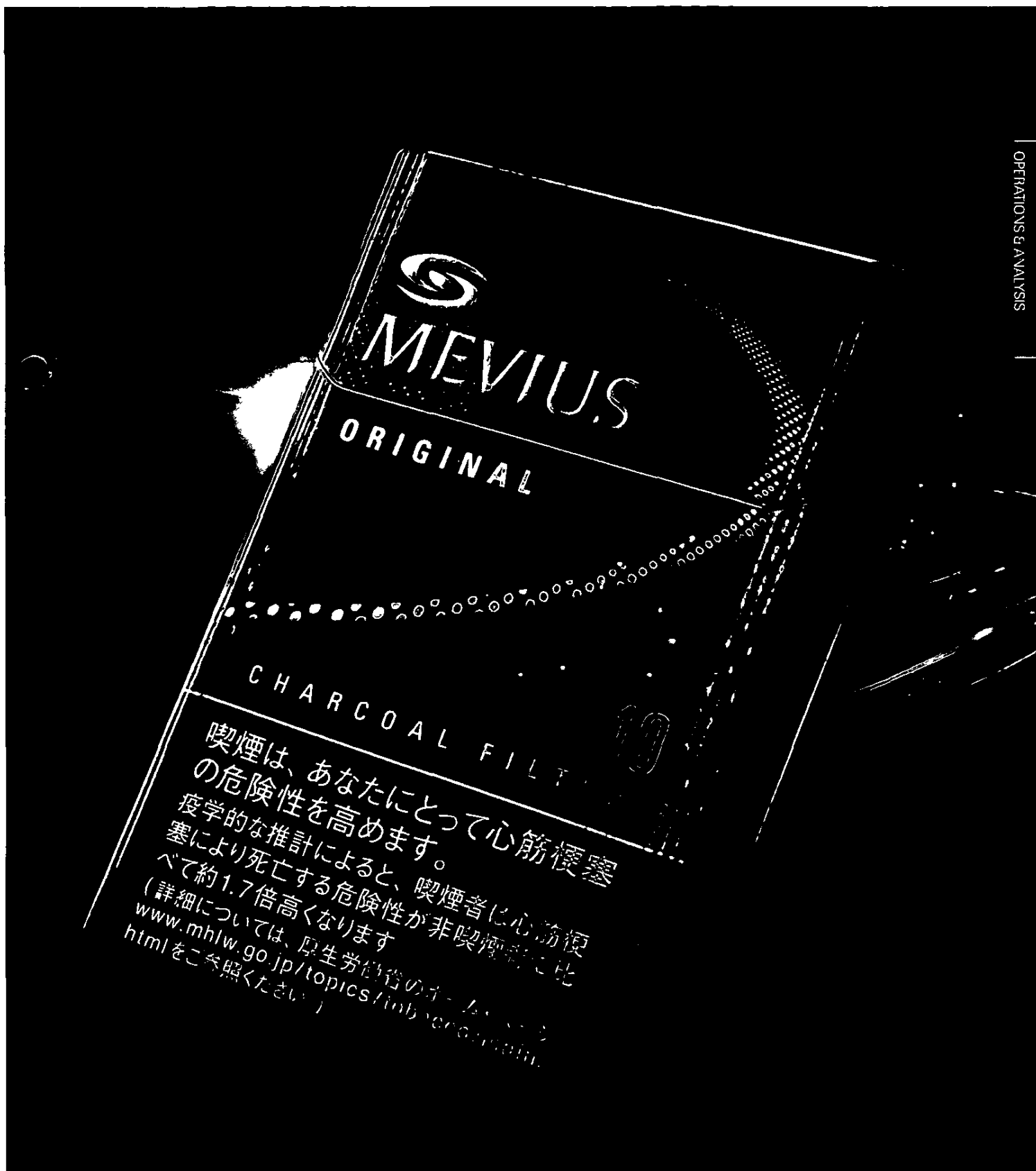
In 2015, we start to operate under a new organizational structure. We will re-arrange our sales organizations to strengthen consumer and trade marketing capabilities, and consolidate manufacturing facilities in pursuit of cost competitiveness.

Competition in Japan has been intensifying. With these initiatives, the Japanese domestic tobacco business will be able to develop insight into consumers' needs and promptly respond to their changes. In addition, we continue to seek cost competitiveness.

Furthermore, we will continue to invest in and build brand equity, particularly of MEVIUS.

Japanese domestic tobacco business is committed to fulfilling its role as a highly competitive platform of profitability. This will be achieved by quality top-line growth as well as further pursuit of a competitive cost base.

Please be reminded that this section is intended to explain the business operations of JT to investors, but not to promote sales of tobacco products or to encourage smoking by consumers.



Review of Operations *continued*

Pharmaceutical Business

FY2014. Results for Jan-Dec 2014 (Like-for-Like basis)



Muneaki Fujimoto
President, Pharmaceutical Division

In the pharmaceutical business, we aim to build a unique, world-class pharmaceutical business driven by R&D, and to increase our market presence through original and innovative drugs. We strive to strengthen the profit base through value maximization of each product and R&D promotion for next generation of strategic compounds.

Strategy:

- Promote R&D of strategic compounds for next generation and seek optimum timing to out license them
- Maximize the value of each product

Performance overview

[Development in Japan]

- Product launch
 - Riona Tablets 250mg (hyperphosphatemia)
 - Cedartolen Sublingual Drop (Japanese cedar pollinosis)
- TO-203 (house dust mite allergy) Torii Pharmaceutical filed its New Drug Application in Japan (Jan 2015)

65.8

Revenue (JPY BN)

+7.6

Year on year change (JPY BN)

-7.3

Adjusted operating profit (JPY BN)

+6.3

Year on-year change (JPY BN)

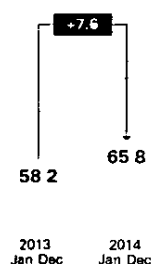
[Licensed compounds]

- JTE-052 (JAK inhibitor) Exclusive rights to develop and market for topical use in dermatological indications worldwide excluding Japan out-licensed to LEO Pharma
- Elvitegravir (HIV infection)
 - Vitekta (Standalone-agent) approved in the US
 - E/C/F/TAF (new single-tablet regimen) partner submitted regulatory applications in the US and EU
- Trametinib (melanoma)
 - Mekinist (Standalone-agent) approved in EU
 - For use in combination with dabrafenib approved in the US

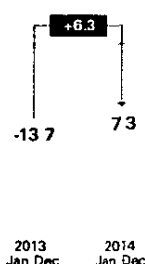
Business results (financial overview)

- Revenue grew ¥7.6 billion driven by an increased royalty from our license partners, most notably related to Stribild. Torii Pharmaceutical's top-line growth related to Riona and Stribild also contributed
- Operating loss improved by ¥6.3 billion due to revenue increase

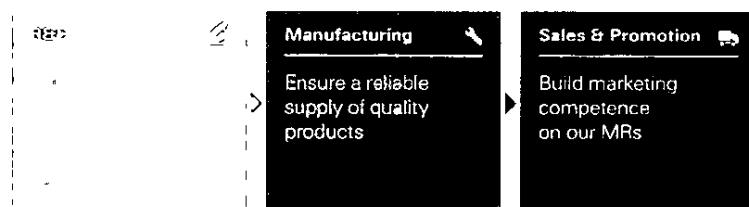
Revenue
(JPY BN)



Adjusted Operating Profit
(JPY BN)



Value Chain



R&D

Continue to strengthen R&D capability a cornerstone of our pharmaceutical business

A particular emphasis is placed on research and development in line with our mission to establish a unique R&D oriented business model which can compete on a global basis. By focusing our resources on specific areas, we efficiently strengthen our R&D capability which enables us to create innovative drugs.

- Focus mainly on the fields of glucose and lipid metabolism, virus research and immune disorders and inflammation to best leverage our expertise
- Allocate adequate resources in R&D in light of the increasingly complex, time-consuming and therefore costly development process due to stringent regulations
- Aiming at discovery of "first-in-class" compounds, enhance pre-clinical research capability and build development strategies tailored to accomplish the objective
- Translate innovation into medicines that are both approvable and commercially viable

Manufacturing

Ensure a reliable supply of quality products

Sustainable supply chain to deliver high quality products to our patients has been established. We also pursue efficiencies in our manufacturing arrangements: products marketed in Japan are mainly produced by Torii Pharmaceutical to maximize intra-group synergies while outsourcing to contract manufacturers where appropriate.

- Remain focused on quality assurance and safety control
- Maintain optimal manufacturing arrangements
- Continuously strive to reduce environmental impacts, as evidenced by operation and maintenance of the ISO 14001 certificate by our Sakura plant

Sales & Promotion

Build marketing competence on our MRs

In the pharmaceutical industry, medical representatives (MRs) play a crucial role in successful sales and promotion by providing medical and scientific knowledge with clients. At the same time, they collect valuable information from the medical front which could be reflected in the ongoing or future R&D activities. Torii Pharmaceutical is marketing our products in Japan through 499 highly-trained MRs. Outside Japan, we do not have a sales function. As such, instead of directly marketing our products, we receive royalties based on sales performance from our license partners for the compounds for which we out-license the right to develop and market.

- Provide extensive training programs to MRs and expand their knowledge to earn trust from our clients
- Strengthen our marketing capabilities by leveraging the marketing support system, which integrates information and needs from the medical front line spread across functions
- Build a sales and marketing strategy to meet the existing and future market needs in the changing business environment

Review of Operations *continued*

Pharmaceutical Business *continued*

Japan Tobacco Inc Clinical Development (as of February 5, 2015)

In-house development

Code (Generic name)	Potential Indication/ Dosage form	Mechanism	Description
JTK303 (elvitegravir)/ cobicistat/ emtricitabine/ tenofovir alafenamide	HIV infection/Oral	HIV integrase inhibitor/ Nucleoside reverse transcriptase inhibitor	Suppresses blood HIV levels by inhibiting the activities of integrase and reverse transcriptase enzymes involved in the replication of HIV
JTT-851	Type 2 diabetes mellitus/Oral	G protein-coupled receptor 40 agonist	Decreases blood glucose by stimulation of glucose-dependent insulin secretion
JTZ-951	Anemia associated with chronic kidney disease/Oral	HIF-PHD inhibitor	Increases red blood cells by stimulating production of erythropoietin, an erythropoiesis-stimulating hormone, via inhibition of HIF-PHD
JTE-051	Autoimmune/allergic diseases/Oral	Interleukin-2 inducible T cell kinase inhibitor	Suppresses overactive immune response via inhibition of the signal to activate T cells related to immune response
JTE-052	Autoimmune/allergic diseases /Oral Topical	JAK inhibitor	Suppresses overactive immune response via inhibition of Janus kinase (JAK) related to immune signal
JTE-151	Autoimmune/allergic diseases/Oral	RORγ antagonist	Suppresses overactive immune response via inhibition of RORγ related to Th 17 activation
JTE-350 (histamine dihydrochloride)	Diagnostic product/Positive control solution in the skin prick test	Histamine receptor agonist	Induces wheal and flare as histamine reactions on the epidermis in the skin prick test
JTT-251	Type 2 diabetes mellitus/Oral	PDHK inhibitor	Decreases blood glucose by activation of pyruvate dehydrogenase (PDH) related to carbohydrate metabolism
JTT-252	Type 2 diabetes mellitus/Oral	SGLT1 inhibitor	Decreases blood glucose by inhibition of sodium glucose co-transporter 1 (SGLT1) in small intestine
JTK-351	HIV infection/Oral	HIV integrase inhibitor	Suppresses blood HIV levels by inhibiting the activity of integrase, an enzyme involved in the replication of HIV

Clinical trial phase presented above is based on the first dose

* One of the medical products publicly offered for a development company by the Study Group on Unapproved and Off-label Drugs of High Medical Need set up by the Ministry of Health, Labour and Welfare

Licensed compounds

Compound (JT's code)	Licensee	Mechanism	Note
elvitegravir (JTK-303)	Gilead Sciences	HIV Integrase inhibitor	Suppresses blood HIV levels by inhibiting the activity of integrase an enzyme involved in the replication of HIV
trametinib	GlaxoSmithKline*	MEK inhibitor	Inhibits cellular growth by specifically inhibiting the activity of MAPK/ERK Kinase (MEK1/2)
Anti-ICOS monoclonal antibody	MedImmune	ICOS antagonist	Suppresses overactive immune response via inhibition of ICOS which regulates activation of T cells
JTE-052	LEO Pharma	JAK inhibitor	Suppresses overactive immune response via inhibition of Janus kinase (JAK) related to immune signal

* Oncology products and pipeline compounds of GlaxoSmithKline were acquired by Novartis on March 2, 2015

Location	Phase 1	Phase 2	Phase 3	Preparing to file	Filed	Origin
Japan						New Single Tablet Regimen JTK-303(elvitegravir) In-house Cobicistat Emtricitabine Tenofovir Alafenamide In-license (Gilead Sciences)
Japan						In-house
Overseas						In-house
Japan						In-house
Overseas						In-house
Overseas						In-house
Japan						In-house
Overseas						In-house
Japan						In-license (ALK-Abello) Co-development with Torii
Overseas						In-house
Overseas						In-house
Japan						In-house

Review of Operations *continued*

Processed Food Business

FY2014 Results for Jan-Dec 2014 (Like-for-Like basis)



Miyoharu Hino
President & CEO TableMark

If we are going to prepare food for those who matter to us most, we wish to do so cordially and with care. This is our desire when running our business at TableMark. From 2010 onwards, TableMark began its operation as a food manufacturer with frozen and ambient processed food, bakery items and seasoning as our business pillars. In particular, we strive to provide high value-added products by focusing on staple food such as frozen noodles, frozen rice, packed cooked rice and frozen baked bread.

Strategy

- Achieve operating profit margin on par with industry average and aim to make a profit contribution to the JT Group
 - Increase the attractiveness of our offerings with a particular emphasis on staple food products by meeting consumer needs with our own expertise
 - Minimize negative impact of rising raw material costs and weak yen

161.2

Revenue (JPY BN)

+4.0

Year-on year change (JPY BN)

1.4

Adjusted operating profit (JPY BN)

+0.8

Year on year change (JPY BN)

Performance Overview

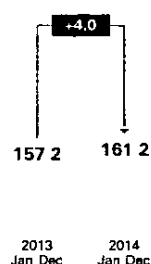
- The processed food business is primarily engaged in business concerning frozen and ambient processed food, mainly staple food products such as frozen noodles, frozen rice, packed rice and frozen baked bread, bakery chain outlets in the Tokyo metropolitan area, and seasonings including yeast extracts and oyster sauce
- We increased revenue in all of our business area, namely frozen and ambient processed food, bakery and seasoning

Business results (financial performance):

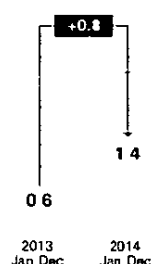
- Revenue increased ¥4.0 billion driven by growth of staple products and frozen food for bento box use
- Adjusted operating profit increased ¥0.8 billion. Revenue growth more than offset the effect of higher material cost and weak yen

*Staple food products: frozen noodles, frozen rice, packed cooked rice and frozen baked bread

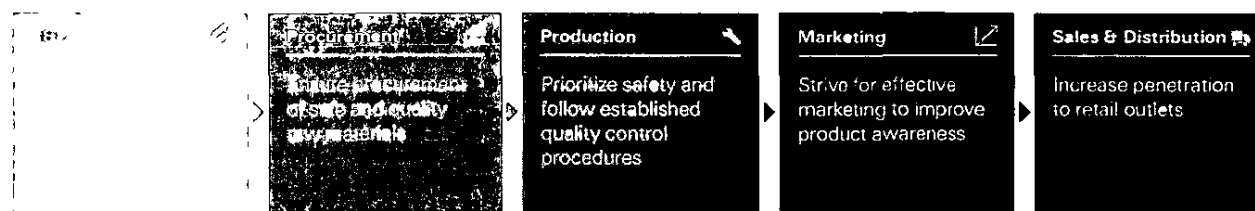
Revenue (JPY BN)



Adjusted Operating Profit (JPY BN)



Value Chain



Food Safety Control

Ensure safety control at all levels of the value chain

R&D

Strive to develop innovative products to meet consumers' needs

- Leveraging our own know-how, we aim to develop value-added products to meet diversified consumers' needs
- Frozen baked bread products have been developed, allowing consumers to enjoy the taste of freshly baked bread at home. TableMark's original techniques for fermentation, baking and freezing recreate and preserve the taste and texture of fresh bread
- New process for making frozen udon noodles, called "Tamnenjikomi Aya Jyukusei-ho," was developed. This process enables us to offer higher quality and value-added udon products

Procurement

Ensure procurement of safe and quality raw materials

- Review of quality assurance certificates submitted by our suppliers
- Inspections and monitoring of agrochemical residues and regular inspection at processing plants, in compliance with JT Group's internal standards, the Food Sanitation Act and other relevant laws
- Examination of safety of production sites for raw materials sourced abroad
- As for agricultural farms, inspections are made not only for soil and water but also in terms of how products are cultivated and how agrochemicals are handled. Breeding farms are also inspected

Production

Prioritize safety and follow established quality control procedures

- JT Group is pursuing the adoption of the HACCP system and ISO 22000 in our and business partners' factories. Under the ISO 22000 standard, continuous improvements are made following effective rules to control sanitation and other key issues. These rules are based on the HACCP concept, and their effectiveness is tested using scientific evidence
- All of JT Group's 30 factories in and outside Japan, as well as our business partners' factories that produce frozen foods, have achieved the ISO 22000 certification

Marketing

Strive for effective marketing to improve product awareness

- We analyze the market from consumers' point of view and, by combining the technology owned by TableMark, we strive to provide products with new values to increase our presence in the market. We strive for effective marketing in order to improve consumer awareness of our products

Sales & Distribution

Increase penetration to retail outlets

- Strive to enhance profitability through initiatives to increase our presence in supermarkets and convenience stores, by offering a wider range of products while also seeking better shelf space
- TableMark products are also sold to restaurants and other public facilities

Food Safety Control

Ensure safety control at all levels of the value chain

- Independent food safety management division is responsible for overall safety control, ensuring that consumers can continue to enjoy our products safely
- Cross-functional food safety initiatives within the JT Group are promoted
- External food safety experts provide assessment and advice regarding our initiatives – their knowledge and viewpoints are actively incorporated into our business

Review of Operations *continued*

Beverage Business

FY2014 Results for Jan-Dec 2014 (Like-for-Like basis)



Goichi Matsuda
Head of Beverage Business

181.3	-2.5
Revenue (JPY BN)	Year-on-year change (JPY BN)
-0.5	+1.6
Adjusted operating profit (JPY BN)	Year on year change (JPY BN)

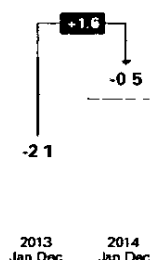
Business results (financial performance):

- Revenue declined due to unfavorable summer weather and intensified competition at sales channels
- Operating loss was reduced by ¥1.6 billion as a result of cost containment efforts

Revenue
(JPY BN)



Adjusted Operating Profit
(JPY BN)



Withdrawal from the Manufacture and Sale of JT Beverage Products

Source: JT press release on February 4th, 2015

JT announced that it has decided to withdraw from the manufacture and sale of JT beverage products. The manufacture and sale of JT beverage products conducted by JT's beverage business division and JT Beverage Inc. is expected to be discontinued by the end of September 2015.

The Company entered the beverage business in 1988. Since then, it has marketed innovative beverage products including "Roots" and "Momono Tennen-sui" with a firm belief based on the Company's management principle, the "4S" model, that exceeding consumers' expectations leads to sustainable profit growth in the mid- to long-term.

However, the operating environment of the beverage business in Japan has become increasingly challenging. The beverage market matured and the scale of the business has become more important for maintaining and strengthening the competitiveness. Additionally, the product life cycle has shortened. In such an

environment, expanding business scale through active sales promotion and constantly developing unique quality products within a short time frame have become indispensable to establish a sustainable profit platform. After carefully considering the growth strategy for the manufacture and sale of JT beverage products, the Company has concluded that it will be difficult to make a profitable contribution to the JT Group in the mid- to long-term. From the perspective of optimizing the Group's overall resource allocation, it was decided to withdraw from the manufacture and sale of JT beverage products, targeting the end of September 2015.

Japan Beverage Group and JT A-Star Group will continue the vending machine operation business. JT is to consider various options for these subsidiaries.

The Company would like to sincerely thank its consumers for their long-term support for JT beverage products.

* There was no impact on the JT's consolidated financial performance for the fiscal year ended December 31, 2014. The effects on the performance for the fiscal year ending December 31, 2015 have not been confirmed.

JT Group and Sustainability

Our approach to sustainability is governed by our management principles, 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’ interest in the most balanced way possible.

The Sustainability Report FY2014 is due to be available on our website around mid-June at <http://www.jt.com/csr/report/index.html>



Risk Factors

The JT Group operates diverse businesses, namely tobacco, pharmaceutical, beverage and processed food. In addition, we conduct our business on a global basis, extending to Europe, CIS countries, Africa, the Middle East and others. Due to this diversity and these changing environments, we are exposed to various risks.*

Considering such circumstances, we have put in place a risk management framework. Under the framework, relevant divisions are assigned to carefully monitor the development of events that may adversely impact the JT Group and prevent their materialization where possible. When these risks are materialized, we promptly respond in order to minimize their unfavorable impacts.

In reviewing risks, the magnitude of potential impact and likelihood of occurrence are most prudently assessed among other factors. Material risks, which could have a significant impact on our sustainable profit growth and business continuity, are reported to the CEO together with the request for approval to implement countermeasures against them.

The following section describes certain risks which potentially have a material impact on our business operations and financial results, but is not intended to be an exhaustive list of the risks we face. In addition, it is possible that risks that are currently considered immaterial or even unknown could turn out to be material in the future, as the business environment changes.

This section should be read together with the forward looking and cautionary statements contained in this annual report.

1 Disruptive tax increases

Tobacco products are subject to excise or similar taxes in addition to value-added tax. Excise taxes are increasing in most markets where we operate as governments seek to secure their revenue or promote public health. In general, value-added tax is also increasing. As a general principle, we fully pass on any tax increase to consumers by adjusting our sales prices. In addition, to the extent possible, we increase our prices more than the tax increase, considering the financial impact of an expected volume decline. A tax increase within a reasonable range is manageable through such a price increase as well as our efforts to support top-line and pursue efficiency. Most governments are aware that a substantial tax increase or repeated tax increases can reduce their revenue and they take a rational approach. However, in the past we have experienced such tax increases in some markets, which have disrupted our business.

Risk description and potential impact

A disruptive tax increase on tobacco products could result in a large legitimate industry volume decline due to lower consumption and, in many cases, increased illicit trade. In addition, down-trading to lower priced products could be initiated or accelerated. Our shipment volume, revenue and profit could decrease due to these negative reactions by consumers.

Measures to address the risk

- Promote the understanding of relevant authorities that a disruptive tax increase does not necessarily serve their purpose
- Optimize our product offerings to capture the potential changes in consumer preference
- Enhance our geographical portfolio to limit the negative impact of a disruptive tax increase in a specific market
- Further improve efficiency to protect earnings
- If a disruptive tax increase takes place, find an optimal price for each product which minimizes the unfavorable influence in the market

* We announced withdrawal from the manufacture and sale of JT beverage products in February 2015.

2. Pressure from illicit trade

Illicit trade is a major concern not only for the tobacco industry, but for wider society. For the tobacco industry, it undermines the legitimate tobacco business. For society, illicit trade reduces excise revenue for the government, often fuels organized crime, and may increase health concerns due to poor manufacturing standards and improper product handling. The tobacco industry has been fighting against the illicit trade, which takes the forms of contraband, counterfeit and illicit whites. Illegally traded products in a market tend to increase after a steep tax increase. Regulatory actions seeking to commoditize packages and products could also trigger the acceleration of illicit trade because such commoditization could make counterfeit manufacturing easier and detection of illicit products more difficult. We take a zero tolerance approach towards all these criminal activities with an emphasis on eliminating contraband products.

Risk description and potential impact

An increase in illicit trades could reduce the legitimate industry volume, leading to a decline in our shipment volume, revenue and profit. In addition, the industry bears the cost to combat illicit trades, resulting in pressure to its earnings. Furthermore, it is possible that low quality counterfeits and improperly handled smuggled products damage the credibility of the genuine brands, as well as the reputation of their owner.

Measures to address the risk

- Engage with the governments, regulatory bodies and law enforcement agencies to eradicate the illicit trade
- Ensure we buy from and sell to only reputable business partners following our rigorous compliance initiatives
- Raise awareness among individual consumers of the negative consequences of purchasing illegally traded products

Working together with authorities

In 2007, JT International Holding B.V. and JT International S.A., JT Group subsidiaries, entered a cooperation agreement with the European Commission, the executive branch of the European Union (EU) and 26 EU Member States as part of efforts to combat the illicit trade. In 2009, the United Kingdom joined the agreement.

Under the terms of the agreement, the JT Group contributes US\$50 million annually in the first five years from its execution and US\$15 million annually in the subsequent ten years. This financial contribution is to be used to support anti-smuggling and anti-counterfeiting initiatives led by the EU or EU Member States.

In 2010, JTI-Macdonald Corp., a JT Group Canadian subsidiary, also signed a similar agreement with the Government and Provinces of Canada.

3. Tightening tobacco regulations

The tobacco industry is highly regulated in various aspects, and regulations could influence our business performance and financial results. Among the regulations on products, for example, we may incur additional costs in order to comply with requirements for ingredient and packaging.

Furthermore, the regulatory attempt to commoditize tobacco products could lead to an increase in the illicit trade and negatively influence our legitimate business.

Business activities of tobacco companies are also restricted. With more prohibitive regulations on communication with consumers, our ability to effectively market products becomes further limited, and our top-line performance may be adversely impacted.

As a responsible organization, the JT Group abides by the laws and regulations wherever we operate. That said, we believe that laws and regulations should differ country by country, reflecting its legal, social and cultural background. We encourage governments, regulators and stakeholders to take a reasonable and balanced approach towards tobacco regulation.

Risk Factors *continued*

Risk description and potential impact

Further tightening of tobacco regulations on marketing activities could undermine our strategy for top-line growth as we lose opportunities to enhance brand equity. Moreover, certain regulations may impose on us additional compliance costs. These may negatively influence our volume, revenue and profit.

Measures to address the risk

- Identify ongoing regulatory initiatives as early as possible by promptly collecting accurate information
- Engage with the governments, regulators and stakeholders, as necessary, to develop reasonable and balanced regulations that meet their objectives. For further details, please refer to 'Regulation and Other Relevant Laws' contained in this annual report on page 152.

4. Country risks

Our tobacco business has consistently expanded our earnings base to secure long-term growth by making acquisitions, entering new markets and increasing share in markets where we had limited presence. Such a geographical expansion increases our exposure to country risks. In any market where we operate, we may face economic, political or social turmoil which may negatively affect our operations and financial results.

Risk description and potential impact

Political instability, economic downturn, social unrest or other unfavorable developments in a certain market could disrupt our business, leading to a lower volume, revenue and profit in the market.

Measures to address the risk

- Avoid overdependence on a small number of markets as sources of profits by expanding the pool of highly profitable markets.

5. Instability in the procurement of key materials

Across the businesses, the JT Group procures raw and processed materials for product manufacturing.

In particular, we strive to procure key materials in the required quantity and at reasonable costs. Our key materials include agricultural products, most notably, tobacco leaf for the tobacco business, grains for the processed food business. Availability of agricultural products is often affected by natural phenomena including climate. In addition, there is a growing concern that agricultural production costs may increase, as a result of the high demand in energy resource and other inputs due to a global population increase as well as economic growth in emerging countries.

Risk description and potential impact

Insufficient supply of key materials could lead to inability to manufacture our products, subsequently resulting in the loss of revenue and profit. Furthermore, the increase in procurement costs driven by higher production costs for agricultural products would directly pressure our earnings.

Measures to address the risk

- Reinforce ability to procure key materials by building a strong relationship with suppliers. In the case of tobacco leaf, further promote internal sourcing.
- Promote efficient use of materials by continuously reviewing the manufacturing process and product specifications where possible.

6. Unfavorable development in litigation

JT and some of its subsidiaries are defendants in lawsuits filed by plaintiffs seeking damages for harm allegedly caused by smoking. As of December 31, 2014, 19 smoking and health-related cases were pending in which one or more members of the JT Group were named as defendant or for which JT may have certain indemnity obligations pursuant to the agreement for JT's acquisition of RJR Nabisco Inc.'s overseas (non-U.S.) tobacco operations. JT and its subsidiaries, who are defendants in such lawsuits, believe that we have valid grounds to defend the claims in such lawsuits, however, we cannot predict the outcome of any pending or future litigation.

Risk description and potential impact

A decision unfavorable to us could materially affect our financial performance due to the payment of monetary compensation. Critical media coverage of such lawsuits may reduce social tolerance of and strengthen regulations on smoking. Such media coverage may also prompt the filing of a number of similar lawsuits against JT or its subsidiaries, resulting in increased litigation costs.

Measures to address the risk

- Continue to build well-organized teams coordinating with external legal counsel to defend ourselves against these lawsuits.
- Continue legitimate and appropriate business operations. For further details, see section regarding 'Litigation' on Page 149.

7 Natural disasters

Our operations may be disturbed by natural disasters such as earthquakes, typhoons, floods, volcano eruptions and others. Japan is one of the most important markets for the JT Group's businesses and subject in particular to various natural disasters. The Great East Japan Earthquake was devastating. The impacts on the JT Group included casualties among our employees, physical damage to our factories, and shortage of supply for certain material for tobacco products. Our tobacco business was forced to temporarily suspend product shipment and limit shipment volume for an extended period.

We have developed a Business Continuity Plan to minimize the impact of such disasters, with a particular emphasis on the optimization of the global supply chain.

Risk description and potential impact

Natural disasters could cause damage to the JT Group as well as our suppliers, trades and consumers, leading to disruption of our business and negatively impacting financial results.

Measures to address the risk

- Continuously review the Business Continuity Plan and revise it as necessary
- Carry out emergency drills to increase employees' preparedness against disasters
- Insure key assets such as buildings, machinery, equipment and inventory to recover financial losses as appropriate

8. Currency fluctuations

As the JT Group is operating globally, we are exposed to the risks associated with currency fluctuations.

The reporting currency of the JT Group consolidated financial statements is Japanese Yen, while the financial statements of our international subsidiaries are reported in other currencies such as Russian ruble, Euro, British pound, Taiwanese dollar, U.S. dollar, and Swiss franc.

Therefore, exchange rate fluctuations of these currencies against Japanese Yen influence the Group's reported financial results. As for the financial reporting of the international tobacco business, JT International Holding BV consolidates the financial results of the international tobacco subsidiaries and reports its consolidated financial statements in U.S. dollars. We often communicate the financial performance of our international tobacco business in U.S. dollars, which is affected by exchange rate fluctuations against the U.S. dollar. In principle, we do not hedge these risks which arise from the translation of financial statements.

However, we hedge against risks which arise when equity denominated in each functional currency of the JT Group is translated into Japanese yen to be consolidated by using foreign currency-denominated interest-bearing debts and part of these are designated as net investment hedges. In addition, many group companies make transactions in currencies other than their reporting currencies for day-to-day operations. Such transactions also involve the risk of exchange rate fluctuations. We mitigate these transaction risks through hedging activities, however, it is not possible to completely eliminate them.

Furthermore, if we liquidate or sell our group subsidiary which we acquired in a currency other than Japanese yen or impair a substantial value of such a subsidiary, the gain or loss from the transaction includes the currency fluctuation impact. Specifically, the impact comes from the difference in the exchange rates of the relevant currency against Japanese yen at the time of the acquisition and at the time of such transaction.

Risk description and potential impact

Fluctuations of exchange rates against Japanese yen affect the JT Group's reported financial results. Reported financial results of our international tobacco business in U.S. dollars are similarly influenced by the fluctuations of exchange rates against the U.S. dollar. In addition, we are exposed to the exchange rate fluctuation risks when a group company makes a transaction in a currency other than its reporting currency.

Measures to address the risk

- Mitigate the risk through hedging activities such as derivative contracts, possession of interest bearing debts in a foreign currency etc.

Corporate Governance

Decision-Making, Business Execution, Supervision

Overview

In our belief, enhancement of corporate governance is one of the critical management initiatives in order to achieve sustainable profit growth in this uncertain business environment. We have enhanced our corporate governance aiming at "quality and prompt decision-making", "efficient business execution" and "rigorous supervisory and advisory function". We will continue to improve this framework to further strengthen our corporate governance.

Initiatives to enhance corporate governance

Rigorous supervisory and advisory function

Set up the Compliance Committee
FY2000

Set up the Advisory Committee*
FY2001

Set up the Compensation Advisory Panel
FY2006

Quality and prompt decision-making

Reduced number of directors
FY2000

Promoted the delegation of business execution to the executive officers
FY2000, FY2008 and FY2011

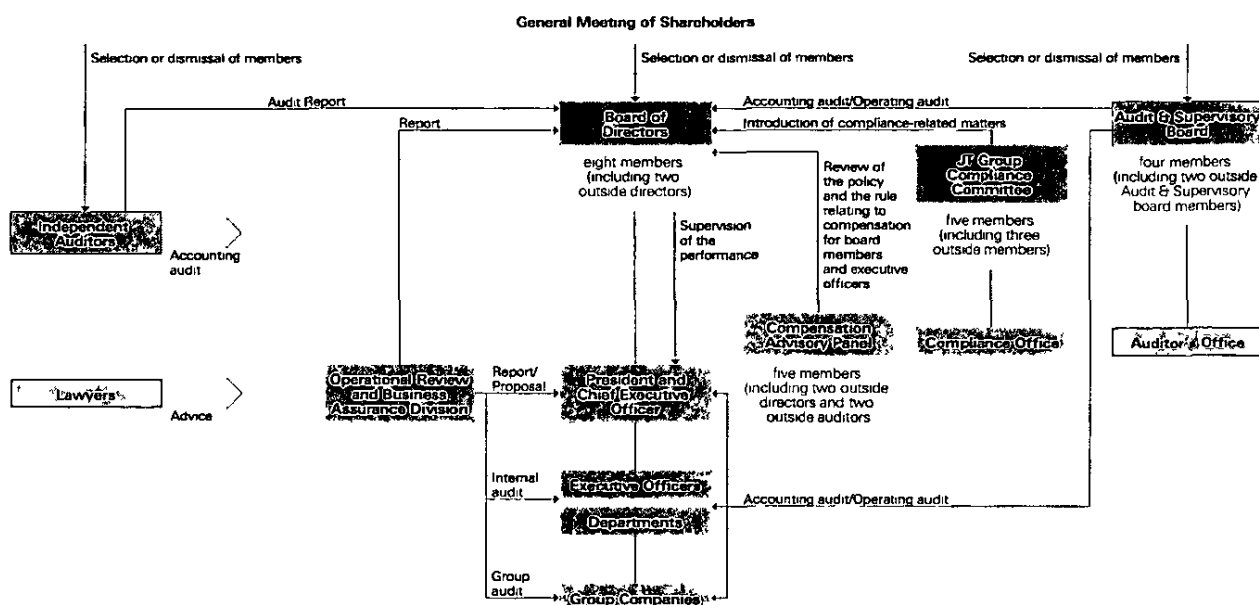
Invited outside directors
FY2012

Efficient business execution

Introduced executive officer system
FY2001

* Abolition of the Advisory Committee on June 30, 2014

Our corporate governance system



General Meeting of Shareholders

A general meeting of shareholders resolves the matters stipulated by law and our Articles of Incorporation. Under the Companies Act, certain matters are required to be resolved at a shareholder meeting including, most notably, the appointment and dismissal of the directors, audit & supervisory board members and external accounting auditors, dividend amount, loss compensation, as well as change in the Articles of Incorporation. Our Articles of Incorporation do not stipulate any additional matter to be resolved at our shareholders' meeting other than matters legally required. The Annual General Shareholders' Meeting is held in March, and a special meeting of shareholders shall be called by the Board of Directors, as necessary. The President chairs the shareholders' meetings.

Within the extent as permitted by law, requirements for resolutions at our shareholders' meeting were lowered by amending our Articles of Incorporation. A resolution at a general meeting of shareholders can be adopted by a majority of the voting rights present or represented at the meeting. A resolution for the appointment of the Company's director and audit & supervisory board members additionally require a quorum, which is one-third of the total number of voting rights. A special resolution as stipulated under Section 2, Article 309 of the Companies Act, such as amendment to the Articles of Incorporation, requires the quorum of one-third of the total number of voting rights and the approval of at least two-thirds of the voting rights present or represented at the meeting. Certain matters resolved at our shareholders' meetings need further approval by the Minister of Finance in Japan.

The Japan Tobacco Inc. Act

JT was established pursuant to the Japan Tobacco, Inc. Act ("the JT Act") for the purpose of managing businesses related to the manufacturing, sale and imports of tobacco products. The JT Act provides that the Government of Japan must continue to hold over one-third of all of the issued shares except for the class shares, which have no voting right against all matters that can be resolved at our shareholders' meeting. The JT Act also states that the issuance of new shares and stock acquisition rights requires the approval of the Minister of Finance. In the case of a share-for-share exchange, the same approval is required for issuance of new shares, stock acquisition rights and bonds with stock acquisition rights. Under the JT Act, subject to the approval by the Minister of Finance, JT is allowed to engage in businesses other than manufacturing, sales and imports of tobacco products or tobacco-related business, provided that our engagement in such businesses serves the purpose of the Company. JT is also required to obtain approval from the Minister of Finance for certain matters, including the appointment or dismissal of directors, executive officers and audit & supervisory board members as well as amendment to our Articles of Incorporation, distribution of surplus (excluding loss compensation), merger, corporate split, or dissolution. In addition, within three months after the end of each fiscal year, we are required to issue a statement of financial position, a statement of income, and a business report to the Minister of Finance.

The supplementary provisions of the Reconstruction Financing Act*, which came into effect on December 2, 2011, states that the Government shall study by the year ending March 31, 2023 the possibility of full disposal of government-owned JT shares by reassessing the Government's holding in JT shares considering the Government's involvement in the tobacco-related industries based on the Tobacco Business Act.

* Act on Special Measures for Securing Financial Resources Necessary for Reconstruction from the Great East Japan Earthquake

Corporate Governance *continued*

Decision-Making, Business Execution, Supervision *continued*

The Board of Directors

The Board of Directors assumes responsibility in making decisions for important issues including the Group strategy as well as supervising all the activities of the Group

A board meeting, in principle, is held every month and a special board meeting may be called, as necessary. The Board of Directors decides those matters required to be resolved by the Board of Directors under the Companies Act, such as important business plans, disposal or acquisition of important assets, significant amount of borrowings, conclusion of important agreements. For the purpose of supervising the Company's activities, the Board of Directors requires directors to deliver a report on the progress of operations at least on a quarterly basis. In year ended December 2014, we had 11 board meetings to discuss important issues including the management plan.

Members	– 8 (including two independent outside directors)	
Average rate of attendance	– Directors	97%
	– Audit & Supervisory Board	
	Members	98%

The directors marked with * are also the executive officers



Yasutake Tango
Chairman of the Board

Date of birth March 21, 1951
Term of office 1 year and 9 months since June 2014
Number of shares held 500

April 1974
Entered Ministry of Finance

October 2006
Director-General of the Financial Bureau

July 2007
Deputy Vice Minister

July 2008
Director-General of the Budget Bureau

July 2009
Administrative Vice Minister

July 2010
Retired from the office of Administrative Vice Minister

December 2010
Corporate Auditor The Yomiuri Shimbun Holdings

December 2012
Special Advisor to the Cabinet

June 2014
Chairman of the Board (Current Position)



Mitsuomi Koizumi*
President, Chief Executive Officer
and Representative Director

Date of birth April 15, 1957
Term of office 1 year and 9 months since
June 2014
Number of shares held 24,400

April 1981
Joined the Company (Japan Tobacco and Salt
Public Corporation)

June 2001
Vice President of Corporate Planning Division

June 2003
Senior Vice President and Head of Human
Resources and Labor Relations Group

June 2004
Senior Vice President and Vice President of
Tobacco Business Planning Division
Tobacco Business Headquarters

June 2006
Executive Vice President and Vice President of
Tobacco Business Planning Division
Tobacco Business Headquarters

June 2007
Member of the Board, Executive Vice President
and Head of Marketing & Sales General Division
Tobacco Business Headquarters

July 2007
Member of the Board, Executive Vice President
and Chief Marketing & Sales Officer,
Tobacco Business Headquarters

June 2009
Representative Director and
Executive Deputy President

June 2012
President, Chief Executive Officer and
Representative Director (Current Position)



Yasushi Shingai*
Representative Director and
Executive Deputy President

Date of birth January 11, 1956
Term of office 1 year and 9 months since
June 2014
Number of shares held 23,800

April 1980
Joined the Company (Japan Tobacco and
Salt Public Corporation)

July 2001
Vice President of Financial Planning Division

June 2004
Senior Vice President and Head of Finance Group
Vice President of Financial Planning Division

July 2004
Senior Vice President and Chief Financial Officer

June 2005
Member of the Board, Senior Vice President
and Chief Financial Officer

June 2006
Member of the Board, Executive Vice President,
JT International S.A.

June 2011
Member of the Board, Senior Vice President
and Executive Vice President in charge of
International Tobacco Business

June 2011
Representative Director and Executive Deputy
President (Current Position)

June 2014
Member of the Board (outside director) Recruit
Holdings Co., Ltd. (Current Position)



Noriaki Okubo*
Representative Director and
Executive Deputy President

Date of birth May 22, 1959
Term of office 1 year and 9 months since
June 2014
Number of shares held 9,900

April 1983
Joined the Company (Japan Tobacco and Salt
Public Corporation)

April 2000
Vice President of Business Development Dept.
Pharmaceutical Division

June 2002
Vice President of Business Planning Dept.
Pharmaceutical Division

June 2004
Member of the Board, Senior Vice President
and President, Pharmaceutical Business

June 2006
Member of the Board, Executive Vice President
and President, Pharmaceutical Business

June 2009
Member of the Board, Senior Executive Vice
President and President, Pharmaceutical Business

May 2010
Member of the Board, Senior Executive Vice
President and President, Pharmaceutical
Business, Vice President of Business Planning
Dept., Pharmaceutical Division

January 2011
Member of the Board, Senior Executive Vice
President and President, Pharmaceutical Business

June 2012
Representative Director and Executive Deputy
President (Current Position)

Corporate Governance *continued*

Decision-Making, Business Execution, Supervision *continued*



Akira Saeki*
**Representative Director and
Executive Deputy President**

Date of birth August 25, 1960
Term of office 1 year and 9 months since
June 2014
Number of shares held 15 500

April 1985
Joined the Company (Japan Tobacco Inc.)

June 2005
Vice President of Corporate Strategy Division

June 2007
Senior Vice President, Vice President
of Tobacco Business Planning Division
Tobacco Business Headquarters

May 2008
Senior Vice President, Vice President of Tobacco
Business Planning Division, Tobacco Business
Headquarters, Head of China Division
Tobacco Business

June 2008
Senior Vice President, Vice President of Tobacco
Business Planning Division, Tobacco Business
Headquarters, Chief Corporate, Scientific &
Regulatory Affairs Officer, Tobacco Business
Head of China Division, Tobacco Business

July 2008
Senior Vice President, Vice President of Tobacco
Business Planning Division, Tobacco Business
Headquarters, Chief Corporate, Scientific &
Regulatory Affairs Officer, Tobacco Business

July 2009
Senior Vice President, Vice President of Tobacco
Business Planning Division, Tobacco Business
Headquarters, Chief Corporate, Scientific &
Regulatory Affairs Officer, Tobacco Business

June 2010
Executive Vice President, and Vice President
of Tobacco Business Planning Division,
Tobacco Business Headquarters

June 2012
Representative Director and Executive Deputy
President (Current Position)



Hideki Miyazaki
**Member of the Board and
Executive Deputy President**

Date of birth January 22, 1958
Term of office 1 year and 9 months since
June 2014
Number of shares held 12 100

April 1980
Joined Nomura Securities Co., Ltd.

July 2005
Joined the Company (Japan Tobacco Inc.)

January 2006
Deputy Chief Financial Officer

June 2008
Senior Vice President, and Chief Financial Officer
Vice President, Tax Division

October 2009
Senior Vice President, and Chief Financial Officer

May 2010
Senior Vice President, and Chief Financial Officer
Vice President, Treasury Division

June 2010
Executive Vice President and Chief Financial
Officer, Vice President, Treasury Division

July 2010
Executive Vice President and Chief Financial
Officer, Vice President, Treasury Division and
Vice President, Procurement Planning Division

August 2010
Executive Vice President and Chief Financial Officer

June 2012
Member of the Board and Executive Vice
President (Current Position)



Motoyuki Oka
Member of the Board (Outside director)

Date of birth September 15 1943
Term of office 1 year and 9 months since
June 2014
Number of shares held 0

April 1966
Joined Sumitomo Corporation

June 1994
Director Sumitomo Corporation

April 1998
Managing Director Sumitomo Corporation

April 2001
Senior Managing Director Sumitomo Corporation

June 2001
President Chief Executive Officer
Sumitomo Corporation

June 2007
Chairman of the Board of Directors
Sumitomo Corporation

June 2012
Advisor Sumitomo Corporation
Member of the Board the Company
(Current Position)

June 2013
Member of the Board(outside director)
NEC Corporation (Current Position)



Main Kohda
Member of the Board (Outside director)

Date of birth April 25 1951
Term of office 1 year and 9 months since
June 2014
Number of shares held 0

September 1995
Started independently as Novelist
(Current Position)

January 2003
Member of Financial System Council,
Ministry of Finance Japan

April 2004
Visiting professor Faculty of Economics
Shiga University

March 2005
Member of the Council for Transport Policy
Ministry of Land Infrastructure Transport
and Tourism

November 2006
Member of the Tax Commission Cabinet Office
Government of Japan

June 2010
Member of the Board of Governors Japan
Broadcasting Corporation

June 2012
Member of the Board the Company
(Current Position)

June 2013
Member of the Board (outside director)
LIXIL Group (Current Position)

The directors marked
with * are also the
executive officers

Corporate Governance *continued*

Decision-Making, Business Execution, Supervision *continued*

The Audit & Supervisory Board

Entrusted by shareholders and ensured of its autonomy, the Audit & Supervisory Board conducts accounting audits as well as operating audits. Currently, we have four audit & supervisory board members including two independent outside audit & supervisory board members. Collectively, they have experience in management, legal, finance and accounting among other areas. Audit & supervisory board members have various statutory rights in order to accomplish their roles and responsibilities, including making requests to deliver reports to the directors, executive officers and employees, issuing an injunction to prevent illegal activities by directors, and representing the Company in case of litigation between any director and the Company. In addition, the Audit & Supervisory Board has a right to dismiss the auditing firm which conducts accounting audit. The Audit & supervisory board members' report containing the results of both the accounting and operating audits is submitted to the annual general meeting of shareholders.

If directors and executive officers find any issue that may cause a substantial damage to the Company, they are obliged to report it to the Audit & Supervisory Board, along with other relevant matters that could affect the Company. Audit & supervisory board members are authorized to attend the meetings of the Board of Directors and other important meetings. Our directors and executive officers respond in a prompt and appropriate manner, when requested by audit & supervisory board members to deliver documents for their inspection, to arrange field audits and to submit reports. The Operational Review and Business Assurance Division, which conducts internal audits, as well as the Compliance Office, exchanges necessary information and works together with audit & supervisory board members.

Members	– 4 (including two independent outside audit & supervisory board members)
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Average rate of attendance	– 100%
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Futoshi Nakamura
Standing Audit & Supervisory Board Members

Date of birth November 23, 1957
Term of office 4 years since March 2015
Number of shares held 4,800

April 1981
Joined the Company (Japan Tobacco and Salt Public Corporation)

July 2004
Head of Procurement Planning Division

July 2005
Senior Manager of Operational Review and Business Assurance Division

September 2005
Senior Manager of Operational Review and Business Assurance Division, JT International Holding B.V. Vice President

July 2009
Senior Manager of Accounting Division

July 2010
Head of Operational Review and Business Assurance Division

June 2012
Standing Audit & Supervisory Board Member of the Company (Current Position)



Tomotaka Kojima
Standing Audit & Supervisory Board Members

Date of birth December 19, 1953
Term of office 4 years since March 2015
Number of shares held 0

April 1976
Joined Ministry of Finance

July 2000
Director of the Fukuoka Local Finance
Branch Bureau

July 2002
Deputy Head of Finance Group of the Company

July 2004
Deputy Director General of Employee Welfare
Bureau Secretariat of National Personnel Authority

April 2007
Deputy Director General for Administrative Policy
Matters National Personnel Authority

January 2008
Director General of Equity and Investigation
Bureau Secretariat of National Personnel
Authority

August 2009
Executive Director National Hospital Organization

March 2010
Retired from Executive Director
National Hospital Organization

October 2010
Adviser, Japan Association of Corporate Directors

November 2010
Secretary General Japan Association
of Corporate Directors

June 2013
Standing Audit & Supervisory Board Members,
the Company (Current Position)



Yoshinori Imai
Audit & Supervisory Board Members
(Outside Audit & Supervisory
Board Members)

Date of birth December 3, 1944
Term of office 4 years since March 2015
Number of shares held 700

April 1968
Joined Japan Broadcasting Corporation

June 1995
Bureau Chief of General Bureau for Europe

May 2000
Director General
Planning & Broadcasting Department

June 2003
Executive Editor and Program Host

January 2008
Executive Vice President

January 2011
Retired from Executive Vice President

April 2011
Visiting Professor Ritsumeikan University
(Current Position)

June 2011
Audit & Supervisory Board Members
the Company (Current Position)



Hiroshi Obayashi
Audit & Supervisory Board Members
(Outside Audit & Supervisory
Board Members)

Date of birth June 17 1947
Term of office 4 years since March 2015
Number of shares held 0

April 1970
Judicial Apprentice

April 1972
Appointed as Public Prosecutor

May 2001
Director-General of the Rehabilitation Bureau
Ministry of Justice

January 2002
Deputy Vice-Minister of Justice
Ministry of Justice

June 2004
Director-General of the Criminal Affairs Bureau
Ministry of Justice

June 2006
Vice-Minister of Justice Ministry of Justice

July 2007
Superintending Prosecutor Sapporo High Public
Prosecutors Office

July 2008
Superintending Prosecutor Tokyo High Public
Prosecutors Office

June 2010
Prosecutor General

December 2010
Retired from the office of Prosecutor-General

March 2011
Registered as Attorney at Law

April 2011
Audit & Supervisory Board Members (outside
Audit & Supervisory Board Members) Daiwa
Securities Co. Ltd. (Current Position)

June 2013
Member of the Board (outside director) Mitsubishi
Electric Corporation (Current Position)

June 2014
Audit & Supervisory Board Members (outside
Audit & Supervisory Board Members) NIPPON
STEEL & SUMITOMO METAL CORPORATION
(Current Position)

March 2015
Audit & Supervisory Board Members the
Company (Current Position)

Corporate Governance *continued*

Decision-Making, Business Execution, Supervision *continued*

Independence of Outside Directors and Outside Audit & Supervisory Board Members

JT reports to the securities exchanges on which it is listed that the two outside directors and two outside audit & supervisory board members are designated as independent executives. We have a criteria list to assess the independence of an executive. Based on the criteria, the independence of the four executives has been confirmed. Motoyuki Oka, Main Kohda, Yoshinori Imai and Hiroshi Obayashi, who are outside directors and outside audit & supervisory board members, serve as members of the Compensation Advisory Panel.

Criteria list for independence of an executive

A person who fits any of the following descriptions is not designated as an independent executive.

- 1 A person who belongs or belonged to JT or an affiliate or sister company of JT
- 2 A person who belongs to a company or any other form of organization of which JT is a major shareholder
- 3 A person who is a major shareholder of JT or who belongs to a company or any other form of organization which is a major shareholder of JT
- 4 A person who is a major supplier or customer of JT (if the supplier or customer is a company or any other form of organization, a person who belongs thereto)
- 5 A major creditor of JT including a major loan lender (if the creditor is a company or any other form of organization, a person who belongs thereto)
- 6 A certified public accountant who serves as an accounting auditor or an audit advisor of JT, or a person who belongs to an auditing firm which serves as an accounting auditor or an audit advisor of JT
- 7 A person who receives a large amount of fees from JT in exchange for providing professional services for legal, financial and tax affairs or business consulting services (if the recipient of such fee is a company or any other form of organization, a person who belongs thereto)
- 8 A person who receives a large amount of donation from JT (if the recipient of such donation is a company or any other form of organization, a person who belongs thereto)
- 9 A person who has fit any of the descriptions in 2 to 8 above in the recent past
- 10 A close relative of a person who fits any of the following descriptions
 - (a) A person who fits any of the descriptions in 2 to 8 above (if such descriptions apply to a company or any other form of organization, a person who performs important duties thereof)
 - (b) A director, audit & supervisory board member, audit advisor, executive officer or employee of JT or an affiliate or sister company of JT
 - (c) A person who has fit the descriptions in 1 or 2 in the recent past

Support for Outside Directors and Outside Audit & Supervisory Board Members

We provide supports to outside directors and outside audit & supervisory board members. The Corporate Strategy Division or Secretary Division explains the agendas for board meetings in advance, submits requested documents and delivers necessary information to outside directors for them to contribute to the quality of board discussion. As an independent body entrusted by shareholders, the Audit & Supervisory Board is expected to monitor the performance of the directors and executive officers, with an aim to underpin the Company's healthy and sustainable growth as well as increase its credibility. For outside audit & supervisory board members to perform their expected roles, we are supporting them by making necessary information available and allocating adequate human resources to the Auditor Office which assists audit & supervisory board members.

Executive Officer System

JT employs the Executive Officer System to ensure effective and efficient management by promptly responding to the changing environment, and thus aims to increase its company value. Executive officers are appointed by the Board of Directors. At the same time, the board assigns certain responsibilities and delegates relevant authorities to the executive officers in accordance with the Rules Defining the Extent of Responsibility and Authority. In addition, we have the structure for quick decision-making about plan and strategy relevant to all business execution except the matters which are submitted to the Board of Directors. This structure has been established by an articulate decision-making process based on the Rules Defining the Extent of Responsibility and Authority.

Please refer to page 150 for the list of executive officers.

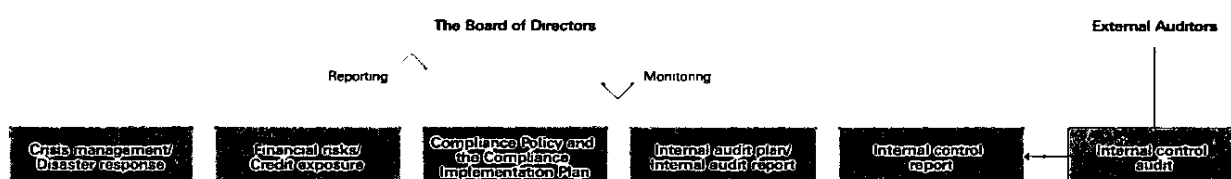
Corporate Governance *continued*

Internal Control System & Risk Management System

Overview

JT devotes its efforts to ensure appropriate business operation by reinforcing internal control such as compliance, internal audit and risk management among other matters. The developments of these internal control focuses are reported regularly to the Board of Directors. In addition, we have the Auditor Office, a department dedicated to support the Audit & Supervisory Board, for our audit & supervisory board members to effectively perform their duties. Collaboration among the Group companies is encouraged to strengthen the framework for compliance (which includes the internal consultation and reporting), reliable financial reporting, internal audit and risk management.

Internal control framework



Compliance

A Code of Conduct has been created based on our internal guidelines approved by the Board of Directors. Under the Code of Conduct, all directors and employees are expected to fully comply with applicable laws, our Articles of Incorporation, social norms and other compliance standards. In addition, the Board of Directors has established a fair and effective compliance framework as described below.

- Set up the JT Group Compliance Committee, which reviews and discusses compliance related matters, then directly reports to the Board of Directors
- Assign responsibility for compliance to a director (who also serves as an executive officer)
- Assign responsibility for compliance to an executive officer without directorship
- Assess and approve the Compliance Policy as well as the Compliance Implementation Plan
- Review the implemented compliance initiatives

The Compliance Office is in charge of improving the compliance framework, while identifying any issue in the framework. The Compliance Office also promotes compliance by offering training programs to directors and employees.

The JT Group has both internal and external hotlines through which employees may consult or report any misconduct they suspect to be taking place. The Compliance Office is responsible for investigating consulted or reported cases and implementing Group-wide measures to prevent the recurrence of misconduct after discussing it with the divisions concerned. Material cases are reviewed by the JT Group Compliance Committee, and further reported to the Board of Directors as necessary.

The JT Group Compliance Committee is headed by the Chairman, and external members comprise the majority. The JT Group Compliance Committee met twice in the year ended December 31, 2014, and discussed initiatives to strengthen compliance throughout the Group among other matters.

Reliable financial reporting

In order to ensure the reliability of its financial reporting, JT has introduced a relevant internal control system in accordance with the Financial Instruments and Exchange Act and other standards. In addition, a dedicated division has been created which reviews the internal control system and reports the result of the assessment. Reliability of our financial reporting is confirmed by the external accounting auditor who makes an assessment of our internal control system based on the Internal Control Report prepared by us.

Risk management

Financial risk management

JT has put in place the internal guidelines for financial risk management. The executive officer in charge updates the status of financial risks together with the countermeasures against these risks. Meanwhile, these risks and the countermeasures against them are reported to CEO and the Board of Directors on a quarterly basis.

Crisis management and disaster control

In order to deal with possible crises or disasters, JT has produced a manual for crisis management and disaster control so that we can make a proper initial response. In the event of a crisis or a disaster, a project team led by the President is immediately assembled. In the project team, the Corporate Strategy Division assumes the key role to support the President. Under the leadership of the President, we respond promptly and properly, ensuring close cooperation across the organization. The director in charge reports crisis or disaster incidents to the Board of Directors on a quarterly basis.

Management of other risks

In accordance with the Rules Defining the Extent of Responsibility and Authority, management of other risks is delegated to relevant divisions, which identify and monitor the risks in their areas of responsibility. Significant risks are reported to CEO, together with the request for approval to implement countermeasures against them, where necessary.

Please refer to page 46 for our risk factors.

Internal audit system

JT has an Operational Review and Business Assurance Division, which is thoroughly independent of other JT Group divisions and organizations engaging in operations. Under such a capacity, it conducts internal audits and directly reports to the President. The Operational Review and Business Assurance Division has unlimited access to all activities, records and employees Group-wide to accomplish its roles and responsibilities. The head of the division is required to report to the President the results of internal audits along with their analysis and assessment, and also reports to the Board of Directors. The head of the division has the right to contact the management of JT and the Group companies regularly and as frequently as needed.

Corporate Governance *continued*

Executive Remuneration

Overview

Remuneration for our directors is determined by resolution at the Board of Directors, taking into account discussion at the Compensation Advisory Panel. Remuneration for our audit & supervisory board members is determined through the deliberations of the Audit & Supervisory Board. The aggregate remuneration of directors and audit & supervisory board members cannot exceed the respective ceilings approved at a general meeting of shareholders. In determining remuneration, we refer to research management remuneration conducted by a third party, and benchmark Japanese manufacturing companies operating globally with a scale or profit comparable with ours.

The Compensation Advisory Panel

The Compensation Advisory Panel has been established as an advisory body to the Board of Directors with an aim to increase the objectiveness and transparency of our executive remuneration. The Compensation Advisory Panel comprises the Chairman, two outside directors and two outside audit & supervisory board members. Upon request, the Panel reviews and provides advice on the policy, framework and calculation method for remuneration of our directors and executive officers. It also monitors whether our executive remuneration level is reasonable. During the past fiscal year, the Compensation Advisory Panel met twice to discuss the level of remuneration among other matters.

Based on the recommendation by the Compensation Advisory Panel, the key policy for our executive remuneration is as follows:

- Set the remuneration at an adequate level to retain personnel with superior capabilities
- Link the remuneration to company performance so as to motivate executives to achieve their performance targets
- Link the remuneration to company value in the mid- to long-term
- Ensure transparency by implementing an objective and quantitative framework

Structure of executive remuneration

In accordance with the above policy, remuneration for our executive comprises (1) "base salary" paid monthly, (2) "executive bonus" linked to our business performance in the relevant year, and (3) "stock option grants", the value of which is linked to our mid- to long-term company value. In 2007, JT introduced a stock option program as an incentive linked to the mid- to long-term company value. The Companies Act requires a special resolution at a shareholders' meeting if stock options are granted under particularly advantageous terms or at particularly advantageous prices. This is not the case with our stock option program, as our stock options are compensation for the executives who perform their duties, and the options are granted in exchange for certain considerations.

Remuneration for the directors and audit & supervisory board members are structured as follows:

Remuneration for the directors who also serve as executive officers comprises "base salary", "executive bonus" and "stock option grants". "Executive bonus" is included, as they are responsible for the achievement of assigned annual targets through their day-to-day management.

As for the president or each executive deputy president, the combined amount of "executive bonus" at a 100% grant basis and "stock option grants" is targeted at slightly less than 80% of respective annual base salary. The same scheme is introduced to set "executive bonus" and "stock option grants" for other directors, while the combined amount is targeting approximately 70% of respective annual base salary. Excluding outside directors, remuneration for the directors not serving as executive officers comprises "base salary" and "stock option grants", as they focus on decision-making on the Group strategies in addition to supervision of business and corporate activities. Remuneration for outside directors consists solely of "base salary" and does not include performance linked compensation from the perspective of sustaining their independence.

Remuneration for the audit & supervisory board members is also composed of "base salary" alone, in light of their key responsibility to conduct audits.

The maximum amount of the annual aggregate remuneration excluding "stock option grants" for the directors and audit & supervisory board members was approved at our 22nd Annual General Shareholders' Meeting in June 2007. The maximum remuneration for all the directors combined is ¥870 million and ¥190 million for all the audit & supervisory board members combined. In addition, the ceiling for annual "stock option grants" for the directors was approved at the same shareholders' meeting. The ceiling is 800 options in number and ¥200 million in value. The number of the stock options granted to the directors and the executive officers who are not directors is decided each year by the Board of Directors.

The remuneration payments to the directors and audit & supervisory board members for the year ended December 2014 are as follows

Category	Total remuneration and other payments (million yen)	Total amount of remuneration and other payments by type (million yen)			Number to be paid (people)
		Basic remuneration	Director's bonus	Stock option grants ²	
Directors (excluding Outside Directors)	423	235	102	86	8
Audit & Supervisory Board member (excluding Outside Audit & Supervisory Board members)	54	54	—	—	2
Outside Directors and Outside Audit & Supervisory Board members	41	41	—	—	4
Total	517	329	102	86	14

1: Amounts to be paid

2: Total amounts granted for the year ended December 2014

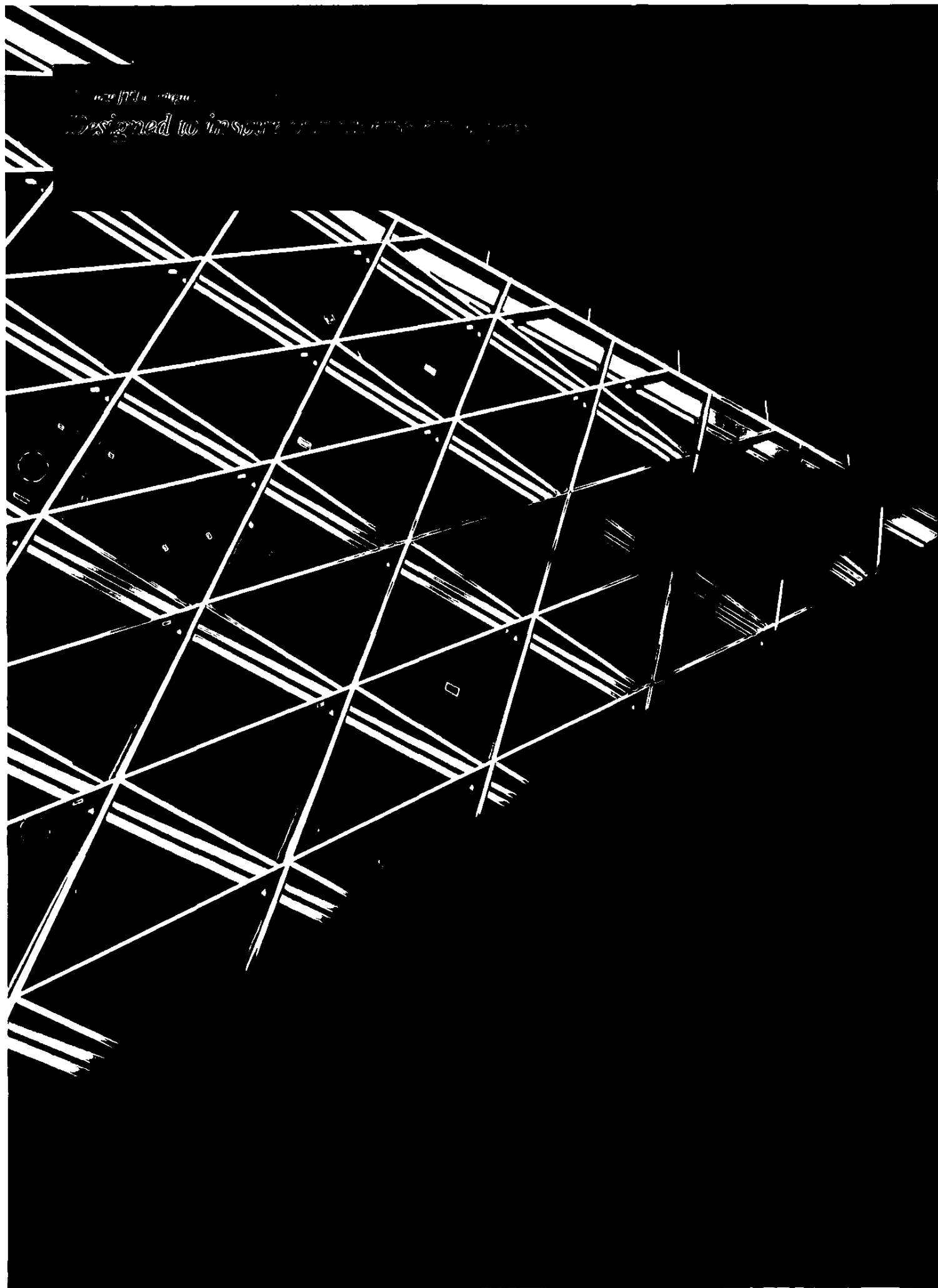
The remuneration payments to the directors and the audit & supervisory board members whose total remuneration exceeds ¥100 million for the year ended December 2014 are as follows

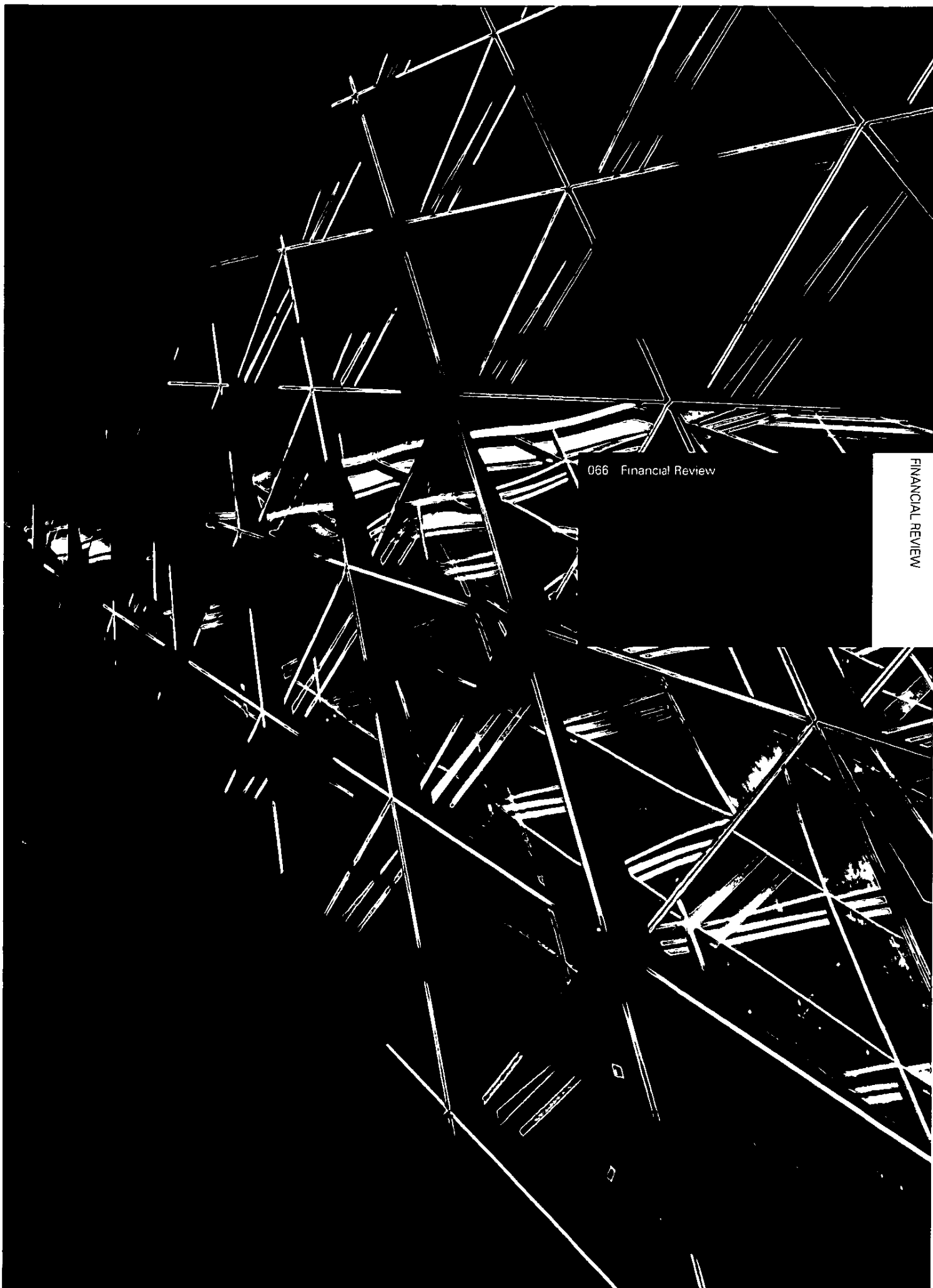
Name	Category	Company	Amount of consolidated remuneration and other payments by type (million yen)			Total (million yen)
			Basic remuneration	Director's bonus	Stock option grants	
Mitsuomi Koizumi	Representative Director	JT	56	34	21	111

The stock options granted for the year ended December 2014 are as follows

Resolution date	September 19, 2014
Positions and number of people grants	Directors (excluding outside Directors): six persons Executive officers (excluding persons serving as Directors): 19 persons
Number of shares	35,600 shares to Directors (excluding outside Directors) 33,200 shares to Executive officers (excluding persons serving as Directors) Total 68,800 shares (200 shares per stock acquisition right)

Designed to insert





Financial Review

Analysis of the Results

FY2014 Results for the fiscal year ended December 31, 2014

About the unification of accounting period

In this fiscal year, the Company and its subsidiaries have unified their fiscal years to end on December 31, in line with overseas consolidated subsidiaries of the Group which will enhance and improve the efficiency of the closing and management systems

FY2014, a transitional period for the change in accounting period, covers nine months from April 1, 2014 to December 31, 2014 for the Japanese domestic businesses. The same change in the accounting period is applied to those the Company's consolidated subsidiaries whose current closing date was other than December 31 (Reported basis)

For the purpose of fair comparison of business performance, we are providing figures for the twelve-month period from January 1, 2014 to December 31, 2014 (Like-for-Like basis) with regard to all business segments

2014 results (Reported basis)

	Jan Mar	Apr Jun	Jul Sep	Oct Dec	Jan Mar	Apr Jun	Jul Sep	Oct Dec
Domestic								
International								
	FY2013				FY2014			

Japan domestic businesses From April 1, 2014 to December 31, 2014 (Nine months)

International business From January 1, 2014 to December 31, 2014 (Twelve months)

2014 results (Like-for-like basis, Comparison with 2013 Jan - Dec)

	Jan Mar	Apr Jun	Jul Sep	Oct Dec	Jan Mar	Apr Jun	Jul Sep	Oct Dec
Domestic								
International								
	2013 Jan - Dec				2014 Jan - Dec			

All business segments Twelve-month period from January 1 to December 31 for 2013 and 2014 respectively

Notes

Revenue, operating profit, adjusted operating profit and profit attributed to owners of the parent company for January - December 2014 would be disclosed in the Financial Statements and Notes, which would be audited

For the purpose of fair comparison and reference, the same accounting methods were applied to both financial results of January - December 2013 and 2014. Financial results of January - December 2013 would not be audited

1 Significant Accounting Policies

Having acquired RJR Nabisco's non-U.S. tobacco operation in 1999 and Gallaher Group Plc. in the UK in 2007, the JT Group has been growing steadily as a global company with operations in over 70 countries and with our products sold in more than 120 countries and regions around the world. In this context, the JT Group has adopted IFRS from the year ended March 31, 2012 to improve international comparability of financial information in capital markets and to diversify the group's sources of financing through international capital markets.

Effective from the current fiscal year, the Company and those of its consolidated subsidiaries with fiscal year ends other than December 31 have changed their fiscal year ends to December 31 for the purpose of unifying the fiscal year end with overseas consolidated subsidiaries of the Group, which will enhance and improve the efficiency of the closing and management systems. As a result of this change, the consolidated fiscal year end date has been changed from March 31 to December 31, and the current fiscal year is the nine-month period from April 1, 2014, through December 31, 2014. In addition, the fiscal year end date of JT International Holding BV and its subsidiaries, which operate the Group's International Tobacco Business, is already December 31. Consequently, the financial results of these companies for the twelve-month period from January 1, 2014, through December 31, 2014, have been consolidated into the Group's consolidated financial results for the current fiscal year.

For further details of significant accounting policies, please refer to Note 3 to the consolidated financial statements.

2 Non-GAAP financial measures

The JT Group discloses certain additional financial measures that are not required or defined under IFRS. These measures help grasp underlying performance of each business and are used for internal performance management. We believe that they are useful information for users of our financial statements to assess the Group's performance.

For our international tobacco business, its consolidated financial statements reported in US dollars are internally reviewed and therefore revenue and adjusted operating profit are externally communicated in US dollars. These non-GAAP financial measures should be treated as supplementary information, rather than alternative measures to corresponding financial numbers prepared in accordance with IFRS.

Core revenue

For the tobacco business, core revenue is disclosed additionally as a breakdown of revenue. Specifically, the core revenue for the Japanese domestic tobacco business is presented after deducting revenue accounted for distribution of imported tobacco products, among other things, from revenue, while core revenue for the international tobacco business is presented after deducting the revenue accounted for the distribution business and contract manufacturing, among other areas, from revenue.

Adjusted Operating Profit

In order to provide useful comparative information on our business performance, adjusted operating profit is presented as operating profit plus amortization of acquired intangibles and adjusted items (income and costs). Adjusted items (income and costs) are impairment losses on goodwill and restructuring income and costs, and other items. Furthermore, for the international tobacco business, adjusted operating profit at constant rates of exchange which excludes foreign exchange effects, is also presented as additional information. Adjusted operating profit at constant exchange rate for a relevant period in the international tobacco business is calculated using the foreign exchange rates of the prior year.

Adjusted EPS (diluted)

In order to provide useful comparative information on our shareholder return, adjusted EPS (diluted) is presented after making certain adjustments to dilute EPS. For the adjustments made for the adjusted EPS (diluted), please refer to Notes to Consolidated Financial Statements '30 Earnings per share'.

Consolidated dividend payout ratio

The consolidated dividend payout ratio is calculated by dividing the annual dividend per share for the relevant year (total of interim dividends and year-end dividends for which the record dates are included in the relevant year) by basic earnings per share.

3 Analysis of consolidated financial results for FY2014 (the fiscal year ended December 31, 2014)

For analysis of 'Revenue', 'Adjusted Operating Profit', 'Operating profit' and 'Profit attributable to owners of the parent company', it was disclosed based on the results of January 1 to December 31, 2013 and 2014 (Like-for-Like base) for the Company and its subsidiaries. For analysis of financial results by business segment, please refer to 'Review of Operations'.

Financial Review *continued*

Analysis of the Results *continued*

FY2014 Results for the fiscal year ended December 31, 2014

Revenue¹

(billions of yen)

○ Actual Results ○ Decrease ● Increase (Decrease in case of expense)

2013 Jan – Dec	2,372.2	
International tobacco business		+58.0
Japanese domestic tobacco		4.6
Pharmaceutical		+7.6
Beverage		2.5
Processed Food		+4.0
Others		1.3
2014 Jan – Dec		2,433.5

- Revenue increased ¥61.3 billion or +2.6% year-on-year to ¥2,433.5 billion
- This was mainly the results of robust pricing and mix effect in the international tobacco business as well as the weak yen effect

Adjusted Operating Profit² / Operating Profit

(billions of yen)

2013 Jan – Dec	612.6	
International tobacco at constant currency		+53.8
International tobacco at Local currency vs. US\$ Forex Effect		-49.6
International tobacco US\$ vs. Yen Forex Effect		+31.9
Japanese domestic business		+4.1
Pharmaceutical		+6.3
Beverage		+1.6
Processed Food		+0.8
Others		-1.6
2013 Jan – Dec Adjusted Operating Profit		660.1
Adjusted total		-88.3
2014 Jan – Dec Operating Profit	571.8	

Adjusted operating profit increased ¥47.5 billion or +7.8% year-on-year to ¥660.1 billion, driven by the tobacco business

- In international tobacco business, adjusted operating profit growth was driven by strong price and mix effect as well as the weak yen effect
- In Japanese domestic tobacco business, adjusted operating profit growth was driven by price/mix improvement resulting from successful consumer retention and the decrease in costs and sales promotion expenses

Operating profit at constant currency increased +10.6% year-on-year

Operating profit decreased ¥70.9 billion or -11.0% year-on-year to ¥571.8 billion

- Recognized the costs associated with measures to strengthen the competitiveness of the Japanese domestic tobacco business
- Recognized the restructuring costs of manufacturing facilities in Europe in the international tobacco business
- Other income of proceeds from disposal of investment property decreased

Profit¹

(billions of yen)

2013 Jan - Dec		443.0
Operating profit		70.9
Financial income/financial cost	+14.0	
Income tax/Profit attributable to non-controlling interests	+2.9	
2014 Jan - Dec		389.1

- Profit decreased ¥54.0 billion or -12.2% year on-year to ¥389.1 billion as the decrease in operating profit more than the increase in net financial income
- Financial income/financial costs improved year-on-year mainly due to the increase in interest income and the decrease in interest expenses
- Income tax decreased (increased as in the above graph) due to the decrease in profit and post a deferred tax liability

Revenue by business segment

	Billions of yen	
	2013 Jan-Dec	2014 Jan-Dec
Revenue	2,372.2	2,433.5
International tobacco	1,270.0	1,328.0
Core revenue ⁴	1,200.7	1,258.2
Japanese domestic tobacco	690.5	685.9
Core revenue ⁵	656.3	649.8
Pharmaceutical	58.2	65.8
Beverage	183.8	181.3
Processed Food	157.2	161.2
Others	12.6	11.3

Average Exchange Rate

	2013 Jan-Dec	2014 Jan-Dec
YEN/US\$	97.73	105.79
RUB/US\$	31.84	38.40
GBP/US\$	0.64	0.61
EUR/US\$	0.75	0.75

1 Exclude tobacco excise taxes and agency transactions

2 Adjusted Operating profit = Operating profit + amortization of intangible assets of ± adjusted items (income and costs)*

*Adjusted items (income and costs) = Impairment losses on goodwill ± restructuring income and costs ± others

3 Profit attributable to owners of the parent

4 Excludes revenues from distribution, contract manufacturing and other peripheral businesses

5 Excludes revenue from distribution of imported tobacco in the Japanese domestic tobacco business among other factors

6 Amortization cost of acquired intangibles ± adjustment items (income and costs)**

**Adjusted items (income and costs) = impairment losses on goodwill ± restructuring income and costs ± others

Adjusted Operating Profit and Operating profit by business segment

	Billions of yen	
	2013 Jan-Dec	2014 Jan-Dec
Consolidated operating profit	642.7	571.8
Adjustment total ⁶	(30.1)	88.3
Consolidated Adjusted operating profit	612.6	660.1
International tobacco Operating profit ⁴	376.4	379.5
Adjustment total ⁶	34.4	67.6
International tobacco Adjusted operating profit	410.8	447.1
Japanese domestic tobacco Operating profit	235.6	181.5
Adjustment total ⁶	(1.0)	57.2
Japanese domestic tobacco Adjusted operating profit	234.6	238.7
Pharmaceutical Operating profit	(13.7)	(7.3)
Adjustment total ⁶	-	-
Pharmaceutical Adjusted operating profit	(13.7)	(7.3)
Beverage Operating profit	(2.1)	(0.5)
Adjustment total ⁶	-	-
Beverage Adjusted operating profit	(2.1)	(0.5)
Processed Food Operating profit	0.7	(1.2)
Adjustment total ⁶	(0.1)	2.6
Processed food Adjusted operating profit	0.6	1.4
Others/Elimination Operating profit	45.7	19.9
Adjustment total ⁶	(63.4)	(39.1)
Others/Elimination Adjusted operating profit	(17.6)	(19.3)

- For analysis of revenue, core revenue and adjusted operating profit of each business segment, please refer to section "Review of Operations"

Financial Review *continued*

Analysis of the Results *continued*

FY2014. Results for the fiscal year ended December 31, 2014

(2) Adjusted EPS (diluted)

Adjusted profit for January – December, 2014 increased ¥27.7 billion year-on-year to ¥434.7 billion. Adjusted EPS (diluted) for January – December, 2014 increased ¥17.03 or +7.7% year-on-year to ¥239.01.

	(Billions of yen)	
	2013 Jan-Dec	2014 Jan-Dec
Profit used for calculation of adjusted diluted earnings per share	443.0	389.1
Adjustment items (income)	(65.1)	(46.1)
Adjustment items (costs)	9.0	105.0
Adjustments on income taxes and non-controlling interests	20.0	(13.3)
Adjusted profit for the year	406.9	434.7
Weighted-average number of diluted ordinary shares during the year (thousands of shares)	1,833,237	1,818,590
Adjusted diluted earnings per share (yen)	221.98	239.01

(3) Results and plans of capital expenditures

Capital expenditures include outlays on property, plants and equipment such as land, buildings, and structures, machinery, vehicles and others, and intangible assets such as goodwill, trademark, software, and others that are necessary for enhancing the productivity of our factories and other facilities, strengthening our competitiveness, and operating in various business fields.

	(Billions of yen, %)	
Years ended March 31	2013 Jan-Dec	2014 Jan-Dec
Capital expenditure	168.6	140.9
International tobacco	78.5	74.2
Japanese domestic tobacco	61.2	41.0
Pharmaceutical	3.5	4.7
Beverage	15.4	10.7
Processed Food	4.8	4.7
Other/Elimination and corporate	5.1	5.5

Total amount of capital expenditures amounted to ¥140.9 billion from January 1 to December 31, 2014.

In the international tobacco business, capital expenditures amounted to ¥74.2 billion which was spent on expanding production capacity, maintenance and replacement of facility, and for improvement of product specifications. In the Japanese domestic tobacco business, capital expenditures amounted to ¥41.0 billion which was spent on initiatives to streamline manufacturing processes, to strengthen our ability to respond flexibly to supply and demand fluctuations with an increasingly diverse range of products, and to develop new products.

In the pharmaceutical business, capital expenditures amounted to ¥4.7 billion which was spent on the development and reinforcement of R&D capabilities.

In the beverage business, capital expenditures amounted to ¥10.7 billion, which was spent on maintaining and renewing the vending machine network, among other areas.

In the processed food business, capital expenditures amounted to ¥4.7 billion, which was spent on enhancing and maintaining the production capacity.

These capital expenditures were internally funded through cash generated by operations.

Plans for new installations and disposal of facilities

Regarding the mid- to long-term resource allocation of the JT Group, we will place top priority on business investments that will lead to sustainable profit growth in the mid- to long-term based on our management principles. We position the international and Japanese domestic tobacco business as the core business and profit growth engine and place top priority on business investments that will lead to their sustainable profit growth.

Meanwhile, regarding the pharmaceutical business and processed food business, we will strive to strengthen foundations that will lead to future profit contribution, and we will make investments to that end. Based on this policy, we plan capital expenditures totaling ¥161.0* billion for FY2015.

As JT and JT Group companies have wide-ranging plans for capital expenditure, figures are disclosed by segment. Our actual capital expenditures may differ significantly from the planned figures mentioned above as a result of a number of factors, including those discussed in 'Risk Factors'.

	Capital Expenditure plan (Billions of yen)	Main purpose of investment	Funding
International tobacco business	85.0	Investment for improvement of product specifications, expansion of production capacity, maintenance and upgrading of facilities	Internally funded
Japanese domestic tobacco	41.0	Investment in production and sales facilities for the purpose of brand equity enhancement	Same as above
Pharmaceutical	6.5	Investment for the maintaining and reinforcing of R&D	Same as above
Beverage	13.0	Investment for the maintenance and reinforcing trade marketing	Same as above
Processed food	7.0	Investment for enhancing and maintaining production capacity	Same as above

* The business impact and costs related to the withdrawal from the manufacture and sale of JT beverage products announced in February 2015 was not included in the planned capital expenditures for FY2015.

Financial Review *continued*

Analysis of the Results *continued*

FY2014 Results for the fiscal year ended December 31, 2014

(4) Consolidated financial results for FY2014 (Consolidated balance sheet)

Analysis of consolidated statement of financial position (assets, debt and equity) ended December 31, 2014 was disclosed as below

Consolidated Balance Sheet (Assets)

(billions of yen)

March 31, 2014	4,616.8	
Cash and cash equivalents		+132.6
Trade and other receivables		+8.2
Inventory		+36.9
Property, plant and equipment		23.9
Goodwill		-45.1
Trademark		-19.3
Other assets		-1.5
December 31, 2014	4,704.7	

- Total assets increased ¥87.9 billion to ¥4,704.7 billion due to among other factors, the weak yen effect, which partially offset the decrease in goodwill with weak local currency effect (vs. US\$) and investment property.

Consolidated Balance Sheet (Debt and Equity)

(billions of yen)

March 31, 2014	4,616.8	
Trade and other payables		+59.7
Bonds		163.6
Borrowings		+10.4
Tobacco excise tax payables, etc.		+103.3
Other liabilities		+51.7
Retained earnings		+139.9
Exchange differences on translation of foreign operations		113.6
Other equity total		+0.1
March 31, 2014	4,704.7	

- Total liabilities increased ¥61.5 billion to ¥2,082.2 billion mainly due to the increase in tobacco excise tax payables and the weak yen, which was partially off-set by decrease in interest bearing debts.
- Total equity increased ¥26.4 billion to ¥2,622.5 billion due to the increase in retained earnings but partially offset by the decrease in exchange differences on translation of foreign operations.

4 Dividends

The year-end dividends for FY2014 were ¥50 per share. The total annual dividends per share, including the interim dividends per share of ¥50 per share, were ¥100 per share, with a consolidated payout ratio of 50.1%.

The year-end dividends related to the current year are recognized in the following year for accounting purposes. The year-end dividend related to FY2013 (record date of March 31, 2014) and the interim dividends for FY2014 (record date of September 30, 2014) are recorded in the financial statements for FY2014. For more details, please refer to Note 24 to the consolidated financial statements "Dividends".

5 Capital management

The JT Group's management principle is pursuit of the "4S" model ensuring that in all our activities, we satisfy and fulfill our responsibilities towards our consumers, shareholders, employees and wider society, while balancing the interest of these key stakeholder groups.

The JT Group believes that sustainable profit growth in the mid- to long-term based on this principle will increase the JT Group's value in the mid- to long-term, and is consequently in the best interest of all stakeholders, including our shareholders.

In order to achieve sustainable growth, the JT Group understands that financing capacities sufficient enough to make agile business investments when there are opportunities, such as the acquisition of external resources for business growth are required. For that reason, the JT Group aims to maintain a well-balanced capital structure by ensuring sound and flexible financial conditions for future business investment as well as an appropriate return on equity.

The JT Group manages net interest-bearing debt, where cash and cash equivalents are deducted from interest-bearing debt, and capital (the part attributable to the owners of the parent company). The amounts as of each year-end are as follows.

	(Billions of yen)	
	As of March 31, 2014	As of December 31, 2014
Interest-bearing debt	375.9	228.2
Cash and cash equivalents	(253.2)	(385.8)
Net interest-bearing debt	122.7	(157.6)
Capital (equity attributable to owners of the parent company)	2,505.6	2,536.8

Note: Net interest-bearing debt on December 31, 2014 is the net amount of cash and cash equivalents after deducting interest-bearing debt.

Share buy-back.

A repurchase of our shares requires cash outlays. As of December 31, 2014, we held 182,443,388 shares of common stock as treasury stock, amounting to 9.12% of total number of shares issued.

In order to repurchase our shares in a flexible manner, we amended the Articles of Incorporation at the general meeting of shareholders held on June 24, 2004 so that we could make repurchase based on a resolution made by the Board of Directors.

We may continue to hold the repurchased shares as treasury stock or use them for other purposes. Stock repurchase provides our management with an additional option for increasing flexibility and speed in capital management in order to adopt to a rapidly changing business environment.

On February 5, 2015, the Company's Board of Directors resolved to acquire up to 36 million shares of its outstanding common stock for a total amount up to ¥100 billion during the period between February 9, 2015 and June 9, 2015. Based on this resolution, the Company acquired 26,896,200 shares of its common stock for a total acquisition price of ¥99,999,695,750 during the period between February 9, 2015 and March 18, 2015 (contract basis), and has completed the acquisition of its common stock as resolved by the Board of Directors.

6. Financial activities

Our Group Treasury Division provides Group-wide support to enable secure and efficient financing activities. JT Group is exposed to financial risks (credit risks, liquidity risks, foreign exchange risks, interest rate risks, and market price fluctuation risks). Treasury operations are conducted pursuant to a set of group-wide financial risk management policies and results are reported to the CEO and the Board of Directors of JT on a regular basis. For more details on financial risk management, please refer to "(2) Financial Risk Management" to "(7) Market Price Fluctuation Risk" of Note 33 to the consolidated financial statements "Financial Instruments".

(1) Cash Management Systems

To maximize the total group cash efficiency, we give first priority to utilizing internal financing mainly by the Cash Management Systems (CMS) within our Group, where legally permissible and economically viable.

Financial Review *continued*

Analysis of the Results *continued*

FY2014 Results for the fiscal year ended December 31, 2014

(2) External financing

Short-term working capital needs are basically financed through short-term borrowings from financial institutions or through commercial paper, or a combination of both. Mid-to long-term capital needs are financed through long-term borrowings from financial institutions, bond or equity, or a combination of those previously stated.

We continue to diversify our financing method and correspondent financial institutions to secure stable and efficient funding sources through activities such as the establishment of committed facilities. The condition of the Group's wide external debt is reported to the CEO and the Board of Directors of JT on a regular basis.

(3) External investments

Our financial investments are always made taking into account safety, liquidity and optimal yield. Speculative dealings in pursuit of profit margin are not allowed. The results of the financial investment are reported to the CEO and the Board of Directors of JT on a regular basis.

7 Results of cash flows FY2013 and FY2014

Cash and cash equivalents at the end of FY2014 increased by ¥132.6 billion from the end of FY2013 to ¥385.8 billion. Cash and cash equivalents at the end of FY2013 were ¥253.2 billion.

Note: Tobacco excise tax is paid monthly, one month in arrears, at the end of each month. In Japan, since December 31, 2014 was a holiday for financial institutions in Japan, we did not pay the tobacco excise tax for the previous month's tobacco sales in Japan on that fiscal year end. The amounts of excise taxes paid on the business day immediately following the end of the previous year was ¥136.8 billion.

Cash flows from (used in) operating activities

Net cash flows from operating activities during FY2014 were ¥543.7 billion. The main factors were the generation of a stable cash inflow from the tobacco business. As a result of holidays for financial institutions, the amount of national tobacco excise tax paid for the prior year in Japan was for 13 months, while the amount for FY2014 in Japan was for 8 months. Net cash flows from operating activities were ¥396.5 billion for FY2013.

Cash flows from (used in) investing activities

Net cash flows used in investing activities during FY2014 were ¥49.1 billion. This was mainly due to the proceeds from sale of investment property but partially offset by the payment for the purchase of property, plant and equipment. Net cash flows used in investing activities were ¥163.5 billion for FY2013.

Cash flows from (used in) financing activities

Net cash flows used in financing activities during FY2014 were ¥388.9 billion. This was mainly due to the increase of dividends per share and repayment of bonds. Net cash flows used in financing activities were ¥145.2 billion for FY2013.

8. Liquidity

We have historically had, and expect to continue to have, significant cash flows from operating activities. We expect that cash generated from operating activities will continue to be stable and cover funds needed for ordinary business activities. On December 31, 2014, we had Yen 386.5 billion committed facilities for both domestic and international major financial institutions, of which 100% was unused. In addition, we have a domestic commercial paper program, uncommitted facilities and a domestic bond shelf registration.

(1) Long-term debt

Bonds issued (including the current portion) as of March 31, 2014 and December 31, 2014 accounted for ¥303.5 billion and ¥140.0 billion respectively and long-term borrowings as loans from financial institutions (including the current portion) accounted for ¥36.3 billion and ¥41.0 billion respectively. Annual interest rates applicable to long-term borrowings outstanding as of March 31, 2014 and December 31, 2014 ranged from 0.43% to 5.90% and 0.43% to 5.90% respectively. Long-term lease obligations accounted for ¥9.7 billion as of March 31, 2014 and ¥15.3 billion as of December 31, 2014. Maturities of interest bearing debts are shown in the table below.

As of December 31, 2014, our long-term debt was rated Aa3 by Moody's Japan K K (Moody's), AA- by Standard & Poor's Ratings Japan K K (S&P), and AA by Rating and Investment Information Inc. (R&I), with a "stable" outlook from Moody's, a "stable" outlook from S&P and a "stable" outlook from R&I. These ratings are among the highest ratings for international tobacco companies.

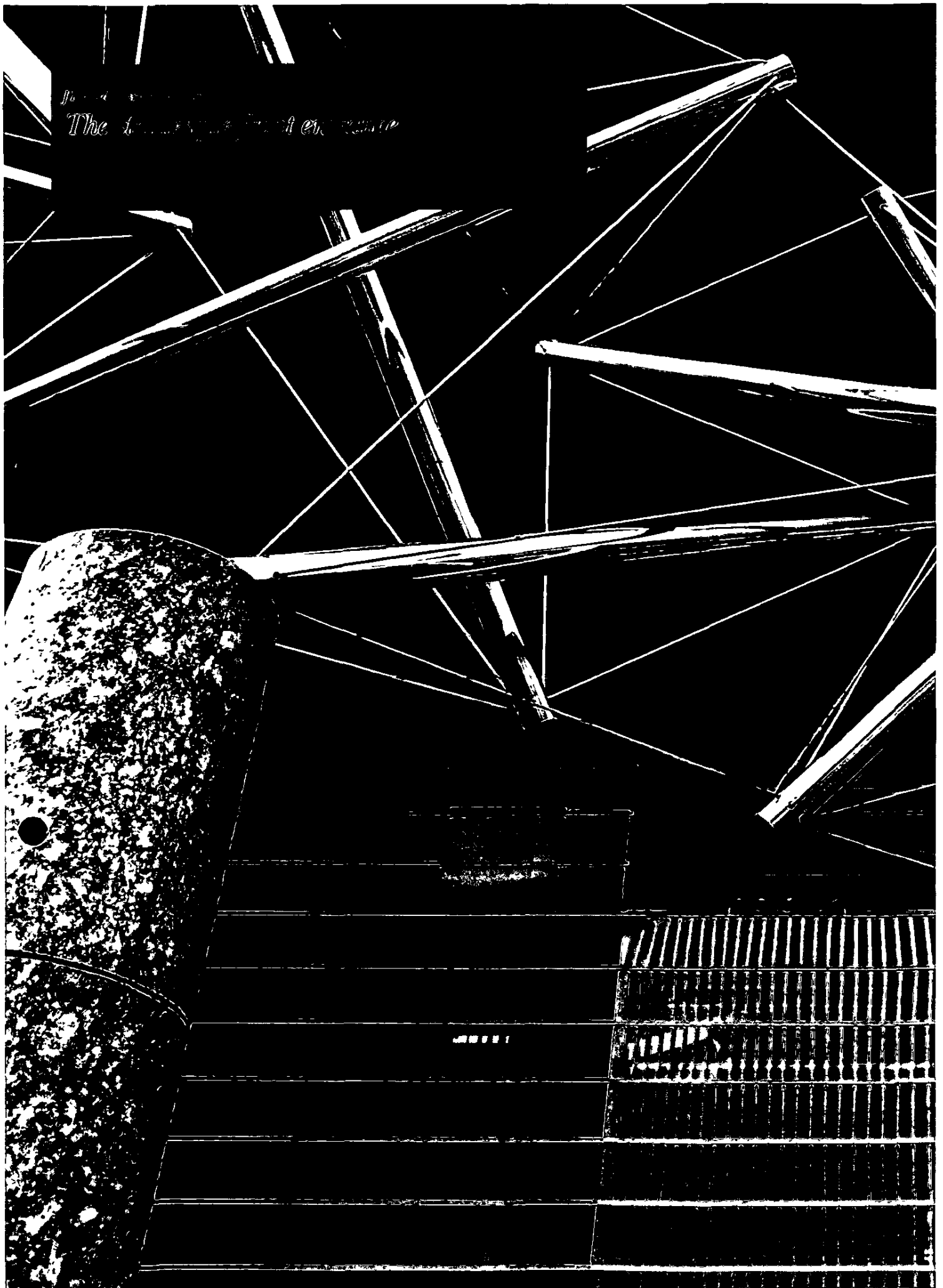
These ratings are affected by a number of factors such as developments in our major markets, our business strategies and general economic trends that are beyond control. The ratings may be withdrawn or revised at any time. Each rating should be evaluated separately from other ratings. Under the Japan Tobacco Inc. Act, the bondholders of JT can enjoy statutory preferential rights over unsecured creditors in seeking repayment, with the exception of national and local taxes and other statutory obligations.

(2) Short-term debt

Short-term borrowings totaled ¥21.9 billion as of March 31, 2014 and ¥27.6 billion as of December 31, 2014. There was no commercial paper outstanding as of March 31, 2014 and December 31, 2014. Annual interest rates applicable to short-term borrowings ranged from 0.45% to 13.00% as of March 31, 2014, and from 0.43% to 10.00% as of December 31, 2014. Short-term lease obligations totaled ¥4.4 billion as of March 31, 2014 and ¥4.3 billion as of December 31, 2014.

(Billions of yen)							
	Book Value	Due within 1 year	Due after 1 year through 2 years	Due after 3 years through 4 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Short-term borrowings as loans	27.6	27.6	—	—	—	—	—
Short-term lease obligations	4.3	4.3	—	—	—	—	—
Long-term borrowings as loans (current portion)	39.9	39.9	—	—	—	—	—
Bonds (current portion)	40.0	40.0	—	—	—	—	—
Long-term borrowings as loans	1.0	—	0.1	0.1	0.2	0.1	0.5
Bonds	100.0	—	—	20.0	60.3	—	20.0
Long-term lease obligations	15.3	—	3.6	2.8	1.8	0.7	6.4
Total	228.2	111.8	3.7	22.9	62.3	0.8	26.9

*Just a few feet from the
The Transamerica Pyramid*



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Consolidated Financial Statements

Consolidated Statement of Financial Position

Japan Tobacco Inc. and Consolidated Subsidiaries

FY2014: Nine months ended December 31, 2014

	Millions of yen	
	FY2013 (As of March 31, 2014) Restated*	FY2014 (As of December 31, 2014)
Assets		
Current assets		
Cash and cash equivalents (Note 7)	¥ 253,219	¥ 385,820
Trade and other receivables (Note 8)	440,210	448,402
Inventories (Note 9)	550,987	587,849
Other financial assets (Note 10)	17,333	43,907
Other current assets (Note 11)	226,012	230,530
Subtotal	1,487,761	1,696,507
Non-current assets held-for-sale (Note 12)	1,952	367
Total current assets	1,489,713	1,696,874
Non-current assets		
Property, plant and equipment (Notes 13-19)	779,987	756,127
Goodwill (Note 14)	1,584,432	1,539,376
Intangible assets (Note 14)	385,101	364,912
Investment property (Note 16)	61,421	17,870
Retirement benefit assets (Note 22)	16,530	35,402
Investments accounted for using the equity method	106,107	76,825
Other financial assets (Note 10)	92,596	91,959
Deferred tax assets (Note 17)	100,880	125,361
Total non-current assets	3,127,053	3,007,832
Total assets	¥4,616,766	¥4,704,706

Please refer to Note "3. Significant Accounting Policies."

	Millions of yen	
	FY2013 (As of March 31, 2014) Restated*	FY2014 (As of December 31, 2014)
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables (Note 18)	¥ 360,025	¥ 419,764
Bonds and borrowings (Note 19)	195,562	107,562
Income tax payables	77,158	54,942
Other financial liabilities (Note 19)	9,491	14,463
Provisions (Note 20)	7,362	9,200
Other current liabilities (Note 21)	606,161	754,169
Subtotal	1,255,759	1,360,098
Liabilities directly associated with non-current assets held-for-sale (Note 12)	75	—
Total current liabilities	1,255,834	1,360,098
Non-current liabilities		
Bonds and borrowings (Note 19)	166,165	101,001
Other financial liabilities (Note 19)	17,731	18,617
Retirement benefit liabilities (Note 22)	340,462	351,915
Provisions (Note 20)	5,241	25,425
Other non-current liabilities (Note 21)	126,539	121,792
Deferred tax liabilities (Note 17)	108,703	103,356
Total non-current liabilities	764,842	722,106
Total liabilities	2,020,675	2,082,204
Equity		
Share capital (Note 23)	100,000	100,000
Capital surplus (Note 23)	736,400	736,400
Treasury shares (Note 23)	(344,463)	(344,447)
Other components of equity (Note 23)	251,107	142,425
Retained earnings	1,762,566	1,902,460
Equity attributable to owners of the parent company	2,505,610	2,536,838
Non-controlling interests	90,481	85,665
Total equity	2,596,091	2,622,503
Total liabilities and equity	¥4,616,766	¥4,704,706

Please refer to Note "3 Significant Accounting Policies."

Consolidated Statement of Income

Japan Tobacco Inc. and Consolidated Subsidiaries

FY2014 Nine months ended December 31, 2014

	Millions of yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Nine months ended December 31, 2014)
Revenue (Notes 6, 25)	¥2,399,841	¥2,153,970
Cost of sales (Notes 14, 22)	(979,975)	(886,267)
Gross profit	1,419,866	1,267,703
Other operating income (Note 26)	55,634	47,651
Share of profit in investments accounted for using the equity method	1,702	7,812
Selling, general and administrative expenses (Notes 12, 13, 14, 16, 22, 27, 32)	(828,942)	(823,410)
Operating profit (Note 6)	648,260	499,757
Financial income (Notes 28, 33)	8,351	13,847
Financial costs (Notes 22, 28, 33)	(20,408)	(11,304)
Profit before income taxes	636,203	502,299
Income taxes (Note 17)	(200,912)	(133,673)
Profit for the period	¥ 435,291	¥ 368,626
Attributable to		
Owners of the parent company	¥ 427,987	¥ 362,919
Non-controlling interests	7,304	5,708
Profit for the period	¥ 435,291	¥ 368,626
Earnings per share		
Basic (Yen) (Note 30)	¥ 235.48	¥ 199.67
Diluted (Yen) (Note 30)	235.35	199.56

Reconciliation from "Operating profit" to "Adjusted operating profit"

	Millions of yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Nine months ended December 31, 2014)
Operating profit	¥648,260	¥499,757
Amortization cost of acquired intangibles	25,984	29,465
Adjustment items (income)	(47,047)	(44,302)
Adjustment items (costs)	14,580	103,641
Adjusted operating profit (Note 6)	¥641,777	¥588,561

Consolidated Statement of Comprehensive Income

Japan Tobacco Inc. and Consolidated Subsidiaries

FY2014 Nine months ended December 31, 2014

	Millions of yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Nine months ended December 31, 2014)
Profit for the period	¥435,291	¥ 368,626
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income (Notes 29-33)	4,725	3,725
Remeasurements of defined benefit plans (Notes 22-29)	8,824	(14,164)
Total of items that will not be reclassified to profit or loss	13,549	(10,439)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations (Note 29)	400,941	(114,242)
Net gain (loss) on derivatives designated as cash flow hedges (Note 29)	481	922
Total of items that may be reclassified subsequently to profit or loss	401,421	(113,319)
Other comprehensive income (loss) net of taxes	414,970	(123,759)
Comprehensive income (loss) for the period	¥850,261	¥ 244,868
Attributable to		
Owners of the parent company	¥842,867	¥ 240,363
Non-controlling interests	7,394	4,505
Comprehensive income (loss) for the period	¥850,261	¥ 244,868

Consolidated Statement of Changes in Equity

Japan Tobacco Inc. and Consolidated Subsidiaries

FY2014 Nine months ended December 31, 2014

	Millions of yen						
	Equity attributable to owners of the parent company						
	Other components of equity						
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income
As of April 1, 2013	¥100,000	¥736,411	¥(344,573)	¥1,274	¥(171,341)	¥ (187)	¥14,835
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	401,331	481	4,663
Comprehensive income (loss) for the period	—	—	—	—	401,331	481	4,663
Acquisition of treasury shares (Note 23)	—	—	(0)	—	—	—	—
Disposal of treasury shares (Note 23)	—	(11)	110	(81)	—	—	—
Share based payments (Note 32)	—	—	—	251	—	—	—
Dividends (Note 24)	—	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—	(118)
Other increase (decrease)	—	—	—	—	—	—	—
Total transactions with the owners	—	(11)	110	169	—	—	(118)
As of March 31, 2014	100,000	736,400	(344,463)	1,443	229,990	293	19,380
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	(112,972)	922	3,753
Comprehensive income (loss) for the period	—	—	—	—	(112,972)	922	3,753
Acquisition of treasury shares (Note 23)	—	—	—	—	—	—	—
Disposal of treasury shares (Note 23)	—	—	16	(14)	—	—	—
Share based payments (Note 32)	—	—	—	202	—	—	—
Dividends (Note 24)	—	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	—	(597)	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—	23
Other increase (decrease)	—	—	—	—	—	—	—
Total transactions with the owners	—	—	16	188	(597)	—	23
As of December 31, 2014	¥100,000	¥736,400	¥(344,447)	¥1,631	¥116,421	¥1,215	¥23,156

	Equity attributable to owners of the parent company						Millions of yen
	Other components of equity						
	Remeasurements of defined benefit plans	Total	Retained earnings	Total	Non-controlling interests	Total equity	
As of April 1, 2013	¥ —	¥(155,420)	¥1,470,125	¥1,806,543	¥85,887	¥1,892,431	
Profit for the period	—	—	427,987	427,987	7,304	435,291	
Other comprehensive income (loss)	8,405	414,880	—	414,880	90	414,970	
Comprehensive income (loss) for the period	8,405	414,880	427,987	842,867	7,394	850,261	
Acquisition of treasury shares (Note 23)	—	—	—	(0)	—	(0)	
Disposal of treasury shares (Note 23)	—	(81)	(18)	0	—	0	
Share based payments (Note 32)	—	251	—	251	—	251	
Dividends (Note 24)	—	—	(152,669)	(152,669)	(3,179)	(155,849)	
Changes in the ownership interest in a subsidiary without a loss of control	—	—	(1,011)	(1,011)	(2,509)	(3,520)	
Transfer from other components of equity to retained earnings	(8,405)	(8,523)	8,523	—	—	—	
Other increase (decrease)	—	—	9,629	9,629	2,888	12,517	
Total transactions with the owners	(8,405)	(8,353)	(135,546)	(143,800)	(2,801)	(146,601)	
As of March 31, 2014	—	251,107	1,762,566	2,505,610	90,481	2,596,091	
Profit for the period	—	—	362,919	362,919	5,708	368,626	
Other comprehensive income (loss)	(14,259)	(122,556)	—	(122,556)	(1,203)	(123,759)	
Comprehensive income (loss) for the period	(14,259)	(122,556)	362,919	240,363	4,505	244,868	
Acquisition of treasury shares (Note 23)	—	—	—	—	—	—	
Disposal of treasury shares (Note 23)	—	(14)	(3)	0	—	0	
Share based payments (Note 32)	—	202	—	202	—	202	
Dividends (Note 24)	—	—	(181,755)	(181,755)	(2,736)	(184,491)	
Changes in the ownership interest in a subsidiary without a loss of control	—	(597)	(26,985)	(27,581)	(7,623)	(35,204)	
Transfer from other components of equity to retained earnings	14,259	14,282	(14,282)	—	—	—	
Other increase (decrease)	—	—	—	—	1,039	1,039	
Total transactions with the owners	14,259	13,874	(223,025)	(209,135)	(9,321)	(218,455)	
As of December 31, 2014	¥ —	¥142,425	¥1,902,460	¥2,536,838	¥85,665	¥2,622,503	

Consolidated Statement of Cash Flows

Japan Tobacco Inc. and Consolidated Subsidiaries

FY2014: Nine months ended December 31 2014

	Millions of yen	
	FY2013 (Year ended March 31 2014) Restated*	FY2014 (Nine months ended December 31 2014)
Cash flows from operating activities		
Profit before income taxes	¥ 636 203	¥ 502,299
Depreciation and amortization	132,921	122,171
Impairment losses	2 446	21,877
Impairment losses of investments in associates	9,717	—
Interest and dividend income	(7,933)	(13,560)
Interest expense	8,612	4,651
Share of profit in investments accounted for using the equity method	(1,702)	(7,812)
(Gains) losses on sale and disposal of property, plant and equipment		
intangible assets and investment property	(38,800)	(31,315)
(Increase) decrease in trade and other receivables	(13,631)	(12,130)
(Increase) decrease in inventories	(15,530)	(16,808)
Increase (decrease) in trade and other payables	11,055	83,885
Increase (decrease) in retirement benefit liabilities	(17,661)	(25,736)
(Increase) decrease in prepaid tobacco excise taxes	(14,274)	(23,963)
Increase (decrease) in tobacco excise tax payables	(103,515)	103,651
Increase (decrease) in consumption tax payables	(5,148)	37,550
Other	(2,013)	(37,055)
Subtotal	580,748	707,703
Interest and dividends received	9,514	22,569
Interest paid	(8,469)	(7,050)
Income taxes paid	(185,298)	(179,526)
Net cash flows from operating activities	396,496	543,696
Cash flows from investing activities		
Purchase of securities	(8,880)	(3,280)
Proceeds from sale and redemption of securities	23,716	4,769
Purchase of property plant and equipment	(132,256)	(106,655)
Proceeds from sale of investment property	56,159	85,653
Purchase of intangible assets	(18 263)	(7,749)
Payments into time deposits	(798)	(852)
Proceeds from withdrawal of time deposits	4,744	778
Purchase of investments in subsidiaries	—	(20,977)
Purchase of investments in associates	(74 801)	—
Other	(13,095)	(800)
Net cash flows from investing activities	(163 473)	(49,110)
Cash flows from financing activities		
Dividends paid to owners of the parent company (Note 24)	(152 570)	(181,635)
Dividends paid to non-controlling interests	(3 195)	(2,663)
Capital contribution from non-controlling interests	59	44
Increase (decrease) in short-term borrowings and commercial paper	(8,936)	6,373
Proceeds from long-term borrowings	70	—
Repayments of long-term borrowings	(20 558)	(1,225)
Proceeds from issuance of bonds	49,395	—
Redemption of bonds	—	(170,670)
Repayments of finance lease obligations	(4,992)	(3,837)
Acquisition of treasury shares	(0)	—
Payments for acquisition of interests in subsidiaries from non-controlling interests	(4 462)	(35,246)
Other	0	0
Net cash flows from financing activities	(145 189)	(388,859)
Net increase (decrease) in cash and cash equivalents	87,834	105,727
Cash and cash equivalents at the beginning of the period	142,713	253,219
Effect of exchange rate changes on cash and cash equivalents	22 672	26,874
Cash and cash equivalents at the end of the period (Note 7)	¥ 253 219	¥ 385,820

Please refer to Note "3 Significant Accounting Policies"

Notes to Consolidated Financial Statements

Japan Tobacco Inc. and Consolidated Subsidiaries

FY2014 Nine months ended December 31, 2014 / FY2013 Year ended March 31, 2014

1 Reporting Entity

Japan Tobacco Inc. (hereinafter referred to as the "Company") is a joint stock corporation under the Companies Act of Japan, pursuant to the Japan Tobacco Inc. Act with its principal places of business located in Japan since its incorporation. The addresses of the Company's registered head office and principal business offices are available on the Company's website (<http://www.jti.co.jp>)

The details of businesses and principal business activities of the Company and its subsidiaries (hereinafter referred to as the Group) are stated in "6 Operating Segments"

The Group's consolidated financial statements for the nine months ended December 31, 2014 were approved on March 20, 2015 by Mitsuomi Koizumi, President and Chief Executive Officer

2 Basis of Preparation

(1) Compliance with IFRS

The Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter referred to as "IFRS")

(2) Basis of Measurement

Except for the financial instruments, stated in "3 Significant Accounting Policies" the Group's consolidated financial statements are prepared on the historical cost basis

(3) Functional Currency and Presentation Currency

The Group's consolidated financial statements are presented in Japanese yen, which is the functional currency of the Company. The units are in millions of yen, and figures less than one million yen are rounded to the nearest million yen.

(4) Early Adoption of New Accounting Standards

The Group has early adopted IFRS 9 "Financial Instruments" (revised in October 2010) (hereinafter referred to as "IFRS 9") from April 1, 2011.

IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement" (hereinafter referred to as "IAS 39") and provides two measurement categories for financial instruments: amortized cost and fair value. Changes in fair value of financial assets measured at fair value are recognized in profit or loss.

However, changes in fair value of investments in equity instruments, except for equity instruments held for trading purposes, are allowed to be recognized in other comprehensive income.

(5) Change of Fiscal Year End

In this fiscal year, the Company and its subsidiaries with fiscal year ends other than December 31 have changed their fiscal year ends to December 31 for the purpose of unifying the fiscal year end with overseas consolidated subsidiaries of the Group, which will enhance and improve the efficiency of the closing and management systems.

As a consequence of this change of fiscal year end, fiscal year 2014 was a nine-month period from April 1, 2014 to December 31, 2014.

In addition, the fiscal year end date of JT International Holding B.V. and its subsidiaries, which operate the Group's international tobacco business, continues to be December 31 as before; hence the Group consolidates financial results of the JTIH Group for the twelve-month period from January 1, 2014 to December 31, 2014 into the Group's consolidated financial results for the nine months ended December 31, 2014.

For the consolidated statement of income assuming that the fiscal year of the Group had been the twelve-month period from January 1, 2014 to December 31, 2014, please refer to Note "39 Consolidated Statement of Income (2014 January–December)".

3. Significant Accounting Policies

(1) Basis of Consolidation

The consolidated financial statements include financial statements of the Company and its subsidiaries, and interests in investments in associates and joint arrangements

A Subsidiaries

A subsidiary is an entity that is controlled by the Group and the Group has control over the entity if it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The acquisition date of a subsidiary is the date on which the Group obtains control of the subsidiary and the subsidiary is included in the consolidation from the date of acquisition until the date on which the Group loses control.

In cases where the accounting policies applied by a subsidiary are different from those applied by the Group, adjustments are made to the subsidiary's financial statements, if necessary.

All intergroup balances, transactions, income and expenses are eliminated on consolidation.

Comprehensive income for subsidiaries is attributed to owners of the parent company and non-controlling interests even if this results in the non-controlling interests having a deficit balance.

B Associates

An associate is an entity over which the Group has significant influence. The Group has significant influence over the entity if it has the power to participate in the financial and operating policy decisions of the investee but it does not have control or joint control over the investee. Investments in associates are accounted for using the equity method from the date on which the Group has the significant influence until the date on which it ceases to have the significant influence.

C Joint Arrangements

A joint arrangement is a contractual arrangement of which two or more parties have joint control. Depending upon the rights and obligations of the parties to the arrangement, the Group classifies a joint arrangement into a joint operation whereby the Group has rights to the assets and obligations for the liabilities relating to the arrangement, and a joint venture whereby the Group has rights to the net assets of the arrangement only. The Group recognizes the assets, liabilities, revenues and expenses relating to its interest in a joint operation while a joint venture is accounted for using the equity method.

(2) Business Combination

Business combinations are accounted for using the acquisition method. Consideration transferred in a business combination is measured as the sum of the acquisition-date fair value of the

assets transferred, the liabilities assumed and equity instruments issued by the Company in exchange for control over an acquiree. Any excess of the consideration of acquisition over the fair value of identifiable assets and liabilities is recognized as goodwill in the consolidated statement of financial position. If the consideration of acquisition is lower than the fair value of the identifiable assets and liabilities, the difference is immediately recognized as profit in the consolidated statement of income. If the amount of initial accounting for a business combination is not determined by the end of the reporting period in which the combination occurs, the provisional amounts for the items for which the accounting is incomplete are reported and are adjusted during the measurement period, which is one year from the acquisition date. Acquisition-related costs incurred are recognized as expenses. The additional acquisition of non-controlling interests after obtaining control is accounted for as a capital transaction. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in retained earnings and no goodwill is recognized with respect to such transaction.

(3) Foreign Currency Translation

Consolidated financial statements of the Group are presented in Japanese yen, which is the functional currency of the Company. Each company in the Group specifies its own functional currency and measures transactions based on it.

Foreign currency transactions are translated into the functional currency at the rates of exchange prevailing at the dates of transactions or an approximation of the rate. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates of exchange prevailing at the fiscal year end date. Differences arising from the translation and settlement are recognized as profit or loss. However, exchange differences arising from the translation of financial instruments designated as hedging instruments for net investment in foreign operations (foreign subsidiaries), financial assets measured at fair value through other comprehensive income and cash flow hedges are recognized as other comprehensive income.

The assets and liabilities of foreign operations are translated into Japanese yen at the rates of exchange prevailing at the fiscal year end date, while income and expenses of foreign operations are translated into Japanese yen at the rates of exchange prevailing at the dates of transactions or an approximation to the rate. The resulting translation differences are recognized as other comprehensive income. In cases where foreign operations are disposed of, the cumulative amount of translation differences related to the foreign operations is recognized as profit or loss in the period of disposition.

(4) Financial Instruments

A Financial Assets

(i) Initial Recognition and Measurement

Financial assets are classified into financial assets measured at fair value through profit or loss, fair value through other comprehensive income, and amortized cost. The Group determines the classification at initial recognition.

Financial assets are classified as financial assets measured at amortized cost if both of the following conditions are met. Otherwise, they are classified as financial assets measured at fair value.

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For financial assets measured at fair value, each equity instrument is designated as measured at fair value through profit or loss or as measured at fair value through other comprehensive income except for equity instruments held for trading purposes that must be measured at fair value through profit or loss. Such designations are applied consistently.

All financial assets are measured at fair value plus transaction costs that are attributable to the financial assets, except for the case of being classified in the category of financial assets measured at fair value through profit or loss.

(ii) Subsequent Measurement

After initial recognition, financial assets are measured based on the classification as follows.

(a) Financial Assets Measured at Amortized Cost

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method.

(b) Other Financial Assets

Financial assets other than those measured at amortized cost are measured at fair value.

Changes in the fair value of financial assets measured at fair value are recognized as profit or loss.

However, changes in the fair value of equity instruments designated as measured at fair value through other comprehensive income are recognized as other comprehensive income and the amount in other comprehensive income is transferred to retained earnings when equity instruments are derecognized or the decline in its fair value compared to its acquisition cost is significant. Dividends on the financial assets are recognized in profit or loss for the year.

(iii) Derecognition

Financial assets are derecognized when the rights to receive benefits from them expire or are transferred, or when substantially all the risks and rewards of the ownership are transferred.

B Impairment of Financial Assets

In accordance with IAS 39, the Group assesses at the end of each reporting period whether there is any objective evidence that financial assets measured at amortized cost are impaired. Evidence of impairment includes significant financial difficulty of the borrower or a group of borrowers, a default or delinquency in interest or principal payments, and bankruptcy of the borrower.

The Group assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and collectively for financial assets that are not individually significant.

If there is objective evidence that impairment losses on financial assets measured at amortized cost have been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.

When impairment is recognized, the carrying amount of the financial asset is reduced by an allowance for doubtful accounts and impairment losses are recognized in profit or loss. The carrying amount of financial assets measured at amortized cost is directly reduced for the impairment when they are expected to become uncollectible in the future and all collaterals are implemented or transferred to the Group. If in a subsequent period the amount of the impairment loss provided changes due to an event occurring after the impairment was recognized, the previously recognized impairment losses are adjusted through the allowance for doubtful accounts.

C Financial Liabilities

(i) Initial Recognition and Measurement

Financial liabilities are classified into financial liabilities measured at fair value through profit or loss and financial liabilities measured at amortized cost. The Group determines the classification at initial recognition.

All financial liabilities are measured at fair value at initial recognition. However, financial liabilities measured at amortized cost are measured at cost after deducting transaction costs that are directly attributable to the financial liabilities.

(ii) Subsequent Measurement

After initial recognition, financial liabilities are measured based on the classification as follows.

(a) Financial Liabilities Measured at Fair Value through Profit or Loss

Financial liabilities measured at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated as measured at fair value through profit or loss at initial recognition.

(b) Financial Liabilities Measured at Amortized Cost

After initial recognition, financial liabilities measured at amortized cost are measured at amortized cost using the effective interest method. Amortization under the effective interest method and

gains or losses on derecognition are recognized as profit or loss in the consolidated statement of income

After initial recognition, financial guarantee contracts are measured at the higher of

- The best estimate of expenditure required to settle the obligation as of the end of the fiscal year, and
- The amount initially recognized less cumulative amortization

(iii) Derecognition

Financial liabilities are derecognized when the obligation is discharged, canceled or expired

D Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and presented as a net amount in the consolidated statement of financial position only when there is a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously

E Derivatives and Hedge Accounting

The Group utilizes derivatives, including forward foreign exchange contracts and interest rate swap contracts, to hedge foreign exchange and interest rate risks. These derivatives are initially measured at fair value when the contract is entered into, and are subsequently remeasured at fair value. Changes in the fair value of derivatives are recognized as profit or loss in the consolidated statement of income. However, the gains or losses on the hedging instrument relating to the effective portion of cash flow hedges and hedges of net investment in foreign operations are recognized as other comprehensive income in the consolidated statement of comprehensive income.

At the inception of the hedge, the Group formally designates and documents the hedging relationship to which hedge accounting is applied and the objectives and strategies of risk management for undertaking the hedge. The documentation includes identification of hedging instruments, the hedged items or transactions, the nature of the risks being hedged and how the hedging instrument's effectiveness is assessed in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risks. Even though these hedges are expected to be highly effective in offsetting changes in fair value or cash flows, they are assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedges were designated.

Hedges that meet the stringent requirements for hedge accounting are classified in the following categories and accounted for in accordance with IAS 39.

(i) Fair Value Hedge

Changes in the fair value of derivatives are recognized as profit or loss in the consolidated statement of income. Regarding changes in the fair value of hedged items attributable to the

hedged risks, the carrying amount of the hedged item is adjusted and the change is recognized as profit or loss in the consolidated statement of income.

(ii) Cash Flow Hedge

The effective portion of gains or losses on hedging instruments is recognized as other comprehensive income in the consolidated statement of comprehensive income, while the ineffective portion is recognized immediately as profit or loss in the consolidated statement of income.

The amounts of hedging instruments recognized in other comprehensive income are reclassified to profit or loss when the transactions of the hedged items affect profit or loss. In cases where hedged items result in the recognition of non-financial assets or liabilities, the amounts recognized as other comprehensive income are accounted for as adjustments to the original carrying amount of non-financial assets or liabilities.

When forecast transactions or firm commitments are no longer expected to occur, any related cumulative gain or loss that has been recognized in equity as other comprehensive income is reclassified to profit or loss. When hedging instruments expire, are sold, terminated or exercised without the replacement or rollover of other hedging instruments, or when the hedge designation is revoked, amounts that have been recognized in other comprehensive income are continued to be recognized in other comprehensive income until the forecast transactions or firm commitments occur.

(iii) Hedge of Net Investment in Foreign Operations

Translation differences resulting from the hedge of net investment in foreign operations are accounted for similarly to a cash flow hedge. The effective portion of gains or losses on hedging instruments is recognized as other comprehensive income in the consolidated statement of comprehensive income, while the ineffective portion is recognized as profit or loss in the consolidated statement of income. At the time of the disposal of the foreign operations, any related cumulative gain or loss that has been recognized in equity as other comprehensive income is reclassified to profit or loss.

F Fair Value of Financial Instruments

Fair value of financial instruments that are traded in active financial markets at the fiscal year end refers to quoted prices or dealer quotations.

If there is no active market, fair value of financial instruments is determined using appropriate valuation models.

(5) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value and due within three months from the date of acquisition.

(6) Inventories

The cost of inventories includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Inventories are measured at the lower of cost or net realizable value, and the costs are determined by using the weighted-average method. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

Leaf tobacco which is stored for more than 12 months before being used for production is included in current assets since it is held within the normal operating cycle.

(7) Property, Plant and Equipment

Property, plant and equipment is measured by using the cost model and is stated at cost less accumulated depreciation and accumulated impairment losses.

The acquisition cost includes any costs directly attributable to the acquisition of the asset and dismantlement, removal and restoration costs, as well as borrowing costs eligible for capitalization.

Except for assets that are not subject to depreciation such as land, assets are depreciated using the straight-line method over their estimated useful lives. The estimated useful lives of major asset items are as follows:

- Buildings and structures: 38 to 50 years
- Machinery and vehicles: 10 to 15 years

The estimated useful lives and depreciation method are reviewed at each fiscal year end and if there are any changes made to the estimated useful lives and depreciation method, such changes are applied prospectively as changes in estimate.

(8) Goodwill and Intangible Assets

A Goodwill

Goodwill is stated at acquisition cost less accumulated impairment losses.

Goodwill is not amortized. It is allocated to cash-generating units that are identified according to locations and types of businesses and tested for impairment annually or whenever there is any indication of impairment. Impairment losses on goodwill are recognized in the consolidated statement of income and no subsequent reversal is made.

B Intangible Assets

Intangible assets are measured by using the cost model and are stated at cost less accumulated amortization and accumulated impairment losses.

Intangible assets acquired separately are measured at cost at the initial recognition, and the costs of intangible assets acquired through business combinations are recognized at fair value at the acquisition date. Expenditures on internally generated intangible

assets are recognized as expense in the period when incurred except for development expenses that satisfy the capitalization criteria.

Intangible assets with finite useful lives are amortized using the straight-line method over their estimated useful lives and are tested for impairment whenever there is any indication of impairment. The estimated useful lives and amortization method of intangible assets with finite useful lives are reviewed at each fiscal year end, and the effect of any changes in estimate would be accounted for on a prospective basis.

The estimated useful lives of major intangible assets with finite useful lives are as follows:

- Trademarks: 20 years
- Software: 5 years

Intangible assets with indefinite useful lives and intangible assets that are not ready to use are not amortized, but they are tested for impairment individually or by cash-generating unit annually or whenever there is any indication of impairment.

(9) Leases

Leases are classified as finance leases whenever substantially all the risks and rewards incidental to ownership are transferred to the Group. All other leases are classified as operating leases.

In finance lease transactions, leased assets and lease obligations are recognized in the consolidated statement of financial position at the lower of the fair value of the leased property or the present value of the minimum lease payments, each determined at the inception of the lease. Lease payments are apportioned between the financial cost and the reduction of the lease obligations based on the effective interest method. Financial costs are recognized in the consolidated statement of income. Leased assets are depreciated using the straight-line method over their estimated useful lives or lease terms, whichever is shorter.

In operating lease transactions, lease payments are recognized as an expense using the straight-line method over the lease terms in the consolidated statement of income. Contingent rents are recognized as an expense in the period when they are incurred.

Determining whether an arrangement is, or contains, a lease is based on the substance of the arrangement in accordance with IFRIC 4 'Determining Whether an Arrangement Contains a Lease,' even if the arrangement does not take the legal form of a lease.

(10) Investment Property

Investment property is property held to earn rentals or for capital appreciation or both.

Investment property is measured by using the cost model and is stated at cost less accumulated depreciation and accumulated impairment losses.

(11) Impairment of Non-financial Assets

The Group assesses for each fiscal year whether there is any indication that an asset may be impaired. If any such indication exists or in cases where the impairment test is required to be performed each year, the recoverable amount of the asset is estimated. In cases that the recoverable amount cannot be estimated for each asset, it is estimated by the cash-generating unit to which the asset belongs. The recoverable amount of an asset or a cash-generating unit is determined at the higher of its fair value less costs of disposal or its value in use. If the carrying amount of the asset or cash-generating unit exceeds the recoverable amount, impairment losses are recognized and the carrying amount is reduced to the recoverable amount. In determining the value in use, estimated future cash flows are discounted to the present value using pretax discount rates that reflect current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs of disposal, the Group uses an appropriate valuation model supported by available fair value indicators.

The Group assesses whether there is any indication that an impairment loss recognized in prior years for an asset other than goodwill may no longer exist or may have decreased, such as any changes in assumptions used for the determination of the recoverable amount. If any such indication exists, the recoverable amount of the asset or cash-generating unit is estimated. In cases that the recoverable amount exceeds the carrying amount of the asset or cash-generating unit, impairment losses are reversed up to the lower of the estimated recoverable amount or the carrying amount (net of depreciation) that would have been determined if no impairment losses had been recognized in prior years.

(12) Non-current Assets Held-for-Sale

An asset or asset group for which the value is expected to be recovered through a sales transaction rather than through continuing use is classified into a non-current asset or disposal group held-for-sale when the following conditions are met: it is highly probable that the asset or asset group will be sold within one year, the asset or asset group is available for immediate sale in its present condition, and the Group management commits to the sale plan. In such cases, the non-current asset is not depreciated or amortized and is measured at the lower of its carrying amount or its fair value less costs of disposal.

(13) Post-employment Benefits

The Group sponsors defined benefit plans and defined contribution plans as employee retirement benefit plans.

The Company is obligated to bear pension expenses for a mutual assistance association incurred with respect to services in or before June 1956 (prior to the enforcement of the Act on the Mutual Aid Association of Public Corporation Employees). Such obligations are calculated and included in liabilities related to the retirement benefits.

For each plan, the Group calculates the present value of defined benefit obligations related current service cost and past service cost using the projected unit credit method. For a discount rate, a discount period is determined based on the period until the expected date of benefit payment in each fiscal year, and the discount rate is determined by reference to market yields for the period corresponding to the discount period at the end of the fiscal year on high quality corporate bonds or government bonds. Liabilities or assets for defined benefit plans are calculated by the present value of the defined benefit obligation, deducting the fair value of any plan assets (including adjustments for the asset ceiling for defined benefit plan and minimum funding requirements, if necessary). Expected interest costs and interest income are recognized as financial costs.

Remeasurements of defined benefit plans are recognized in full as other comprehensive income in the period when they are incurred and transferred to retained earnings immediately. Past service costs are recognized as profit or loss in the period when incurred.

The cost for retirement benefits for defined contribution plans is recognized as an expense at the time of contribution.

(14) Share-based Payments

The Company has a share option plan as an equity-settled share-based payment plan. Share options are estimated at fair value at grant date and are recognized as an expense over the vesting period in the consolidated statement of income after considering the number of share options that are expected to be eventually vested. The corresponding amount is recognized as an increase in equity in the consolidated statement of financial position.

(15) Provisions

The Group has present obligations (legal or constructive) resulting from past events and recognizes provisions when it is probable that the obligations are required to be settled and the amount of the obligations can be estimated reliably.

Where the effect of the time value of money is material, the amount of provisions is measured at the present value of the expenditures expected to be required to settle the obligations. In calculating the present value, the Group uses the pretax discount rate reflecting current market assessments of the time value of money and the risks specific to the liability.

In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", the Group recognizes a provision for restructuring when it has a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main scheme to those affected by it. Restructuring provisions include only the direct expenditures arising from the restructuring, which meet both of the following criteria:

- necessarily entailed by the restructuring
- not associated with the ongoing activities of the entity

(16) Revenue

A Sale of Goods

The Group mainly engages in the sale of tobacco products, prescription drugs, beverages and processed foods. Revenue from the sale of these goods is recognized when the significant risks and rewards of ownership of the goods transfer to the buyers, the Group retains neither continuing managerial involvement nor effective control over the goods sold, it is probable that the future economic benefits will flow to the Group, and the amount of revenue and the corresponding costs can be measured reliably. Therefore, revenue is usually recognized at the time of delivery of goods to customers. In addition, revenue is recognized at fair value of the consideration received or receivable less discounts, rebates and taxes, including consumption taxes.

Since the amount of turnover where the Group is involved as an agency, including tobacco excise taxes, is deducted from revenue, the Group recognizes only the economic benefit inflow, excluding such amount as revenue in the consolidated statement of income.

B Interest Income

Interest income is recognized using the effective interest rate method.

C Dividend Income

Dividend income is recognized when the shareholder's right to receive payment is established.

D Royalties

Royalties are recognized on an accrual basis in accordance with the substance of the relevant agreement.

(17) Government Grants

Government grants are recognized at fair value when there is a reasonable assurance that the Group will comply with the conditions attached to them and receive the grants.

In case that the government grants are related to expense items, they are recognized in profit or loss on a systematic basis over the period in which the related costs for which the grants are intended to compensate are recognized. With regard to government grants for assets, the amount of the grants is deducted from the acquisition cost of the assets.

(18) Borrowing Costs

With respect to assets that necessarily take a substantial period of time to get ready for their intended use or sale, the borrowing costs that are directly attributable to the acquisition, construction or production of the assets are capitalized as part of the acquisition cost of the assets. Other borrowing costs are recognized as an expense in the period when they are incurred.

(19) Income Taxes

Income taxes in the consolidated statement of income are presented as the total of current income taxes and deferred income taxes.

Current income taxes are measured at the amount that is expected to be paid to or refunded from the taxation authorities. For the calculation of the tax amount, the Group uses the tax rates and tax laws that have been enacted or substantively enacted by the end of the fiscal year. The current income taxes are recognized in profit or loss, except for taxes arising from items that are recognized in other comprehensive income or directly in equity and taxes arising from business combinations.

Deferred income taxes are calculated based on the temporary differences between the tax base for assets and liabilities and the carrying amount at the fiscal year end. Deferred tax assets are recognized for deductible temporary differences, carryforward of unused tax credits and unused tax losses to the extent that it is probable that future taxable profit will be available against which they can be utilized. Deferred tax liabilities are recognized for taxable temporary differences.

The deferred tax assets or liabilities are not recognized for the following temporary differences:

- the initial recognition of goodwill
- the initial recognition of assets or liabilities in transactions that are not business combinations and at the time of transaction affect neither accounting profit nor taxable profit or tax loss
- deductible temporary differences arising from investments in subsidiaries and associates, and interests in joint venture to the extent that it is probable that the timing of the reversal of the temporary difference in the foreseeable future and it is not probable that future taxable profits will be available against which they can be utilized
- taxable temporary differences arising from investments in subsidiaries and associates, and interests in joint venture to the extent that the timing of the reversal of the temporary difference is controlled and that it is probable the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the fiscal year when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the fiscal year end.

(20) Treasury Shares

Treasury shares are recognized at cost and deducted from equity. No gain or loss is recognized on the purchase, sale or cancellation of the treasury shares. Any difference between the carrying amount and the consideration paid is recognized in capital surplus.

(21) Earnings per Share

Basic earnings per share are calculated by dividing profit or loss attributable to ordinary shareholders of the parent company by the weighted-average number of ordinary shares outstanding during the year, adjusted by the number of treasury shares. Diluted earnings per share are calculated by adjusting the effects of dilutive potential ordinary shares.

(22) Dividends

Dividend distributions to the shareholders of the Company are recognized as liabilities in the period in which, for year-end dividends, the Annual Shareholders' Meeting approves the distribution and, for interim dividends, the Board of Directors' Meeting approves the distribution.

(23) Contingencies

A Contingent Liabilities

The Group discloses contingent liabilities in the notes to consolidated financial statements if it has possible obligations at the fiscal year end, whose existence cannot be confirmed at that date or if the obligations do not meet the recognition criteria of a provision described in "20 Provisions."

B Contingent Assets

The Group discloses contingent assets in the notes to consolidated financial statements if an inflow of future economic benefits to the Group is probable, but not virtually certain at the fiscal year end.

(24) Adjusted Financial Measures

The adjusted financial measures are calculated by adding certain adjustment items to the non-adjusted financial data or by deducting the items from the non-adjusted financial data.

The adjustment items are determined by management's judgment, taking into consideration the nature and frequency of the income and costs such that they provide effective comparative information on the Group performance and that they reflect the way of managing our business appropriately. Adjusted financial measures are presented in the consolidated statement of income, "6 Operating Segments" and "30 Earnings per Share."

The adjusted financial measures are not defined under IFRS and are not comparable with equivalent indicators for other entities.

(Changes in Accounting Policies)

The Group has adopted the following new accounting standards, amended standards and new interpretations from the fiscal year ended December 31, 2014.

IFRS		Description of new standards and amendments
IAS 39	Financial Instruments: Recognition and Measurement	Requirements for continuation of hedge accounting in certain circumstances in which there is a change in counterparty to a hedging instrument
IFRIC 21	Leases	Clarifying the accounting for leases

The effect of the above standards on the consolidated financial statements is immaterial.

Regarding IFRIC 21 mentioned above, the comparative information was retrospectively adjusted in accordance with the transitional provisions.

4 Significant Accounting Estimates and Judgments

Preparation of consolidated financial statements of the Group requires management estimates and assumptions in order to measure income, expenses, assets and liabilities, and disclose contingencies as of the fiscal year end date. These estimates and assumptions are based on the best judgment of management in light of historical experience and various factors deemed to be reasonable as of the fiscal year end date. Given their nature, actual results may differ from those estimates and assumptions.

The estimates and assumptions are continuously reviewed by management. The effects of a change in estimates and assumptions are recognized in the period of the change or the period of the change and future periods.

Among the above estimates and assumptions, the following are items that may have a material effect on the amounts recognized in the consolidated financial statements of the Group:

A Impairment of Property, Plant and Equipment, Goodwill, Intangible Assets and Investment Properties

With regard to property, plant and equipment, goodwill, intangible assets and investment properties, if there is any indication that the recoverable amount declines below the carrying amounts of the assets, the Group performs an impairment test.

The important indications include significant changes with adverse effect on the results of past or projected business performance, significant changes in the use of acquired assets or in overall business strategy, and significant deteriorations in industry trends and economic trends. With regard to goodwill, the impairment test is conducted at least once a year, regardless of any indication of the impairment, in order to ensure that the recoverable amount exceeds the carrying amount.

The impairment test is performed by comparing the carrying amount and the recoverable amount of assets. If the recoverable amount declines below the carrying amount, impairment losses are recognized. The recoverable amount is mainly calculated based on the discounted cash flow model. Certain assumptions are made for the useful lives and the future cash flows of the assets, discount rates and long-term growth rates. These assumptions are based on the best estimates and judgments made by management; however, there is a possibility that these assumptions may be affected by changes in uncertain future economic conditions, which may have a material impact on the consolidated financial statements in future periods.

The method for calculating the recoverable amount is described in "13 Property, Plant and Equipment," "14 Goodwill and Intangible Assets," and "16 Investment Property." With regard to goodwill, the sensitivity analysis is described in "14 Goodwill and Intangible Assets."

B Post-employment Benefits

The Group has various types of retirement benefit plans, including defined benefit plans. In addition, the mutual pension benefits plan of the Company is one of the public pension systems under the jurisdiction of the government of Japan, and the Company is legally obligated to bear a part of the pension costs of the plan.

The present value of defined benefit obligations on each of these plans and the related service costs are calculated based on actuarial assumptions. These actuarial assumptions require estimates and judgments on variables, such as discount rates and inflation rate.

The Group obtains advice from external pension actuaries with respect to the appropriateness of these actuarial assumptions, including these variables.

The actuarial assumptions are determined based on the best estimates and judgments made by management; however, there is a possibility that these assumptions may be affected by changes in uncertain future economic conditions, or by the publication or the amendment of related laws, which may have a material impact on the consolidated financial statements in future periods.

These actuarial assumptions and related sensitivity analysis are described in "22 Employee Benefits."

C Provisions

The Group recognizes various provisions, including provisions for asset retirement obligations and restructuring, in the consolidated statement of financial position.

These provisions are recognized based on the best estimates of the expenditures required to settle the obligations, taking risks and uncertainty related to the obligations into account as of the fiscal year end date.

Expenditures required to settle the obligations are calculated by taking possible results into account comprehensively; however, they may be affected by the occurrence of unexpected events or changes in conditions, which may have a material impact on the consolidated financial statements in future periods.

The nature and amount of recognized provisions are described in "20 Provisions."

D Income Taxes

The Group operates business activities around the world, and it recognizes current tax liabilities and income taxes as the estimated amounts to be paid to the tax authorities, based on the estimation in accordance with their laws and regulations.

Calculating current tax liabilities and income taxes requires estimates and judgment on various factors, including the interpretation of tax regulations by taxable entities and the tax authority in the jurisdiction or the experience of past tax audits.

Therefore, there may be differences between the amount recognized as tax liabilities and income taxes and the amount of actual tax liabilities and income taxes. These differences may have a material impact on the consolidated financial statements in future periods.

In addition, deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilized.

In recognizing the deferred tax assets, when judging the possibility of the future taxable income, we reasonably estimate the timing and amount of future taxable income based on the business plan.

The timing when taxable income arises and the amount of such income may be affected by changes in uncertain future economic conditions. Therefore, this may have a material impact on the consolidated financial statements in future periods.

The content and amount related to income taxes are described in "17 Income Taxes."

E Contingencies

With regard to contingencies, any items that may have a material impact on business in the future are disclosed in light of all the available evidence as of the fiscal year end date and by taking into account the probability of these contingencies and their impact on financial reporting.

The content of contingencies is described in "37 Contingencies."

5 New Accounting Standards Not Yet Adopted by the Group

By the date of approval of the consolidated financial statements, new accounting standards amended standards and new interpretations that have been issued but have not been early adopted by the Group are as follows

The implications from adoption of these standards and interpretations are assessed by the Group however we evaluate that none of them will have a material impact on our operating results and financial condition

IFRS		Mandatory adoption (From the year beginning)	To be adopted by the Group	Description of new standards and amendments
IFRS 2	Share based Payment	July 1, 2014	Fiscal year ending December 2015	Amendments to the definition of vesting conditions
IFRS 3	Business Combinations	July 1, 2014	Fiscal year ending December 2015	Amendments to accounting treatment for contingent consideration in a business combination
		July 1, 2014	Fiscal year ending December 2015	Clarifying scope exceptions for joint arrangements under IFRS 3
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	January 1, 2016	Fiscal year ending December 2016	Clarifying accounting treatment in cases where the criteria to classify a non-current asset as held for distribution to owners are no longer met or cases where a non current asset is reclassified from held for sale to held for distribution to owners
IFRS 7	Financial Instruments Disclosures	January 1, 2016	Fiscal year ending December 2016	Clarifying the criteria on whether a servicing contract is continuing involvement in a transferred financial asset Clarifying the applicability of the offset disclosure of financial assets and financial liabilities to condensed interim financial statements
IFRS 8	Operating Segments	July 1, 2014	Fiscal year ending December 2015	Adding disclosure requirements for aggregation of operating segments and clarifying rules relating to segment assets
IFRS 9	Financial Instruments	January 1, 2018	Fiscal year ending December 2015	Amendments to hedge accounting
		January 1, 2018	Fiscal year ending December 2018	Limited changes to classification and measurement of financial assets and introduction of an expected credit loss impairment model
IFRS 11	Joint Arrangements	January 1, 2016	Fiscal year ending December 2016	Modifications of accounting for the acquisition of an interest in a joint operation in circumstances in which the activity of the joint operation constitutes a business as defined in IFRS 3
IFRS 13	Fair Value Measurement	July 1, 2014	Fiscal year ending December 2015	Clarifying a scope exception for measuring the fair value of a portfolio
IFRS 14	Regulatory Deferral Accounts	January 1, 2016	Fiscal year ending December 2016	Issuance of requirements for accounting treatment for regulatory deferral accounts for rate-regulated activities
IFRS 15	Revenue from Contracts with Customers	January 1, 2017	Fiscal year ending December 2017	Amendments to accounting treatment for recognizing revenue
IAS 1	Presentation of Financial Statements	January 1, 2016	Fiscal year ending December 2016	Clarifying disclosure requirement regarding materiality considerations
IAS 16	Property Plant and Equipment	July 1, 2014	Fiscal year ending December 2015	Amendments to accounting treatment for the revaluation model
IAS 19	Employee Benefits	July 1, 2014	Fiscal year ending December 2015	Clarifying accounting treatment for contributions from employees or third parties as required in the terms of defined benefit plans
		January 1, 2016	Fiscal year ending December 2016	Clarifying the method to determine the discount rate for post-employment benefit obligations
IAS 24	Related Party Disclosures	July 1, 2014	Fiscal year ending December 2015	Clarifying that a management entity that provides key management personnel services to a reporting entity is deemed to be identified as a related party
IAS 27	Separate Financial Statements	January 1, 2016	Fiscal year ending December 2016	Amendments to accounting treatment for investments in subsidiaries joint ventures and associates in separate financial statements
IAS 34	Interim Financial Reporting	January 1, 2016	Fiscal year ending December 2016	Clarifying disclosure requirement for information "elsewhere in the interim financial report"
IAS 38	Intangible Assets	July 1, 2014	Fiscal year ending December 2015	Amendments to accounting treatment for the revaluation model
IAS 40	Investment Property	July 1, 2014	Fiscal year ending December 2015	Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property
IFRS 10	Investment Entities	January 1, 2016	Fiscal year ending December 2016	Clarifying exceptions for applying consolidation and the equity method for investment entities
IFRS 12				
IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	January 1, 2016	Fiscal year ending December 2016	Amendments to accounting treatment for sale or contribution of assets between an investor and its associate or joint venture
IFRS 10				
IAS 28	Clarification of Acceptable Methods of Depreciation and Amortization	January 1, 2016	Fiscal year ending December 2016	Clarifying that a revenue-based method is not considered to be an acceptable method of depreciation and amortization in principle
IAS 16				
IAS 38	Agriculture	January 1, 2016	Fiscal year ending December 2016	Provisions of accounting treatment for bearer plants
IAS 16				
IAS 41				

6 Operating Segments

(1) Outline of Reportable Segments

The reportable segments of the Group are determined based on the operating segments that are components of the Group about which separate financial information is available and are evaluated regularly by the Board of Directors in deciding how to allocate resources and in assessing performance.

The Group is mainly engaged in the manufacture and sale of tobacco products, prescription drugs, beverages and processed foods. With respect to tobacco products, operations are managed separately for domestic and overseas markets. The reportable segments of the Group are composed of five segments:

Domestic Tobacco Business, "International Tobacco Business," "Pharmaceutical Business," Beverage Business, and "Processed Food Business." They are determined by types of products, characteristics, and markets.

The Domestic Tobacco Business manufactures and sells tobacco products in domestic areas (which include duty-free shops in Japan and markets in China, Hong Kong, and Macau where the Company's China Division operates). The International Tobacco Business manufactures and sells tobacco products

overseas mainly through JT International S.A., which controls manufacturing and sales operations. The "Pharmaceutical Business" consists of research and development and the manufacture and sale of prescription drugs. The "Beverage Business" consists of the manufacture and sale of beverages. The "Processed Food Business" consists of the manufacture and sale of frozen and room-temperature processed foods, bakery products and seasonings.

(2) Revenues and Performances for Reportable Segments

Revenues and performances for reportable segments are as follows. The Board of Directors assesses the segment performance and determines resource allocation after reviewing revenues and adjusted operating profit. Since financial income, financial costs and income taxes are managed by the Group head office, this income and these expenses are excluded from the segment performance. Transactions within the segments are based mainly on the prevailing market price.

FY2013 Year ended March 31, 2014

Millions of yen									
FY2013									
	Reportable Segments					Total	Other (Note 3)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco (Note 2)	Pharmaceuticals	Beverage	Processed Food				
Revenue									
External revenue (Note 4)	¥710,299	¥1,270,020	¥64,448	¥184,506	¥156,920	¥2,386,194	¥13,648	¥—	¥2,399,841
Intersegment revenue	23,770	36,902	—	100	760	61,532	10,014	(71,546)	—
Total revenue	¥734,069	¥1,306,922	¥64,448	¥184,607	¥157,680	¥2,447,725	¥23,662	¥(71,546)	¥2,399,841
Segment profit (loss)									
Adjusted operating profit (Note 1)	¥257,687	¥410,847	¥(9,008)	¥(2,097)	¥563	¥657,993	¥(16,277)	¥61	¥641,777
Other items									
Depreciation and amortization	¥44,411	¥63,745	¥3,624	¥10,761	¥6,903	¥129,444	¥3,787	¥(310)	¥132,921
Impairment losses on other than financial assets	427	1,746	—	—	29	2,202	244	—	2,446
Reversal of impairment losses on other than financial assets	—	157	—	—	—	157	—	—	157
Share of profit (loss) in investments accounted for using the equity method	47	1,613	—	—	(2)	1,657	44	—	1,702
Capital expenditures	49,101	78,527	3,859	14,643	4,900	151,029	5,129	—	156,158

FY2014 Nine months ended December 31, 2014

	Millions of yen								
	FY2014								
	Reportable Segments								
	Domestic Tobacco	International Tobacco (Note 2)	Pharmaceuticals	Beverage	Processed Food	Total	Other (Note 3)	Elimination	Consolidated
Revenue									
External revenue (Note 4)	¥505,602	¥1,328,005	¥47,555	¥139,519	¥122,919	¥2,143,600	¥10,370	¥—	¥2,153,970
Intersegment revenue	13,899	39,445	—	63	454	53,861	7,784	(61,645)	—
Total revenue	¥519,501	¥1,367,450	¥47,555	¥139,582	¥123,373	¥2,197,461	¥18,154	¥(61,645)	¥2,153,970
Segment profit (loss)									
Adjusted operating profit (Note 1)	¥172,235	¥447,053	¥(6,914)	¥153	¥1,259	¥613,786	¥(25,266)	¥41	¥588,561
Other items									
Depreciation and amortization	¥33,475	¥69,940	¥3,283	¥8,182	¥5,135	¥120,016	¥2,383	¥(228)	¥122,171
Impairment losses on other than financial assets	4,926	16,842	—	—	110	21,877	—	—	21,877
Reversal of impairment losses on other than financial assets	—	33	—	—	—	33	—	—	33
Share of profit (loss) in investments accounted for using the equity method	114	7,671	—	—	(26)	7,758	54	—	7,812
Capital expenditures	27,915	74,244	2,856	8,321	3,615	116,951	3,818	—	120,769

Reconciliation from Adjusted operating profit to "Profit before income taxes"

FY2013 Year ended March 31 2014

	Millions of yen								
	FY2013								
	Reportable Segments								
	Domestic Tobacco	International Tobacco (Note 2)	Pharmaceuticals	Beverage	Processed Food	Total	Other (Note 3)	Elimination	Consolidated
Adjusted operating profit (Note 1)	¥257,687	¥410,847	¥(9,008)	¥(2,097)	¥563	¥657,993	¥(16,277)	¥61	¥641,777
Amortization cost of acquired intangibles	—	(25,984)	—	—	—	(25,984)	—	—	(25,984)
Adjustment items (income) (Note 5)	1,122	3,031	—	—	244	4,397	42,650	—	47,047
Adjustment items (costs) (Note 5)	(712)	(11,477)	—	—	(1,002)	(13,191)	(1,389)	—	(14,580)
Operating profit (loss)	¥258,098	¥376,416	¥(9,008)	¥(2,097)	¥(195)	¥623,215	¥24,984	¥61	¥648,260
Financial income									8,351
Financial costs									(20,408)
Profit before income taxes									¥636,203

FY2014 Nine months ended December 31, 2014

	Millions of yen							
	FY2014							
	Reportable Segments							Consolidated
	Domestic Tobacco	International Tobacco (Note 2)	Pharmaceuticals	Beverage	Processed Food	Total	Other (Note 3)	
Adjusted operating profit (Note 1)	¥172,235	¥447,053	¥(6,914)	¥153	¥ 1,259	¥ 613,786	¥(25,266)	¥41
Amortization cost of acquired intangibles	—	(29,465)	—	—	—	(29,465)	—	—
Adjustment items (income) (Note 5)	76	4,221	—	—	3	4,300	40,002	—
Adjustment items (costs) (Note 5)	(56,680)	(42,351)	—	—	(2,215)	(101,246)	(2,395)	—
Operating profit (loss)	¥115,631	¥379,458	¥(6,914)	¥153	¥ (953)	¥ 487,375	¥ 12,341	¥41
Financial income								13,847
Financial costs								(11,304)
Profit before income taxes								¥ 502,299

(Note 1) For adjusted operating profit, amortization cost of acquired intangibles and adjustment items (income and costs) are excluded from operating profit (loss). In addition, the key performance indicator of the Group has changed from "Adjusted EBITDA" to "Adjusted operating profit" since the quarter ended June 30, 2014. Accordingly, the segment information of the comparative period was retrospectively adjusted.

(Note 2) The foreign subsidiaries group, which includes the core company of JT International S.A., that is part of the "International Tobacco Business" segment continues to have December 31 as its fiscal year end date and the profit or loss for the period from January 1 to December 31 is included in the year ended March 31, 2014 and in the nine months ended December 31, 2014, respectively.

(Note 3) "Other" includes business activities relating to rent of real estate and corporate expenses relating to corporate communication and operation of the head office.

(Note 4) Core revenue as part of the "Domestic Tobacco Business" and the "International Tobacco Business" is as follows.

	Millions of yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Nine months ended December 31, 2014)
Domestic tobacco	¥ 676,171	¥ 478,692
International tobacco	1,200,694	1,258,176

(Note 5) "Adjustment items (income)" include restructuring income of gains on sale of real estate.

"Adjustment items (costs)" include restructuring costs of the closing down of a factory and impairment losses of investments in associates.

The breakdown of restructuring income is described in "26 Other Operating Income." Restructuring costs included in "Cost of sales" were ¥70 million for the nine months ended December 31, 2014. Restructuring costs included in "Selling, general and administrative expenses" were ¥4,862 million and ¥100,335 million for the year ended March 31, 2014 and for the nine months ended December 31, 2014, respectively. The breakdown of restructuring costs in "Selling, general and administrative expenses" is described in "27 Selling, General and Administrative Expenses."

The breakdown of "Adjustment items (costs)" for each fiscal year is as follows.

	Millions of yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Nine months ended December 31, 2014)
Restructuring costs	¥ 4,862	¥100,405
Impairment losses of investments in associates	9,717	—
Other	—	3,236
Adjustment items (costs)	¥14,580	¥103,641

Restructuring costs for the nine months ended December 31, 2014 mainly relate to costs of measures to strengthen the competitiveness of "Domestic Tobacco Business" and restructuring of manufacturing facilities in Europe in the "International Tobacco Business."

(3) Geographic Information

The regional breakdown of non-current assets and external revenues as of each fiscal year end is as follows

Non-current Assets

	Millions of yen	
	FY2013 (As of March 31, 2014)	FY2014 (As of December 31, 2014)
Japan	¥ 587,768	¥ 522,920
Overseas	2,223,173	2,155,365
Consolidated	¥2,810,941	¥2,678,285

(Note) Non-current assets, exclusive of financial instruments, deferred tax assets and retirement benefits assets, are segmented by the location of the assets.

External Revenue

	Millions of yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Nine months ended December 31, 2014)
Japan	¥1,100,874	¥ 801,752
Overseas	1,298,967	1,352,218
Consolidated	¥2,399,841	¥2,153,970

(Note) Revenue is segmented by the sales destination.

(4) Major Customers Information

The "International Tobacco Business" of the Group sells products to the Megapolis Group that engages in distribution and wholesale business in Russia and other countries. The external revenues from the Megapolis Group were ¥357,980 million (14.9% of consolidated revenue) for the year ended March 31, 2014 and ¥335,446 million (15.6% of consolidated revenue) for the nine months ended December 31, 2014.

7 Cash and Cash Equivalents

The breakdown of "Cash and cash equivalents" as of each fiscal year end is as follows

	Millions of yen	
	FY2013 (As of March 31, 2014)	FY2014 (As of December 31, 2014)
Cash and deposits	¥238,959	¥297,000
Short-term investments	14,260	88,820
Total	¥253,219	¥385,820

Cash and cash equivalents are classified as financial assets measured at amortized cost.

Cash and cash equivalents include ¥42,139 million (IRR 12.055 billion) as of March 31, 2014 and ¥49,884 million (IRR 14.566 billion) as of December 31, 2014 held by the Group's Iranian subsidiary, JTI Pars PJS Co. Due to international sanctions and other factors imposed on Iran, the subsidiary's ability to remit funds outside of Iran is restricted.

8. Trade and Other Receivables

The breakdown of "Trade and other receivables" as of each fiscal year end is as follows

	Millions of yen	
	FY2013 (As of March 31, 2014)	FY2014 (As of December 31, 2014)
Note and account receivables	¥430,211	¥435,824
Other	12,326	14,487
Allowance for doubtful accounts	(2,327)	(1,910)
Total	¥440,210	¥448,402

Trade and other receivables are presented net of allowance for doubtful accounts in the consolidated statement of financial position.
Trade and other receivables are classified as financial assets measured at amortized cost.

9. Inventories

The breakdown of "Inventories" as of each fiscal year end is as follows

	Millions of yen	
	FY2013 (As of March 31, 2014)	FY2014 (As of December 31, 2014)
Merchandise and finished goods ^(Note 1)	¥160,248	¥163,436
Leaf tobacco ^(Note 2)	334,318	367,991
Other	56,420	56,422
Total	¥550,987	¥587,849

(Note 1) For imported tobacco products (merchandise) that are sold by TS Network Co., Ltd., a subsidiary of the Company, commissions solely from wholesale are included in revenue. The amount of imported tobacco products (merchandise) that the company holds at the end of each fiscal year is included in inventories and presented as "Merchandise and finished goods."

(Note 2) Leaf tobacco includes those products that will be used after 12 months from the end of each fiscal year, but they are included in inventories since they are held within the normal operating cycle.

10. Other Financial Assets

(1) The breakdown of "Other financial assets" as of each fiscal year end is as follows

	Millions of yen	
	FY2013 (As of March 31, 2014)	FY2014 (As of December 31, 2014)
Derivative assets	¥ 8,600	¥ 31,837
Equity securities	53,705	59,355
Debt securities	7,177	8,787
Time deposits	1,538	1,044
Other	47,202	43,530
Allowance for doubtful accounts	(8,293)	(8,685)
Total	¥109,929	¥135,866
Current assets	¥ 17,333	¥ 43,907
Non-current assets	92,596	91,959
Total	¥109,929	¥135,866

Other financial assets are presented net of allowance for doubtful accounts in the consolidated statement of financial position.

Derivative assets are classified as financial assets measured at fair value through profit or loss, excluding those hedge accounting is applied to. Equity securities are classified as financial assets measured at fair value through other comprehensive income, and time deposits and debt securities are classified as financial assets measured at amortized cost.

(2) Names of major securities held as financial assets measured at fair value through other comprehensive income and their fair values as of each fiscal year end are as follows

Company name	Millions of yen	
	FY2013 (As of March 31, 2014)	FY2014 (As of December 31, 2014)
KT&G Corporation	¥22,163	¥23,939
Seven & i Holdings Co., Ltd.	3,373	3,728
Mizuho Financial Group, Inc.	2,609	2,590
Mitsubishi UFJ Financial Group, Inc.	2,043	2,394
DOUTOR•NICHIREN Holdings Co., Ltd.	2,426	2,314
Japan Airport Terminal Co., Ltd.	1,072	1,914

Equity securities are held mainly for strengthening relationships with investees. Therefore, they are designated as financial assets measured at fair value through other comprehensive income.

In order to pursue the efficiency of assets held and to use them effectively, sales of financial assets measured at fair value through other comprehensive income have been carried out (derecognition).

The fair value at the time of sale and cumulative gain or loss that is recognized in equity through other comprehensive income for each fiscal year is as follows.

	Millions of yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Nine months ended December 31, 2014)
Fair Value	¥ 286	¥227
Cumulative gain or loss recognized in equity as other comprehensive income (Note)	(118)	23

(Note) The figure represents the amount transferred to retained earnings.

The cumulative gain or loss recognized in equity as other comprehensive income is transferred to retained earnings when an equity instrument is sold or the decline in its fair value compared to its acquisition cost is significant.

11 Other Current Assets

The breakdown of "Other current assets" as of each fiscal year end is as follows.

	Millions of yen	
	FY2013 (As of March 31, 2014)	FY2014 (As of December 31, 2014)
Prepaid tobacco excise taxes	¥176,277	¥180,160
Prepaid expenses	16,636	16,914
Consumption tax receivables	12,527	12,818
Other	20,572	20,637
Total	¥226,012	¥230,530

12. Non-current Assets Held-for-Sale

The breakdown of "Non-current assets held-for-sale" and "Liabilities directly associated with non-current assets held-for-sale" as of each fiscal year end is as follows.

Breakdown of Major Assets and Liabilities

	Millions of yen	
	FY2013 (As of March 31, 2014)	FY2014 (As of December 31, 2014)
Non-current assets held-for-sale		
Property, plant and equipment	¥ 221	¥115
Investment property	1,730	252
Total	¥1,952	¥367
Liabilities directly associated with non-current assets held-for-sale		
Guarantee deposits	¥ 68	¥ —
Long-term guarantee deposits	6	—
Total	¥ 75	¥ —

"Non-current assets held-for-sale" as of March 31, 2014 are mainly rental properties and idle properties which are currently actively marketed for sale. Guarantee deposits and long-term guarantee deposits related to the rental properties are included in "Liabilities directly associated with non-current assets held-for-sale".

With regard to such assets and assets sold, impairment losses of ¥400 million are recognized in "Selling, general and administrative expenses" in the consolidated statement of income for the year ended March 31, 2014.

Non-current assets held-for-sale" as of December 31, 2014 are mainly rental properties and idle properties which are currently actively marketed for sale.

With regard to such assets and assets sold, impairment losses of ¥46 million are recognized in "Selling, general and administrative expenses" in the consolidated statement of income for the nine months ended December 31, 2014.

13 Property, Plant and Equipment

(1) Schedule of Property, Plant and Equipment

The schedules of the carrying amount, acquisition cost, and accumulated depreciation and accumulated impairment losses of "Property, plant and equipment" are as follows.

	Millions of yen				
Carrying Amount	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of April 1, 2013	¥307,332	¥271,207	¥65,256	¥28,522	¥672,316
Individual acquisition	14,255	50,973	21,750	50,371	137,349
Capitalization of borrowing costs ^(Note)	—	—	—	287	287
Transfer to investment property	(1,623)	(4)	(5)	—	(1,633)
Depreciation	(15,892)	(50,521)	(22,387)	—	(88,801)
Impairment losses	(27)	(922)	(2)	(282)	(1,233)
Reversal of impairment losses	—	157	—	—	157
Sale or disposal	(1,612)	(3,914)	(363)	(111)	(6,000)
Exchange differences on translation of foreign operations	16,204	28,189	3,438	6,201	54,031
Other	12,672	16,764	1,024	(16,947)	13,514
As of March 31, 2014	331,308	311,929	68,710	68,041	779,987
Individual acquisition	15,646	33,818	16,944	42,215	108,623
Capitalization of borrowing costs ^(Note)	—	—	—	141	141
Acquisition through business combinations	4	1	10	—	15
Transfer to investment property	(2,627)	(1)	(5)	—	(2,633)
Depreciation	(13,545)	(48,444)	(18,086)	—	(80,075)
Impairment losses	(7,552)	(10,663)	(177)	(653)	(19,045)
Reversal of impairment losses	—	33	—	—	33
Sale or disposal	(655)	(7,867)	(461)	(444)	(9,427)
Exchange differences on translation of foreign operations	(3,070)	(11,808)	(1,086)	(4,480)	(20,443)
Other	6,385	25,406	774	(33,614)	(1,050)
As of December 31, 2014	¥325,895	¥292,404	¥66,622	¥71,206	¥756,127

(Note) The capitalization rates calculating the borrowing costs for capitalization were 4.3% for the year ended March 31, 2014 and 4.6% for the nine months ended December 31, 2014 respectively.

	Millions of yen				
Acquisition Cost	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of April 1, 2013	¥615,682	¥720,165	¥171,351	¥28,522	¥1,535,719
As of March 31, 2014	654,008	811,079	187,959	68,041	1,721,087
As of December 31, 2014	661,172	804,276	188,732	71,206	1,725,386

	Millions of yen				
Accumulated Depreciation and Accumulated Impairment Losses	Land buildings and structures	Machinery and vehicles	Tools furniture and fixtures	Construction in progress	Total
As of April 1, 2013	¥308,350	¥448,958	¥106,095	¥ —	¥ 863,403
As of March 31, 2014	322,700	499,150	119,250	—	941,099
As of December 31, 2014	335,277	511,872	122,110	—	969,259

The carrying amount of property plant and equipment as of each fiscal year end includes the carrying amount of the following leased assets

	Millions of yen			
	Land buildings and structures	Machinery and vehicles	Tools furniture and fixtures	Total
As of April 1, 2013	¥1,378	¥3,364	¥6,798	¥11,540
As of March 31, 2014	1,335	5,015	6,763	13,113
As of December 31, 2014	6,910	5,250	6,766	18,926

(2) Impairment Losses

The grouping of property plant and equipment for impairment test is the smallest cash-generating unit that independently generates cash inflow.

The Group recognized impairment losses of ¥1,233 million for the year ended March 31, 2014 and ¥19,045 million for the nine months ended December 31, 2014 in 'Selling, general and administrative expenses' in the consolidated statement of income.

Impairment losses recognized in the year ended March 31, 2014 represent the losses incurred to reduce the carrying amounts

to the recoverable amounts of the buildings, structures, machinery and vehicles due to individual selection for demolition.

The recoverable amounts of these assets are calculated mainly by their values in use, which are set at 'zero'.

Impairment losses recognized in the nine months ended December 31, 2014 represent the losses incurred to reduce the carrying amounts to the recoverable amounts of the buildings, structures, machinery and vehicles due to decision of closing down of a factory.

The recoverable amounts of these assets are calculated mainly by their values in use, which are set at 'zero'.

14 Goodwill and Intangible Assets

(1) Schedule of Goodwill and Intangible Assets

The schedules of carrying amount, acquisition cost, and accumulated amortization and accumulated impairment losses of 'Goodwill' and 'Intangible assets' are as follows.

	Millions of yen				
Carrying Amount	Goodwill	Trademarks	Software	Other	Total
As of April 1, 2013	¥1,316,476	¥287,622	¥31,869	¥29,321	¥1,665,289
Individual acquisition	24	388	6,573	11,287	18,271
Amortization ^(Note)	—	(25,378)	(11,093)	(5,336)	(41,807)
Impairment losses	—	—	(2)	(713)	(715)
Sale or disposal	—	(1)	(137)	(66)	(203)
Exchange differences on translation of foreign operations	266,105	60,164	693	783	327,745
Other	1,828	(1,562)	6,462	(5,775)	953
As of March 31, 2014	1,584,432	321,234	34,366	29,501	1,969,532
Individual acquisition	49	256	5,176	6,354	11,836
Acquisition through business combinations	29,615	376	4	—	29,995
Amortization ^(Note)	—	(27,326)	(9,457)	(4,299)	(41,082)
Impairment losses	—	(2,672)	(6)	—	(2,678)
Sale or disposal	—	—	(87)	(148)	(234)
Exchange differences on translation of foreign operations	(74,720)	10,085	977	376	(63,281)
Other	—	7	4,882	(4,688)	201
As of December 31, 2014	¥1,539,376	¥301,960	¥35,856	¥27,096	¥1,904,288

(Note) The amortization of intangible assets is included in 'Cost of sales' and 'Selling, general and administrative expenses' in the consolidated statement of income.

Acquisition Cost	Millions of yen				
	Goodwill	Trademarks	Software	Other	Total
As of April 1, 2013	¥1,316,476	¥733,745	¥111,640	¥87,671	¥2,249,531
As of March 31, 2014	1,584,432	824,669	123,940	92,853	2,625,893
As of December 31, 2014	1,539,376	845,499	132,309	92,280	2,609,465

Accumulated Amortization and Accumulated Impairment Losses	Millions of yen				
	Goodwill	Trademarks	Software	Other	Total
As of April 1, 2013	¥ —	¥446,122	¥79,770	¥58,350	¥584,242
As of March 31, 2014	—	503,435	89,574	63,352	656,361
As of December 31, 2014	—	543,539	96,453	65,184	705,177

The carrying amount of intangible assets as of each fiscal year end includes the carrying amount of the following leased assets

	Millions of yen
	Software
As of April 1, 2013	¥5
As of March 31, 2014	3
As of December 31, 2014	1

(2) Material Goodwill and Intangible Assets

Goodwill and intangible assets recognized in the consolidated statement of financial position are mainly composed of goodwill and trademarks in the JTIIH Group. The carrying amounts of goodwill as of March 31, 2014 and December 31, 2014 were ¥1,541,904 million and ¥1,496,799 million, respectively. The carrying amounts of trademarks as of March 31, 2014 and December 31, 2014 were ¥318,671 million and ¥299,502 million, respectively.

The majority of the goodwill and trademarks was recognized as a result of acquisitions of RJR Nabisco's non-U.S. tobacco operations in 1999 and Gallaher in 2007.

The trademarks are amortized using the straight-line method and the remaining amortization period is mainly 12 years.

(3) Impairment Test for Goodwill

For the nine months ended December 31, 2014, the carrying amount of the majority of goodwill is allocated to the international tobacco cash-generating unit of ¥1,496,799 million (¥1,541,904 million for the year ended March 31, 2014) and the processed food cash-generating unit of ¥25,368 million (¥25,368 million for the year ended March 31, 2014). Details of the result of impairment tests are as follows:

A International Tobacco Cash-generating Unit

The recoverable amount is calculated by the value in use based on the three-year business plan that was prepared by reflecting past experiences and external information and that was approved by management. After the three-year business plan, the Group sets a growth rate that decreases gradually from 5.1% in the fourth year (FY2013-6.0%) to 3.9% in the ninth year (FY2013-4.4%), and the same growth rate as the ninth year from the tenth year as a continued growth rate for inflation.

The discount rate before taxes is 11.1% (FY2013-10.7%). The value in use sufficiently exceeds the carrying amount of the

cash-generating unit. Therefore, even in cases where the discount rate and growth rate used in calculating the value in use fluctuate within reasonable ranges, the Group assumes that the value in use will not become less than the carrying amount.

B Processed Food Cash-generating Unit

The recoverable amount is calculated by the value in use based on the three-year business plan that was prepared by reflecting past experiences and external information and that was approved by management. After the three-year business plan, the Group sets a growth rate that decreases gradually from 2.8% in the fourth year (FY2013-3.1%) to 2.1% in the ninth year (FY2013-2.1%) and the same growth rate as the ninth year issued from the tenth year as a continued growth rate for inflation. The discount rate before taxes is 3.9% (FY2013-3.6%). The value in use exceeds the carrying amount. If the discount rate increases by 2.1%, impairment losses would be recognized. In case that growth rate fluctuates within a reasonable range, the Group assumes that the value in use will not become less than the carrying amount.

(4) Impairment losses

Goodwill is allocated to cash-generating units that are identified according to locations and types of businesses. The grouping of intangible assets for impairment test is the smallest cash-generating unit that independently generates cash inflow.

The Group recognized impairment losses of ¥2,678 million for the nine months ended December 31, 2014 in Selling, general and administrative expenses in the consolidated statement of income.

Impairment losses recognized in the nine months ended December 31, 2014 represent the losses incurred to reduce the carrying amounts to the recoverable amounts of trademarks and software as the recoverable amounts were lower than the carrying amounts.

The recoverable amounts of these assets are calculated mainly by their values in use.

15 Lease Transactions

The Group leases factory sites, vehicles, vending machines and other assets as a lessee. Some of the lease contracts have renewal options or escalation clauses. There are no restrictions on additional debt and further leasing imposed by the lease arrangements.

(1) Present Value of Finance Lease Obligations

The total of future minimum lease payments for leased assets recognized based on the finance lease contracts, their present value and future financial costs as of each fiscal year end are as follows.

	Millions of yen	
	FY2013 (As of March 31, 2014)	FY2014 (As of December 31, 2014)
Not later than 1 year		
Total of future minimum lease payments	¥ 4,831	¥ 4,675
Future financial costs	392	357
Present value	4,439	4,318
Later than 1 year and not later than five years		
Total of future minimum lease payments	9,666	10,071
Future financial costs	620	1,168
Present value	9,045	8,902
Later than 5 years		
Total of future minimum lease payments	708	10,447
Future financial costs	38	4,015
Present value	670	6,432
Total		
Total of future minimum lease payments	15,204	25,192
Future financial costs	1,050	5,540
Present value	14,154	19,652

(2) Future Minimum Lease Payments under Non-cancellable Operating Leases

The total of future minimum lease payments under non-cancellable operating leases as of each fiscal year end is as follows.

	Millions of yen	
	FY2013 (As of March 31, 2014)	FY2014 (As of December 31, 2014)
Not later than 1 year	¥ 8,521	¥ 8,250
Later than 1 year and not later than 5 years	13,804	9,957
Later than 5 years	7,908	7,996
Total	¥30,233	¥26,203

(3) Total of Minimum Lease Payments and Contingent Rents

The total of minimum lease payments and contingent rents of operating lease contracts recognized as an expense for each fiscal year is as follows.

	Millions of yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Nine months ended December 31, 2014)
Total of minimum lease payments	¥11,266	¥12,059
Contingent rents	1,028	773

16. Investment Property

(1) Schedule of Investment Property

The schedule of the carrying amount of 'Investment property' for each fiscal year is as follows

	Millions of yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Nine months ended December 31, 2014)
Balance at the beginning of the period	¥ 58,995	¥ 61,421
Expenditure after acquisition	244	77
Transfer from property, plant and equipment	1,633	2,633
Transfer to non-current assets held-for-sale	(4,114)	(44,381)
Transfer to property, plant and equipment	(6,339)	—
Depreciation	(2,313)	(1,014)
Impairment losses	(98)	(108)
Sale or disposal	(1,513)	(760)
Exchange differences on translation of foreign operations	18	0
Other	14,908	2
Balance at the end of the period	¥ 61,421	¥ 17,870
Acquisition cost at the beginning of the period	¥127,493	¥108,831
Accumulated depreciation and accumulated impairment losses at the beginning of the period	68,498	47,410
Acquisition cost at the end of the period	108,831	46,084
Accumulated depreciation and accumulated impairment losses at the end of the period	47,410	28,214

(2) Fair Value

The fair value of investment property is determined based on a valuation conducted by an external real estate appraiser. The valuation is made in accordance with the appraisal of the country where the investment property is located and based on market evidence of transaction prices for similar assets.

The fair value hierarchy of investment property is categorized from Level 1 to Level 3 as follows:

Level 1: Fair value measured at the quoted price in the active market.

Level 2: Fair value that is calculated using the observable price other than categorized in Level 1 directly or indirectly.

Level 3: Fair value that is calculated based on valuation techniques which include inputs that are not based on observable market data.

The fair value of investment property based on the fair value hierarchy as of each fiscal year end is as follows:

	Millions of yen			
	FY2013 (As of March 31, 2014)			
	Level 1	Level 2	Level 3	Total
Investment property	¥ —	¥112,070	¥2,387	¥114,457

	Millions of yen			
	FY2014 (As of December 31, 2014)			
	Level 1	Level 2	Level 3	Total
Investment property	¥ —	¥44,687	¥1,986	¥46,674

The carrying amount of investment property as of each fiscal year end is as follows:

	Millions of yen	
	FY2013 (As of March 31, 2014)	FY2014 (As of December 31, 2014)
Investment property	¥61,421	¥17,870

(3) Income and Expenses from Investment Property

The rental income from investment property and direct operating expenses for each fiscal year are as follows

	Millions of yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Nine months ended December 31, 2014)
Rental income	¥7,915	¥3,796
Direct operating expenses	6,106	2,674

(4) Impairment Losses

The grouping of investment properties for impairment test is based on the smallest cash-generating unit that independently generates cash inflow. Impairment test for idle properties is carried out individually.

The Group recognized impairment losses of ¥98 million for the year ended March 31, 2014, and ¥108 million for the nine months ended December 31, 2014, in selling, general and administrative expenses in the consolidated statement of income.

Impairment losses recognized for the year ended March 31, 2014 represent the difference between the recoverable amount and the carrying amount of land and buildings as idle properties were individually selected for demolition.

The recoverable amount is calculated based on value in use basis, which is zero for buildings due to the decision of demolition, and the recoverable amount of other properties is calculated by the fair value less costs of disposal.

Impairment losses recognized for the nine months ended December 31, 2014 represent the difference between the recoverable amount and the carrying amount of land and buildings as idle properties were individually selected for demolition.

The recoverable amount is calculated based on value in use basis, which is zero for buildings due to the decision of demolition, and the recoverable amount of other properties is calculated by the fair value less costs of disposal.

17. Income Taxes

(1) Deferred Tax Assets and Deferred Tax Liabilities

The breakdown and schedule of "Deferred tax assets" and "Deferred tax liabilities" by major causes of their occurrence for each fiscal year are as follows.

FY2013 Year ended March 31, 2014

	Millions of yen				
Deferred Tax Assets	As of April 1, 2013	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 2)	As of March 31, 2014
Fixed assets (Note 2)	¥ 43,075	¥ (6,138)	¥ —	¥ 5,826	¥ 42,763
Retirement benefits	99,362	(7,435)	(3,953)	6,127	94,101
Carryforward of unused tax losses	65,572	(11,451)	—	5,248	59,369
Other	79,462	(3,113)	1,891	7,946	86,186
Subtotal	287,472	(28,136)	(2,062)	25,146	282,420
Valuation allowance	(71,829)	11,231	97	(4,409)	(64,911)
Total	¥ 215,642	¥ (16,906)	¥ (1,965)	¥ 20,737	¥ 217,508

	Millions of yen				
Deferred Tax Liabilities	As of April 1, 2013	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 2)	As of March 31, 2014
Fixed assets (Note 2)	¥ (118,937)	¥ 2,954	¥ —	¥ (15,030)	¥ (131,013)
Retirement benefits	(3,440)	3,192	(410)	(2,745)	(3,403)
Other	(57,297)	(17,923)	(4,249)	(11,447)	(90,916)
Total	¥ (179,675)	¥ (11,776)	¥ (4,659)	¥ (29,222)	¥ (225,332)

FY2014 Nine months ended December 31 2014

	Millions of yen				
	As of April 1, 2014	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of December 31, 2014
Deferred Tax Assets					
Fixed assets (Note 2)	¥ 42,763	¥ 2,051	¥ —	¥ 414	¥ 45,228
Retirement benefits	94,101	22,786	6,550	893	124,330
Carryforward of unused tax losses	59,369	3,401	—	280	63,050
Other	86,186	(10,195)	6,628	3,064	85,684
Subtotal	282,420	18,043	13,178	4,651	318,292
Valuation allowance	(64,911)	(144)	11	(1,433)	(66,478)
Total	¥217,508	¥ 17,898	¥13,189	¥ 3,218	¥251,814

	Millions of yen				
	As of April 1, 2014	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of December 31, 2014
Deferred Tax Liabilities					
Fixed assets (Note 2)	¥(131,013)	¥ 15,715	¥ —	¥(455)	¥(115,753)
Retirement benefits	(3,403)	(2,043)	(1,968)	80	(7,334)
Other	(90,916)	(10,636)	(5,753)	583	(106,722)
Total	¥(225,332)	¥ 3,035	¥(7,721)	¥ 209	¥(229,809)

(Note 1) "Other" includes exchange differences on translation of foreign operations

(Note 2) "Fixed assets" include property, plant and equipment, goodwill, intangible assets and investment property

The deferred tax assets are recognized by taking taxable temporary differences, future taxable profits plan and tax planning into account. The carryforward of unused tax losses, for which the deferred tax assets are not recognized, was ¥46,162 million (including ¥30,707 million for which the carryforward expires after five years) as of March 31, 2014, and ¥50,549 million (including ¥23,962 million for which the carryforward expires

after five years) as of December 31, 2014. Tax credits, for which the deferred tax assets are not recognized, were ¥729 million (including ¥46 million for which the carryforward expires after five years) as of March 31, 2014, and ¥606 million (including ¥192 million for which the carryforward expires after five years) as of December 31, 2014.

(2) Income Taxes

The breakdown of income taxes for each fiscal year is as follows:

	Millions of yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Nine months ended December 31, 2014)
Current income taxes	¥172,230	¥154,606
Deferred income taxes	28,682	(20,933)
Total income taxes	¥200,912	¥133,673

Deferred income taxes decreased by ¥1,667 million and increased by ¥62 million for the year ended March 31, 2014, and for the nine months ended December 31, 2014, respectively, due to the effect of changes in tax rates in Japan and other countries.

(3) Reconciliation of the Effective Tax Rate

The breakdown of major items that caused differences between the effective statutory tax rate and the average actual tax rate for each fiscal year is as follows

The Company is subject mainly to corporate tax, inhabitant tax, and enterprise tax. The effective statutory tax rates calculated based on these taxes were 37.78% and 35.41% for the year ended March 2014 and for the nine months ended December 2014, respectively. Special Corporation Tax for Reconstruction has been abolished in this fiscal year. Foreign subsidiaries are subject to income taxes at their locations.

	FY2013 (Year ended March 31, 2014)	FY2014 (Nine months ended December 31, 2014)
Effective statutory tax rate	37.78	35.41
Different tax rates applied to foreign subsidiaries	(10.98)	(13.28)
Non-deductible expenses	3.71	1.90
Undistributed earnings of subsidiaries	3.20	2.00
Other	(2.13)	0.58
Average actual tax rate	31.58	26.61

18. Trade and Other Payables

The breakdown of "Trade and other payables" as of each fiscal year end is as follows

	FY2013 (As of March 31, 2014)	FY2014 (As of December 31, 2014)
Accounts payable	¥190,408	¥188,674
Other payables	78,662	147,918
Other	90,955	83,173
Total	¥360,025	¥419,764

Trade and other payables are classified as financial liabilities measured at amortized cost.

19. Bonds and Borrowings (including Other Financial Liabilities)

(1) Breakdown of Financial Liabilities

The breakdown of "Bonds and borrowings" and "Other financial liabilities" as of each fiscal year end is as follows

	Millions of yen		%	
	FY2013 (As of March 31, 2014)	FY2014 (As of December 31, 2014)	Average interest rate (Note 1)	Due
Derivative liabilities	¥ 4,856	¥ 10,010	—	—
Short-term borrowings	21,936	27,632	1.47	—
Current portion of long-term borrowings	1,225	39,930	0.33	—
Current portion of bonds (Note 2)	172,401	40,000	—	—
Long-term borrowings	35,034	1,046	4.44	2016–2028
Bonds (Note 2)	131,131	99,954	—	—
Other	22,366	23,070	—	—
Total	¥388,949	¥241,642		
Current liabilities	¥205,053	¥122,024		
Non-current liabilities	183,895	119,618		
Total	¥388,949	¥241,642		

(Note 1) The average interest rate is calculated using the interest rate and outstanding balance as of December 31, 2014.

Derivative liabilities are classified as financial liabilities measured at fair value through profit or loss excluding those hedge accounting is applied to and bonds and borrowings are classified as financial liabilities measured at amortized cost

There are no financial covenants that have a significant impact on the Group on bonds and borrowings

(Note 2) The summary of the issuing conditions of the bonds is as follows

Company	Name of bond	Date of issuance	Millions of yen		Interest rate	Collateral	Date of maturity
			FY2013 (As of March 31, 2014)	FY2014 (As of December 31, 2014)			
Japan Tobacco Inc.	5th Domestic straight bond	June 3, 2009	¥ 99,993 (99,993)	¥ —	1.13	Yes	June 3, 2014
Japan Tobacco Inc.	6th Domestic straight bond	December 9, 2010	40,000	40,000 (40,000)	0.53	Yes	December 9, 2015
Japan Tobacco Inc.	7th Domestic straight bond	December 9, 2010	20,000	20,000	0.84	Yes	December 8, 2017
Japan Tobacco Inc.	8th Domestic straight bond	December 9, 2010	20,000	20,000	1.30	Yes	December 9, 2020
Japan Tobacco Inc.	Straight bond in USD	July 23, 2013	51,131 [USD 500 mil.]	59,954 [USD 500 mil.]	2.10	Yes	July 23, 2018
JTI (UK) Finance Plc	Straight bond in EUR	October 2, 2006	72,408 (72,408) [EUR 500 mil.]	—	4.50	Non	April 2, 2014
Total			¥ 303,532 (172,401)	¥139,954 (40,000)			

(Note 1) The figure in parentheses () represents the amount of the current portion of the bond

(Note 2) The figure in parentheses [] represents the amount of foreign currency-denominated bond

(2) Assets Pledged as Collateral for Liabilities

A Pursuant to the provisions of Article 6 of Japan Tobacco Inc. Act, the Company's properties are pledged as general collateral for bonds issued by the Company. Bondholders are entitled to claim satisfaction in preference to unsecured creditors of the Company properties (with the exception of national and local taxes and certain other statutory obligations).

B Assets pledged as collateral by some subsidiaries and their corresponding debts as of each fiscal year end are as follows

Assets Pledged as Collateral

	Millions of yen	
	FY2013 (As of March 31, 2014)	FY2014 (As of December 31, 2014)
Land, buildings and structures	¥5,838	¥ —
Other	114	125
Total	¥5,952	¥125

Corresponding Debts

	Millions of yen	
	FY2013 (As of March 31, 2014)	FY2014 (As of December 31, 2014)
Current portion of long-term borrowings	¥1,072	¥ —
Other	156	125
Total	¥1,227	¥125

20 Provisions

The breakdown and schedule of "Provisions" for each fiscal year are as follows

FY2013 Year ended March 31, 2014

	Millions of yen				
	Asset retirement provisions	Restructuring provisions	Provisions for sales rebates	Other provisions	Total
As of April 1 2013	¥1,695	¥ 450	¥ 4,073	¥3,824	¥10,043
Provisions	72	1,910	4,288	557	6,827
Interest cost associated with passage of time	19	—	—	—	19
Provisions used	(92)	(309)	(3,958)	(185)	(4,544)
Provisions reversed	—	(202)	(116)	(360)	(678)
Exchange differences on translation of foreign operations	—	206	—	730	936
As of March 31, 2014	¥1,695	¥2,055	¥ 4,288	¥4,566	¥12,603
Current liabilities	¥ 5	¥2,055	¥ 4,288	¥1,014	¥ 7,362
Non-current liabilities	1,690	—	—	3,552	5,241
Total	¥1,695	¥2,055	¥ 4,288	¥4,566	¥12,603

FY2014 Nine months ended December 31 2014

	Millions of yen				
	Asset retirement provisions	Restructuring provisions	Provisions for sales rebates	Other provisions	Total
As of April 1 2014	¥1,695	¥ 2,055	¥ 4,288	¥4,566	¥ 12,603
Provisions	1,110	31,154	3,994	969	37,227
Interest cost associated with passage of time	28	—	—	—	28
Provisions used	(91)	(10,902)	(4,148)	(247)	(15,388)
Provisions reversed	—	(462)	(140)	(800)	(1,402)
Exchange differences on translation of foreign operations	—	1,110	—	447	1,557
As of December 31 2014	¥2,742	¥ 22,954	¥ 3,994	¥4,935	¥ 34,624
Current liabilities	¥ —	¥ 3,950	¥ 3,994	¥1,256	¥ 9,200
Non-current liabilities	2,742	19,004	—	3,679	25,425
Total	¥2,742	¥ 22,954	¥ 3,994	¥4,935	¥ 34,624

A Asset Retirement Provisions

In order to settle the obligation of restoring and of removing hazardous substances from plant facilities and premises that the Group uses, the probable amount to be paid in the future is recognized based on past performances. These expenses are expected to be paid after one year or more, however, they may be affected by future business plans.

B Restructuring Provisions

These provisions are mainly related to business integration and measures for the rationalization of international tobacco business.

The timing of the payment may be affected by future business plans.

C Provisions for Sales Rebates

These provisions are for contracts which reward the customers with discounts when the sales volume or sales amount in a given period exceeds specified volume or amount. They are expected to be paid within one year.

21. Other Liabilities

The breakdown of "Other current liabilities" and "Other non-current liabilities" as of each fiscal year end is as follows

	Millions of yen	
	FY2013 (As of March 31, 2014)	FY2014 (As of December 31, 2014)
Tobacco excise tax payables ^(Note)	¥291,372	¥325,171
Tobacco special excise tax payables ^(Note)	9,995	14,758
Tobacco local excise tax payables ^(Note)	121,474	186,197
Consumption tax payables	91,733	138,810
Bonus to employees	52,618	45,982
Employee's unused paid vacations liabilities	21,521	21,173
Other	143,987	143,869
Total	¥732,700	¥875,960
Current liabilities	¥606,161	¥754,169
Non-current liabilities	126,539	121,792
Total	¥732,700	¥875,960

(Note) Tobacco excise tax payables, tobacco special excise tax payables and tobacco local excise tax payables include those unpaid on December 31, 2014 due to bank holiday

22. Employee Benefits

(1) Post-employment Benefits

The Group sponsors funded or unfunded defined benefit plans and defined contribution plans as employee retirement benefit plans. The benefits of defined benefit plans are predetermined based on conditions such as points employees have gained in compensation for each year of service, the payment rate, years of service and average salaries in their final years of service before retirement.

The Company is obligated to bear pension costs for a mutual assistance association incurred with respect to services in or before June 1956 (prior to enforcement of the Act on the Mutual Aid Association of Public Corporation Employees). Such obligations are recognized as liabilities at their present value using the actuarial valuation method and are included in retirement benefit liabilities.

Special termination benefits may be provided to employees on their early retirements under certain circumstances.

The funded defined benefit plans are administered by the Group or the fund that is legally separated from the Group in accordance with statutory requirements. The Group, or the board of pension fund and the trustee of the plan, are required by law to act in the best interests of the plan participants and are responsible for managing the plan assets in accordance with the designated investment strategy.

The Group's main defined benefit plans expose the Group to actuarial risks, such as investment risk, interest rate risk, inflation risk and longevity risk.

(i) Investment risk

The present value of the defined benefit obligations is calculated using a discount rate set with reference to a yield on high quality corporate bond or government bond. If the return on the plan assets is below this yield, there is a possibility that the plan is underfunded.

(ii) Interest rate risk

A decrease in a yield on high quality corporate bonds or government bonds will increase the present value of the defined benefit obligations. However, this will be partially offset by an increase in the fair value of the debt instruments (plan assets).

(iii) Inflation risk

The level of benefit for certain defined benefit plans of the Group is linked to inflation. Accordingly, a rise in inflation will increase the present value of the defined benefit obligations.

(iv) Longevity risk

Some defined benefit plans of the Group provide a lifetime annuity and the Group is obligated to provide pension benefits to the plan participants for the rest of their lives after their retirements. The present value of the defined benefit obligations is calculated by reference to the best estimate of the mortality of plan participants during or after employment. An increase in average life expectancy of the plan participants will increase the defined benefit obligations.

A Schedule of Defined Benefit Obligations

The schedule of the defined benefit obligations is as follows

	Millions of yen		
	Japan (Note 3)	Overseas	Total
As of April 1, 2013 (Notes 1, 2)	¥335,312	¥364,893	¥700,205
Current service cost	12,377	7,755	20,132
Past service cost and gains and losses on settlement	—	2,627	2,627
Interest expense	3,046	14,972	18,018
Contributions by plan participants	—	972	972
Special termination benefits	—	37	37
Remeasurement gains and losses			
Actuarial gains and losses arising from changes in demographic assumptions	4	4,211	4,215
Actuarial gains and losses arising from changes in financial assumptions	(679)	1,173	494
Actuarial gains and losses arising from experience adjustments	(86)	3,029	2,943
Benefits paid	(30,703)	(17,871)	(48,574)
Exchange differences on translation of foreign operations	—	88,196	88,196
Other	308	237	545
As of March 31, 2014 (Notes 1, 2)	319,579	470,230	789,809
Current service cost	9,957	9,028	18,984
Past service cost and gains and losses on settlement	590	(1,293)	(703)
Interest expense	2,135	18,102	20,236
Contributions by plan participants	—	1,156	1,156
Remeasurement gains and losses			
Actuarial gains and losses arising from changes in demographic assumptions	(4)	3,120	3,116
Actuarial gains and losses arising from changes in financial assumptions	5,539	47,891	53,430
Actuarial gains and losses arising from experience adjustments	(2,571)	(5,648)	(8,219)
Benefits paid	(43,044)	(21,829)	(64,872)
Exchange differences on translation of foreign operations	—	31,249	31,249
Other	(42)	—	(42)
As of December 31, 2014 (Notes 1, 2)	¥292,138	¥552,006	¥844,144

(Note 1) The Group's weighted average duration of the defined benefit obligations is 8.1 years for Japan and 15.4 years for overseas (FY2013: 7.6 years for Japan and 14.5 years for overseas)

(Note 2) The Group's breakdown of the defined benefit obligation by plan participant is as follows

	FY2013 (As of March 31, 2014)			FY2014 (As of December 31, 2014)		
	Japan	Overseas	Total	Japan	Overseas	Total
Active members	¥200,292	¥187,191	¥387,483	¥183,381	¥214,855	¥398,236
Deferred members	14,791	49,900	64,691	14,542	58,165	72,707
Pensioners	104,497	233,139	337,635	94,216	278,986	373,202
Total	¥319,579	¥470,230	¥789,809	¥292,138	¥552,006	¥844,144

(Note 3) The schedule of mutual pension benefits obligations included in the category of Japan is as follows

	Millions of yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Nine months ended December 31, 2014)
Balance at the beginning of the period	¥76,814	¥67,825
Interest expense	461	254
Remeasurement gains and losses	(1,070)	(3,748)
Benefits paid	(8,380)	(5,140)
Balance at the end of the period	¥67,825	¥59,191

B Schedule of Plan Assets

The schedule of the plan assets is as follows

	Millions of yen		
	Japan	Overseas	Total
As of April 1, 2013	¥107,590	¥264,835	¥372,425
Interest income	1,065	11,116	12,181
Remeasurement gains and losses			
Return on plan assets (excluding amounts included in interest income)	4,363	16,391	20,754
Contributions by the employer ^(Notes 1, 2)	4,453	11,890	16,342
Contributions by plan participants	—	972	972
Benefits paid	(8,293)	(13,378)	(21,671)
Exchange differences on translation of foreign operations	—	64,357	64,357
Other	306	210	516
As of March 31, 2014	109,484	356,392	465,876
Interest income	821	14,003	14,823
Remeasurement gains and losses			
Return on plan assets (excluding amounts included in interest income)	3,592	26,027	29,618
Contributions by the employer ^(Notes 1, 2)	3,087	9,433	12,519
Contributions by plan participants	—	1,156	1,156
Benefits paid	(5,425)	(15,743)	(21,168)
Exchange differences on translation of foreign operations	—	26,811	26,811
Other	(43)	(1,962)	(2,005)
As of December 31, 2014	¥111,515	¥416,117	¥527,631

(Note 1) Pursuant to laws and regulations, the Group and the pension fund review the financial condition of the pension plan regularly and recalculate contributions for allocating future benefit and keeping the balance of the pension financing when the plan is underfunded.

(Note 2) The Group plans to pay contributions of ¥14,350 million in the year ending December 31, 2015.

C Reconciliation of Defined Benefit Obligations and Plan Assets

The reconciliation of the defined benefit obligations and plan assets to the net defined benefit liabilities (assets) recognized in the consolidated statement of financial position as of each fiscal year end is as follows

FY2013 As of March 31, 2014

	Millions of yen		
	FY2013		
	Japan	Overseas	Total
Present value of the funded defined benefit obligations	¥ 115,400	¥ 358,842	¥ 474,242
Fair value of the plan assets	(109,484)	(356,392)	(465,876)
Subtotal	5,916	2,450	8,365
Present value of the unfunded defined benefit obligations	204,179	111,388	315,568
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	¥ 210,095	¥ 113,838	¥ 323,933
Retirement benefit liabilities	¥ 210,096	¥ 130,366	¥ 340,462
Retirement benefit assets	(1)	(16,529)	(16,530)
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	¥ 210,095	¥ 113,838	¥ 323,933

FY2014 As of December 31, 2014

	Millions of yen		
	FY2014		
	Japan	Overseas	Total
Present value of the funded defined benefit obligations	¥ 115,668	¥ 413,149	¥ 528,817
Fair value of the plan assets	(111,515)	(416,117)	(527,631)
Subtotal	4,154	(2,968)	1,186
Present value of the unfunded defined benefit obligations	176,470	138,858	315,327
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	¥ 180,624	¥ 135,889	¥ 316,513
Retirement benefit liabilities	¥ 181,548	¥ 170,367	¥ 351,915
Retirement benefit assets	(924)	(34,477)	(35,402)
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	¥ 180,624	¥ 135,889	¥ 316,513

D Major Breakdown of Plan Assets

The breakdown of plan assets by major category as of each fiscal year end is as follows

Japan

	FY2013 (As of March 31, 2014)			FY2014 (As of December 31, 2014)		
	Market price in an active market			Market price in an active market		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Cash and cash equivalents	¥ 8,524	¥ —	¥ 8,524	¥24,172	¥ —	¥ 24,172
Equity instruments	18,238	—	18,238	7,946	—	7,946
Japan	8,369	—	8,369	4,668	—	4,668
Overseas	9,869	—	9,869	3,278	—	3,278
Debt instruments	20,483	—	20,483	15,383	—	15,383
Japan	18,248	—	18,248	12,820	—	12,820
Overseas	2,235	—	2,235	2,563	—	2,563
Real estate	60	—	60	75	—	75
General account of life insurance companies ^(Note 2)	—	61,330	61,330	—	63,023	63,023
Other	46	803	850	84	830	914
Total	¥47,351	¥62,133	¥109,484	¥47,662	¥63,853	¥111,515

Overseas

	FY2013 (As of March 31, 2014)			FY2014 (As of December 31, 2014)		
	Market price in an active market			Market price in an active market		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Cash and cash equivalents	¥ 19,313	¥ —	¥ 19,313	¥ 18,725	¥ —	¥ 18,725
Equity instruments	139,446	—	139,446	142,301	—	142,301
United Kingdom	50,670	—	50,670	49,318	—	49,318
North America	42,537	—	42,537	39,859	—	39,859
Other	46,238	—	46,238	53,124	—	53,124
Debt instruments	167,683	4,623	172,305	218,662	5,518	224,180
United Kingdom	108,883	—	108,883	136,578	—	136,578
North America	28,553	—	28,553	46,413	—	46,413
Other	30,246	4,623	34,869	35,671	5,518	41,189
Real estate	5,479	1,199	6,679	6,225	1,051	7,276
Other	4,763	13,886	18,649	7,360	16,275	23,635
Total	¥336,684	¥19,708	¥356,392	¥393,272	¥22,844	¥416,117

Total

	Millions of yen					
	FY2013 (As of March 31, 2014)			FY2014 (As of December 31, 2014)		
	Market price in an active market		Total	Market price in an active market		Total
	Quoted	Unquoted		Quoted	Unquoted	
Cash and cash equivalents	¥ 27,837	¥ —	¥ 27,837	¥ 42,897	¥ —	¥ 42,897
Equity instruments	157,684	—	157,684	150,247	—	150,247
Debt instruments	188,166	4,623	192,788	234,046	5,518	239,563
Real estate	5,539	1,199	6,738	6,300	1,051	7,351
General account of life insurance companies ^(Note 2)	—	61,330	61,330	—	63,023	63,023
Other	4,810	14,689	19,499	7,444	17,105	24,549
Total	¥384,035	¥81,841	¥465,876	¥440,934	¥86,697	¥527,631

(Note 1) The fair value of the plan assets is provided for each of quoted and unquoted market price in an active market as defined in IFRS 13 "Fair Value Measurement."

(Note 2) A certain interest rate and principal for the general account of life insurance are guaranteed by life insurance companies.

The investment strategy for the Group's major plans is as follows (Japan)

The Company's pension fund is managed in accordance with the internal policy for securing stable profits in the middle- and long-term in order to ensure the redemption of the plan liability. Concretely, by setting a target rate of return and composition ratio of plan assets by asset category within the risk tolerance that is annually assessed, the Company invests plan assets consistently with the composition ratio. When reviewing the composition ratio, the Company considers introducing an asset investment which has a high correlation with the liability.

In the case where an unexpected situation occurs in the market environment, it is temporarily allowed to make an adjustment on the weight of risk assets complying with the policy.

(Overseas)

The investment strategy for the foreign subsidiaries' funded pension plans is decided properly by the trustee of the plan or the management of overseas subsidiaries according to local legislations. The Company's objective for the foreign subsidiaries' funded pension plans is to manage risks arising from its defined benefit obligation and meanwhile to achieve a return on assets in excess of the movement in the value of the defined benefit obligation.

The majority of the plan assets have been allocated to liability matching bonds and the remaining parts of the plan assets are mainly invested in equities targeting long-term return.

E Matters Related to Actuarial Assumptions

The major items of actuarial assumptions as of each fiscal year end are as follows:

	FY2013 (As of March 31, 2014)		FY2014 (As of December 31, 2014)	
	Japan	Overseas	Japan	Overseas
Discount rate	0.9	3.9	0.7	2.9
Inflation rate	—	2.6	—	2.4

FY2013 As of March 31, 2014

	Years			
	FY2013			
	Japan		Overseas	
	Males	Females	Males	Females
Average life expectancy at retirement ^(Note 1)				
Current pensioners	23.4 ^(Note 2)	29.3 ^(Note 2)	21.2 ^(Note 3)	23.8 ^(Note 3)
Future pensioners			22.5 ^(Note 4)	25.1 ^(Note 4)

FY2014 As of December 31, 2014

	Years			
	FY2014			
	Japan		Overseas	
	Males	Females	Males	Females
Average life expectancy at retirement ^(Note 1)				
Current pensioners	23.4 ^(Note 2)	29.3 ^(Note 2)	21.7 ^(Note 3)	24.1 ^(Note 3)
Future pensioners			23.1 ^(Note 4)	25.6 ^(Note 4)

(Note 1) The average life expectancies underlie the values of the defined benefit obligations on major plans. Assumptions regarding future mortality rate are based on published statistics and mortality tables.

(Note 2) Life expectancy for a pensioner currently aged 60. Regardless of the plan participant's current age, the Group performs actuarial calculations based on the assumption that life expectancy remains the same.

(Note 3) Life expectancy for a pensioner currently aged 65.

(Note 4) Life expectancy at the age of 65 for an active member currently aged 50.

(Note 5) The valuation of defined benefit obligations reflects a judgment on uncertain future events. The sensitivities of defined benefit obligations due to changes in major assumptions as of each fiscal year end are as follows. Each of these sensitivities assumes that other variables remain fixed, however, in fact they do not always change independently. Negative figures show a decrease in pension plan obligations, while positive figures show an increase.

		Millions of yen			
		FY2013 (As of March 31, 2014)		FY2014 (As of December 31, 2014)	
	Change in assumptions	Japan	Overseas	Japan	Overseas
Discount rate	Increase by 0.5%	¥(11,555)	¥(32,618)	¥(11,283)	¥(40,281)
	Decrease by 0.5%	12,394	36,585	12,081	44,274
Inflation rate	Increase by 0.5%	—	23,784	—	28,231
	Decrease by 0.5%	—	(21,928)	—	(26,185)
Mortality rate	Extended 1 year	7,094	15,870	6,441	17,700
	Shortened 1 year	(6,970)	(14,384)	(6,317)	(17,698)

F Breakdown of Defined Benefit Cost

The breakdown of defined benefit cost for each fiscal year is as follows.

FY2013 Year ended March 31, 2014

		Millions of yen		
		FY2013		
		Japan	Overseas	Total
Current service cost		¥12,377	¥ 7,755	¥ 20,132
Past service cost and gains and losses on settlement		—	2,627	2,627
Interest expense (income)		1,981	3,856	5,836
Special termination benefits		—	37	37
Defined benefit cost through profit or loss		14,358	14,275	28,632
Actuarial gains and losses arising from changes in demographic assumptions		4	4,211	4,215
Actuarial gains and losses arising from changes in financial assumptions		(679)	1,173	494
Actuarial gains and losses arising from experience adjustments		(86)	3,029	2,943
Return on plan assets (excluding amounts included in interest income)		(4,363)	(16,391)	(20,754)
Defined benefit cost through other comprehensive income		¥ (5,125)	¥ (7,978)	¥(13,103)
Total of defined benefit cost		¥ 9,233	¥ 6,297	¥ 15,530

FY2014 Nine months ended December 31, 2014

		Millions of yen		
		FY2014		
		Japan	Overseas	Total
Current service cost		¥ 9,957	¥ 9,028	¥ 18,984
Past service cost and gains and losses on settlement		590	(1,293)	(703)
Interest expense (income)		1,314	4,099	5,413
Defined benefit cost through profit or loss		11,861	11,834	23,695
Actuarial gains and losses arising from changes in demographic assumptions		(4)	3,120	3,116
Actuarial gains and losses arising from changes in financial assumptions		5,539	47,891	53,430
Actuarial gains and losses arising from experience adjustments		(2,571)	(5,648)	(8,219)
Return on plan assets (excluding amounts included in interest income)		(3,592)	(26,027)	(29,619)
Defined benefit cost through other comprehensive income		¥ (628)	¥ 19,336	¥ 18,708
Total of defined benefit cost		¥11,233	¥ 31,170	¥ 42,403

(Note 1) The net amount of interest expense and interest income is included in "Financial costs." Other expenses are included in "Cost of sales" and "Selling, general and administrative expenses."

(Note 2) Contributions to the defined contribution plans were ¥6,224 million for the year ended March 31, 2014 and ¥6,833 million for the nine months ended December 31, 2014 and were not included in the table above.

(2) Other Employee Benefit Expenses

The employee benefit expenses other than post-employment benefits that are included in the consolidated statement of income for each fiscal year are as follows

	Millions of yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Nine months ended December 31, 2014)
Remuneration and salary	¥247,730	¥231,254
Bonus to employees	70,066	55,648
Legal welfare expenses	45,994	45,544
Welfare expenses	26,696	30,660
Termination benefits	(242)	61,621

23 Equity and Other Equity Items

(1) Share Capital and Capital Surplus

A Authorized Shares

The number of authorized shares as of March 31, 2014 and as of December 31, 2014 is 8,000,000 thousand ordinary shares

B Fully Paid Issued Shares

The schedule of the number of issued shares and share capital is as follows

	Thousands of shares Number of ordinary issued shares	Millions of yen	
		Share capital	Capital surplus
As of April 1, 2013	2,000,000	¥100,000	¥736,411
Increase (decrease)	—	—	(11)
As of March 31, 2014	2,000,000	100,000	736,400
Increase (decrease)	—	—	—
As of December 31, 2014	2,000,000	¥100,000	¥736,400

(Note) The shares issued by the Company are non par value ordinary shares that have no restriction on any content of rights

(2) Treasury Shares

The schedule of the number of treasury shares and its amount as of each fiscal year end is as follows

	Thousands of shares Number of shares	Millions of yen Amount
As of April 1, 2013	182,510	¥344,573
Increase (decrease) ^(Notes 2)	(58)	(110)
As of March 31, 2014	182,452	344,463
Increase (decrease) ^(Note 2)	(9)	(16)
As of December 31, 2014	182,443	¥344,447

(Note 1) The Company adopts share option plans and utilizes treasury shares for delivery of shares due to its exercise. Contract conditions and amount are described in "32 Share-based Payments."

(Note 2) The decrease of treasury shares is due to the exercise of share option.

(3) Other Components of Equity

A Subscription rights to shares

The Company adopts share option plans and issues subscription rights to shares based on the Companies Act. Contract conditions and amount are described in "32 Share-based Payments."

B Exchange differences on translation of foreign operations

Exchange differences on translation of foreign operations are composed of foreign currency translation difference that occurs when consolidating financial statements of foreign subsidiaries

prepared in foreign currencies and the effective portion of net gain (loss) on the hedging instruments designated as hedge of net investment

C Net gain (loss) on derivatives designated as cash flow hedges

The Company uses derivatives for hedging to avoid the risk of fluctuation in future cash flows. This is the effective portion of changes in the fair value of derivative transactions designated as cash flow hedges

D Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income

This is the valuation difference in the fair value of financial assets measured at fair value through other comprehensive income

E Remeasurements of defined benefit plans

Remeasurements of defined benefit plans comprise actuarial gains and losses, the return on plan assets excluding amounts included

in interest income, and any change in the effect of the asset ceiling excluding amounts included in interest income. In addition, actuarial gains and losses are the effects of differences between the actuarial assumptions at the beginning of the year and what has actually occurred, and the effects of changes in actuarial assumptions. Remeasurements are recognized as other comprehensive income when occurred and are transferred immediately from other components of equity to retained earnings.

24. Dividends

Dividends paid for each fiscal year are as follows

FY2013 Year ended March 31, 2014

					FY2013
	Class of shares	Millions of yen	Yen	Basis date	Effective date
		Total dividends	Dividends per share		
(Resolution)					
Annual Shareholders Meeting (June 21 2013)	Ordinary shares	¥69 065	¥38	March 31 2013	June 24, 2013
Board of Directors (October 31 2013)	Ordinary shares	83 605	46	September 30, 2013	November 29, 2013

FY2014 Nine months ended December 31, 2014

					FY2014
	Class of shares	Millions of yen	Yen	Basis date	Effective date
		Total dividends	Dividends per share		
(Resolution)					
Annual Shareholders Meeting (June 24, 2014)	Ordinary shares	¥90,877	¥50	March 31, 2014	June 25, 2014
Board of Directors (October 30, 2014)	Ordinary shares	90,878	50	September 30, 2014	December 1, 2014

Dividends for which the effective date falls in the following fiscal year are as follows

FY2013 Year ended March 31, 2014

					FY2013
	Class of shares	Millions of yen	Yen	Basis date	Effective date
		Total dividends	Dividends per share		
(Resolution)					
Annual Shareholders Meeting (June 24, 2014)	Ordinary shares	¥90,877	¥50	March 31, 2014	June 25, 2014

FY2014 Nine months ended December 31, 2014

					FY2014
Class of shares	Millions of yen	Yen	Basis date	Effective date	
	Total dividends	Dividends per share			
(Resolution)					
Annual Shareholders Meeting (March 20, 2015)	Ordinary shares	¥90,878	¥50	December 31, 2014	March 23, 2015

25 Revenue

The reconciliation from "Gross turnover" to "Revenue" for each fiscal year is as follows

	Millions of yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Nine months ended December 31, 2014)
Gross turnover	¥ 7,442,722	¥ 6,577,993
Tobacco excise taxes and agency transaction amount	(5,042,881)	(4,424,023)
Revenue	¥ 2,399,841	¥ 2,153,970

The tobacco excise taxes and other transactions in which the Group is involved as an agency are excluded from revenue. The inflow of economic benefits after deducting the tobacco excise taxes and other transactions is presented as "Revenue" in the consolidated statement of income.

Gross turnover is an item that the Group discloses voluntarily and is not "Revenue" as defined by IFRS.

26 Other Operating Income

The breakdown of "Other operating income" for each fiscal year is as follows

	Millions of yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Nine months ended December 31, 2014)
Gains on sale of property, plant and equipment, intangible assets and investment properties (Notes 1, 2)	¥44,954	¥40,917
Other (Note 2)	10,680	6,734
Total	¥55,634	¥47,651

(Note 1) Mainly from sales of old factory sites and rental properties

(Note 2) The amount of restructuring income included in each account for each fiscal year is as follows

	Millions of yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Nine months ended December 31, 2014)
Gains on sale of property, plant and equipment, intangible assets and investment properties	¥43,877	¥40,005
Other	138	669
Total	¥44,016	¥40,674

27. Selling, General and Administrative Expenses

The breakdown of 'Selling, general and administrative expenses' for each fiscal year is as follows

	Millions of yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Nine months ended December 31, 2014)
Advertising expenses	¥ 21,736	¥ 21,258
Promotion expenses	147,793	129,998
Shipping/warehousing expenses	27,089	21,092
Commission	49,294	46,136
Employee benefit expenses ^(Note 2)	275,831	321,410
Research and development expenses ^(Note 1)	57,103	43,998
Depreciation and amortization	68,767	63,092
Impairment losses on other than financial assets ^(Note 2)	2,446	21,877
Impairment losses of investments in associates	9,717	—
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property ^(Note 2)	9,467	14,077
Other ^(Note 2)	159,699	140,471
Total	¥828,942	¥823,410

(Note 1) All research and development expenses are included in "Selling, general and administrative expenses"

(Note 2) The amount of restructuring costs included in each account is as follows

	Millions of yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Nine months ended December 31, 2014)
Employee benefit expenses	¥ (205)	¥ 66,814
Impairment losses on other than financial assets	668	18,078
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property	1,650	5,111
Other	2,749	10,333
Total	¥4,862	¥100,335

28. Financial Income and Financial Costs

The breakdown of 'Financial income' and 'Financial costs' for each fiscal year is as follows

	Millions of yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Nine months ended December 31, 2014)
Financial Income		
Dividend income		
Financial assets measured at fair value through other comprehensive income	¥1,520	¥ 691
Interest income		
Financial assets measured at amortized cost		
Deposits and bonds	6,413	12,870
Other	418	287
Total	¥8,351	¥13,847

Financial Costs	Millions of yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Nine months ended December 31, 2014)
Interest expenses		
Financial liabilities measured at amortized cost		
Bonds and borrowings (Note 2)	¥ 8,144	¥ 4,293
Other	468	357
Foreign exchange losses (Note 1)	4,728	426
Employee benefit expenses (Note 3)	5,836	5,413
Other	1,233	815
Total	¥20,408	¥11,304

(Note 1) Valuation gain (loss) of currency derivatives is included in the foreign exchange losses

(Note 2) Valuation gain (loss) of interest rate derivatives is included in interest expenses

(Note 3) The employee benefit expenses are the net amount of interest cost and interest income related to employee benefits

29 Other Comprehensive Income

Amount arising during year, reclassification adjustments to profit or loss and tax effects for each component of Other comprehensive income for each fiscal year are as follows

FY2013 Year ended March 31, 2014

	Millions of yen				
	FY2013				
	Amount arising	Reclassification adjustments	Before tax effects	Tax effects	Net of tax effects
Items that will not be reclassified to profit or loss					
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	¥ 7,235	¥ —	¥ 7,235	¥(2,509)	¥ 4,725
Remeasurements of defined benefit plans	13,103	—	13,103	(4,279)	8,824
Total of items that will not be reclassified to profit or loss	¥ 20,337	¥ —	¥ 20,337	¥(6,788)	¥ 13,549
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	¥400,578	¥ (32)	¥400,546	¥ 395	¥400,941
Net gain (loss) on derivatives designated as cash flow hedges	4,444	(3,700)	744	(264)	481
Total of items that may be reclassified subsequently to profit or loss	¥405,022	¥(3,733)	¥401,290	¥ 131	¥401,421
Total	¥425,360	¥(3,733)	¥421,627	¥(6,657)	¥414,970

FY2014 Nine months ended December 31, 2014

	Millions of yen				
	FY2014				
	Amount arising	Reclassification adjustments	Before tax effects	Tax effects	Net of tax effects
Items that will not be reclassified to profit or loss					
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	¥ 5,895	¥ —	¥ 5,895	¥(2,171)	¥ 3,725
Remeasurements of defined benefit plans	(18,708)	—	(18,708)	4,544	(14,164)
Total of items that will not be reclassified to profit or loss	¥ (12,813)	¥ —	¥ (12,813)	¥ 2,374	¥ (10,439)
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	¥(117,734)	¥ (122)	¥(117,856)	¥ 3,614	¥(114,242)
Net gain (loss) on derivatives designated as cash flow hedges	10,998	(9,570)	1,428	(506)	922
Total of items that may be reclassified subsequently to profit or loss	¥(106,736)	¥(9,693)	¥(116,428)	¥ 3,109	¥(113,319)
Total	¥(119,548)	¥(9,693)	¥(129,241)	¥ 5,483	¥(123,759)

30. Earnings per Share

(1) Basis of Calculating Basic Earnings per Share

A Profit Attributable to Ordinary Shareholders of the Parent Company

	Millions of yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Nine months ended December 31, 2014)
Profit attributable to owners of the parent company	¥427,987	¥362,919
Profit not attributable to ordinary shareholders of the parent company	—	—
Profit used for calculation of basic earnings per share	¥427,987	¥362,919

B Weighted-average Number of Ordinary Shares Outstanding During the Period

	Thousands of shares	
	FY2013 (Year ended March 31, 2014)	FY2014 (Nine months ended December 31, 2014)
Weighted-average number of shares during the period	1,817,507	1,817,553

(2) Basis of Calculating Diluted Earnings per Share

A Profit Attributable to Diluted Ordinary Shareholders

	Millions of yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Nine months ended December 31, 2014)
Profit used for calculation of basic earnings per share	¥427,987	¥362,919
Adjustment	—	—
Profit used for calculation of diluted earnings per share	¥427,987	¥362,919

B Weighted-average Number of Diluted Ordinary Shares Outstanding During the Period

	Thousands of shares	
	FY2013 (Year ended March 31, 2014)	FY2014 (Nine months ended December 31, 2014)
Weighted-average number of ordinary shares during the period	1,817,507	1,817,553
Increased number of ordinary shares under subscription rights to shares	1,014	1,048
Weighted-average number of diluted ordinary shares during the period	1,818,521	1,818,601

(3) Adjusted Diluted Earnings per Share

	Millions of yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Nine months ended December 31, 2014)
Profit used for calculation of adjusted diluted earnings per share	¥427,987	¥362,919
Adjustment items (income)	(47,047)	(44,302)
Adjustment items (costs)	14,580	103,641
Adjustments on income taxes and non-controlling interests	11,856	(13,534)
Adjusted profit for the period	¥407,377	¥408,724
Adjusted diluted earnings per share (yen)	¥ 224.02	¥ 224.75

31. Non-cash Transactions

Significant Non-cash Transactions

The amount of assets acquired under finance leases was ¥5,835 million for the year ended March 31, 2014 and ¥9,199 million for the nine months ended December 31, 2014, respectively.

32 Share-based Payments

The Company adopts share option plans. Share options are granted by the resolution of the Board of Directors based on the approval at the Annual Shareholders Meeting.

The outline of the share option plan is as follows.

(1) Share Option Contract Conditions

Positions of persons granted	Directors and Executive Officers
Settlement	Issuance of share
Effective period of granted share option	30 years after the date of grant
Vesting conditions	None

Conditions related to the exercise of share options are as follows.

- (a) The subscription rights to shares become exercisable when a holder of a subscription right to shares no longer holds a position as a director, an audit & supervisory board member or an executive officer. In the subscription rights to shares allocation contract with holders of such rights, it is provided for that the rights become exercisable from the date following the date on which one year has elapsed after leaving their positions (however, the rights become exercisable even within one year after leaving their positions only in the case where the Board of Directors find it to be unavoidable).
- (b) In the case where any holders of subscription rights to shares waive such rights, they cannot exercise them.

(2) Changes in the Number of Share Options

	FY2013 (Year ended March 31, 2014)			FY2014 (Nine months ended December 31, 2014)		
	Directors	Executive Officers	Total	Directors	Executive Officers	Total
Balance at the beginning of the period	324,400	644,600	969,000	351,000	659,800	1,010,800
Granted	42,000	58,000	100,000	35,600	33,200	68,800
Exercised	—	(58,200)	(58,200)	—	(8,600)	(8,600)
Transfer	(15,400)	15,400	—	(110,800)	110,800	—
Balance at the end of the period	351,000	659,800	1,010,800	275,800	795,200	1,071,000
Exercisable balance at the end of the period	—	332,800	332,800	—	341,000	341,000

(Note 1) The number of share options is presented as the number of underlying shares.

(Note 2) All share options are granted with an exercise price of ¥1 per share.

(Note 3) Share options were granted to 7 directors and 19 executive officers for the year ended March 31, 2014, and 6 directors and 19 executive officers for the nine months ended December 31, 2014.

"Transfer" included in the "Changes in the Number of Share Options" represents the number of share options for persons granted whose management position changed during the period.

(Note 4) The weighted average fair values per share of share options granted during the period were ¥2,567 and ¥2,416 for the year ended March 31, 2014, and for the nine months ended December 31, 2014, respectively.

(Note 5) The weighted average share prices of share options at the time of exercise during the period were ¥3,445 and ¥3,600 for the year ended March 31, 2014, and for the nine months ended December 31, 2014, respectively.

(Note 6) The weighted average remaining contract year of unexercised share options at the end of each period was 26.7 years and 26.2 years for the year ended March 31, 2014, and for the nine months ended December 31, 2014, respectively.

(3) Method of Measuring Fair Value of Share Options Granted During the Period

A Valuation Model

Black-Scholes Model

B Main Assumptions and Estimation

	FY2013 (Year ended March 31, 2014)	FY2014 (Nine months ended December 31, 2014)
Share price	¥3,450	¥3,603
Volatility of share price (Note 1)	36.1%	34.6%
Estimated remaining period (Note 2)	15 years	15 years
Estimated dividends (Note 3)	¥68/share	¥96/share
Risk free interest rate (Note 4)	1.10%	0.93%

(Note 1) Calculated based on daily share prices quoted for the past 15 years.

(Note 2) With difficulty in reasonable estimation due to insufficient data, the remaining period is estimated based on the assumption that share option rights would be exercised at a midpoint of the exercise period.

(Note 3) Based on the latest dividends paid.

(Note 4) The yield on government bonds for a period of the expected remaining period.

(4) Share-based Payment Expenses

The costs for share options included in Selling general and administrative expenses in the consolidated statement of income were ¥251 million for the year ended March 31, 2014, and ¥202 million for the nine months ended December 31, 2014.

33. Financial Instruments

(1) Capital Management

The Group's management principle is pursuit of the 4S model balancing the interests of consumers, shareholders, employees and wider society, and fulfilling our responsibilities towards them, aiming to exceed their expectations.

The Group believes that sustainable profit growth in the mid- to long-term based on this principle will increase the Group's value in the mid- to long-term, and is consequently in the best interest of all stakeholders, including our shareholders.

The Group manages net interest-bearing debt, where cash and cash equivalents are deducted from interest-bearing debt, and capital (the part attributable to the owners of the parent company). The amounts as of each fiscal year end are as follows:

	Millions of yen	
	FY2013 (As of March 31, 2014)	FY2014 (As of December 31, 2014)
Interest-bearing debt	¥ 375,881	¥ 228,214
Cash and cash equivalents	(253,219)	(385,820)
Net interest-bearing debt ^(Note)	122,662	(157,605)
Capital (equity attributable to owners of the parent company)	2,505,610	2,536,838

(Note) The figure in parentheses () represents the net amount of cash and cash equivalents after deducting interest-bearing debt.

There are specific rules for shares of the Company under the Japan Tobacco Inc. Act as follows:

The Japanese government shall hold more than one-third of all of the shares issued by the Company (excluding the type of shares for which it is stipulated that voting rights may not be exercised on any matters that can be resolved by Annual Shareholders Meeting) (Article 2 (1)).

In cases where the Company intends to solicit persons to subscribe for shares to be issued or subscription rights to shares or where the Company intends to deliver shares (excluding treasury shares), subscription rights to shares (excluding subscription right to own shares) or bonds with subscription right to shares (excluding bonds with subscription rights to shares) when exchanging with shares, the Company shall obtain the approval of the Minister of Finance (Article 2 (2)).

Disposal of shares owned by the Japanese government shall be within the limits on the number of shares decided by the Diet in the relevant annual budget (Article 3).

The Group monitors financial indicators in order to maintain a well-balanced capital structure that ensures an appropriate return on equity and a sound and flexible financial condition for future investment. We monitor credit ratings for financial soundness and flexibility and ROE (return on equity) for profitability while focusing on changes in the domestic and overseas environment.

The Group understands that it is inevitable to maintain a sufficient financing capacity in order to make agile business investments which link to sustainable growth such as acquisitions of external resources. For that reason, the Group aims to maintain a well-balanced capital structure that ensures an appropriate return on equity and to maintain a sound and flexible financial condition for future business investments.

(2) Financial Risk Management

The Group is exposed to financial risks (credit risks, liquidity risks, foreign exchange risks, interest rate risks, and market price fluctuation risks) in the process of its management activities, and it manages risks based on a specific policy in order to avoid or reduce said risks. The results of risk management are regularly reported by the Treasury Division to the president and the Board of Directors of the Company.

The Group policy limits derivatives to transactions for the purpose of mitigating risks from transactions based on actual demand. Therefore, we do not transact derivatives for speculation purposes or trading purposes.

(3) Credit Risk

Receivables, such as note and account receivables, acquired from the operating activities of the Group are exposed to customer credit risk.

The Group holds mainly debt securities for surplus investment and equity securities of customers and suppliers to strengthen relationships with them; those securities are exposed to the issuer's credit risk. In addition, through derivative transactions that the Group conducts in order to hedge foreign exchange fluctuation risks and interest rate fluctuation risks, we are exposed to the credit risk of the financial institutions which are counterparties to these transactions.

In principle, the Group sets credit lines or transaction conditions with respect to trade receivables for counterparties based on the Credit Management Guidelines in order to control the credit risk relating to counterparties. In addition, the receivable balances of counterparties with high credit risk are monitored. The Treasury Division of the Company regularly monitors the status of the occurrence and collection of bad debts, and reports them to the president and the Board of Directors of the Company.

With regard to the investment of cash surpluses and derivatives, the Group invests in debt securities and other financial

instruments with a certain credit rating and transacts with financial institutions with a high credit rating in principle in order to prevent credit risks from occurring and based on the Group Financial Operation Basic Policy. In addition, the Treasury Division of the Company regularly monitors the performances of these transactions and reports the results to the president and the Board of Directors of the Company.

The maximum exposure pertaining to credit risks for financial assets is the carrying amount after considering impairment in the consolidated financial statements.

The analysis of the aging of financial assets that are past due but not impaired as of each fiscal year end date is as follows.

The financial assets include amounts considered recoverable by credit insurance and collateral.

FY2013 As of March 31, 2014

	Millions of yen				
	FY2013				
	Amount past due				
	Total	Within 30 days	Over 30 days within 60 days	Over 60 days within 90 days	Over 90 days
Trade and other receivables	¥6,271	¥5,353	¥612	¥140	¥165
Other financial assets	86	—	—	—	86

FY2014 As of December 31, 2014

	Millions of yen				
	FY2014				
	Amount past due				
	Total	Within 30 days	Over 30 days within 60 days	Over 60 days within 90 days	Over 90 days
Trade and other receivables	¥2,518	¥1,515	¥696	¥252	¥55
Other financial assets	86	—	—	—	86

The Group reviews collectability of trade receivables depending on the credit conditions of counterparties and recognizes allowance for doubtful accounts. The schedule of the allowance of doubtful accounts is as follows.

	Millions of yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Nine months ended December 31, 2014)
Balance at the beginning of the period	¥10,681	¥10,620
Addition	1,486	782
Decrease (intended use)	(1,609)	(616)
Decrease (reversal)	(480)	(378)
Other	541	187
Balance at the end of the period	¥10,620	¥10,595

(4) Liquidity Risk

The Group raises funds by borrowings, commercial paper and bonds; however, these liabilities are exposed to the liquidity risk that we would not be able to repay liabilities on the due date due to the deterioration of the financing environment.

In accordance with the Group Financial Operation Basic Policy, the Group establishes a finance plan based on the annual

business plan and the Treasury Division of the Company regularly monitors and collects information on the balance of liquidity-in-hand and interest-bearing debt and reports it to the president and the Board of Directors of the Company. In addition, the Group keeps necessary credit facilities to manage liquidity risk by having commitment lines with several financial institutions.

The financial liability balance (including derivative financial instruments) by maturity as of each fiscal year end is as follows

FY2013 As of March 31, 2014

Millions of yen								
FY2013								
	Carrying amount	Contractual cash flow	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Non-derivative financial liabilities								
Trade and other payables	¥360,025	¥360,025	¥360,025	¥ —	¥ —	¥ —	¥ —	¥ —
Short-term borrowings	21,936	21,936	21,936	—	—	—	—	—
Current portion of long-term borrowings	1,225	1,225	1,225	—	—	—	—	—
Long-term borrowings	35,034	35,034	—	34,096	131	133	135	539
Current portion of bonds	172,401	172,412	172,412	—	—	—	—	—
Bonds	131,131	131,460	—	40,000	—	20,000	51,460	20,000
Subtotal	721,752	722,092	555,599	74,096	131	20,133	51,595	20,539
Derivative financial liabilities								
Foreign exchange forward contract	4,681	4,681	4,681	—	—	—	—	—
Interest rate swap	175	166	103	62	—	—	—	—
Subtotal	4,856	4,846	4,784	62	—	—	—	—
Total	¥726,608	¥726,939	¥560,383	¥74,158	¥131	¥20,133	¥51,595	¥20,539

FY2014 As of December 31, 2014

Millions of yen								
FY2014								
	Carrying amount	Contractual cash flow	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Non-derivative financial liabilities								
Trade and other payables	¥419,764	¥419,764	¥419,764	¥ —	¥ —	¥ —	¥ —	¥ —
Short-term borrowings	27,632	27,632	27,632	—	—	—	—	—
Current portion of long-term borrowings	39,930	39,930	39,930	—	—	—	—	—
Long-term borrowings	1,046	1,046	—	146	149	151	97	503
Current portion of bonds	40,000	40,000	40,000	—	—	—	—	—
Bonds	99,954	100,275	—	—	20,000	60,275	—	20,000
Subtotal	628,326	628,647	527,325	146	20,149	60,426	97	20,503
Derivative financial liabilities								
Foreign exchange forward contract	9,901	9,901	9,901	—	—	—	—	—
Interest rate swap	109	97	95	1	—	—	—	—
Subtotal	10,010	9,998	9,997	1	—	—	—	—
Total	¥638,336	¥638,644	¥537,322	¥147	¥20,149	¥60,426	¥97	¥20,503

The total of commitment lines and withdrawal as of each fiscal year end are as follows

Millions of yen		
	FY2013 (As of March 31, 2014)	FY2014 (As of December 31, 2014)
Total committed line of credit	¥364,826	¥386,492
Withdrawing	—	—
Unused balance	¥364,826	¥386,492

(5) Foreign Exchange Risk

The Group operates businesses globally and, therefore, is exposed to the following risks due to foreign exchange fluctuation:

- (i) The risk where the profit or loss and cash flow in each functional currency of the Group is influenced by foreign exchange fluctuation as a result of external transactions and intergroup transactions, including the payment and receipt of dividends, in currencies that are different from each functional currency of the Group.
- (ii) The risk that the equity of the Group is influenced by foreign exchange fluctuation when equity denominated in each functional currency of the Group is translated into Japanese yen and consolidated.
- (iii) The risk that the profit or loss of the Group is influenced by foreign exchange fluctuation when profit or loss denominated in each functional currency of the Group is translated into Japanese yen and consolidated.

The breakdown of currency derivatives is as follows:

(i) Derivative transactions to which hedge accounting is not applied

	FY2013 (As of March 31, 2014)			FY2014 (As of December 31, 2014)		
	Contract amount	Over one year	Fair value	Contract amount	Over one year	Fair value
Foreign exchange forward contract						
Buying	¥269,718	¥ —	¥ 764	¥293,425	¥ —	¥15,797
Selling	307,880	—	(1,937)	285,503	—	(9,419)
Total	¥577,598	¥ —	¥(1,173)	¥578,928	¥ —	¥ 6,379

(ii) Derivative transactions to which hedge accounting is applied

	FY2013 (As of March 31, 2014)			FY2014 (As of December 31, 2014)		
	Contract amount	Over one year	Fair value (Note)	Contract amount	Over one year	Fair value (Note)
Foreign exchange forward contract						
Buying	¥14,122	¥ —	¥505	¥13,950	¥ —	¥1,899
Total	¥14,122	¥ —	¥505	¥13,950	¥ —	¥1,899

(Note) Cash flow hedge or fair value hedge is applied, and derivative transactions are recognized at fair value in the consolidated statement of financial position.

Foreign currency-denominated interest-bearing debts, for example, are designated as hedging instruments for the Group in order to reduce fluctuation risk of foreign currency translation differences that are incurred by translating net investment in foreign operations into the reporting currency.

Bonds designated as hedging instruments as of each fiscal year end are as follows:

	FY2013 (As of March 31, 2014)		FY2014 (As of December 31, 2014)	
	Carrying amount	Due	Carrying amount	Due
Bonds in EUR	¥64,448	2014	¥ —	—
Bonds in USD	33,120	2018	38,858	2018

Foreign Exchange Sensitivity Analysis

In cases where each currency other than the functional currency that denominates the financial instruments held by the Group as

The Group hedges against risk (i) using derivatives or foreign currency-denominated interest-bearing debts, for example, when future cash flow is projected or when receivables and payables are fixed.

The Group hedges against risk (ii) using foreign currency-denominated interest-bearing debts, for example, and part of these are designated as net investment hedges. The Group does not hedge against risk (iii) in principle.

In order to mitigate risks mentioned above resulting from the foreign exchange fluctuation, in accordance with the Group Financial Operation Basic Policy, the Group establishes a foreign currency hedge policy based on the current conditions and forecast of the foreign exchange market, implement the aforementioned hedges under the supervision of the Financial Risk Management Committee of the Company, and the Treasury Division of the Company regularly reports the performances to the president and the Board of Directors of the Company.

of each fiscal year end increases by 10% in value against the functional currency, the impact on profit before income taxes in the consolidated statement of income is as follows:

The impact from the translation of functional currency-denominated financial instruments, and assets, liabilities, income and expenses of foreign operations into Japanese yen is not included. Also, it is based on the assumption that currencies other than the currencies used for the calculation do not fluctuate.

	Millions of yen	
	FY2013 (As of March 31, 2014)	FY2014 (As of December 31, 2014)
Profit before income taxes	¥(4,262)	¥(3,255)

The descriptions of interest rate derivatives are as follows.

(i) Derivative transactions to which hedge accounting is not applied

	FY2013 (As of March 31, 2014)			FY2014 (As of December 31, 2014)		
	Contract amount	Over one year	Fair value	Contract amount	Over one year	Fair value
Interest rate swap						
Floating rate receipt and fixed rate payment	¥2,607	¥2,607	¥(175)	¥2,880	¥2,880	¥(109)
Total	¥2,607	¥2,607	¥(175)	¥2,880	¥2,880	¥(109)

(ii) Derivative transactions to which hedge accounting is applied

	FY2013 (As of March 31, 2014)			FY2014 (As of December 31, 2014)		
	Contract amount	Over one year	Fair value (Note)	Contract amount	Over one year	Fair value (Note)
Cross currency swap						
Floating rate receipt and fixed rate payment	¥30,000	¥30,000	¥3,866	¥30,000	¥ —	¥ 9,731
Fixed rate receipt and fixed rate payment	17,439	17,439	721	17,439	17,439	3,927
Total	¥47,439	¥47,439	¥4,587	¥47,439	¥17,439	¥13,658

(Note) Cash flow hedge is applied, and derivative transactions are recognized at fair value in the consolidated statement of financial position.

Interest Rate Sensitivity Analysis

In cases where the interest rate of financial instruments held by the Group as of each fiscal year end increases by 100bp, the impact on profit before income taxes in the consolidated statement of income is as follows.

(6) Interest Rate Risk

Interest rate risk within the Group arises from interest-bearing debts after deducting cash equivalents. Borrowings and bonds with floating rates are exposed to interest rate fluctuation risk.

In accordance with the Group Financial Operation Basic Policy, the Group establishes an interest rate hedging policy based on the current condition and the forecast of the interest rates to reduce the interest rate fluctuation risk related to borrowings and bonds. The hedges using derivatives under the supervision of the Financial Risk Management Committee of the Company and the Treasury Division of the Company reports the performances to the president and the Board of Directors of the Company.

The analysis is subject to financial instruments affected by interest rate fluctuation and based on the assumption that other factors, including the impacts of foreign exchange fluctuation, are constant.

	Millions of yen	
	FY2013 (As of March 31, 2014)	FY2014 (As of December 31, 2014)
Profit before income taxes	¥(634)	¥1,589

(7) Market Price Fluctuation Risk

With respect to securities, the Group regularly assesses the fair value and financial conditions of the issuers, and each relevant department reviews the portfolio held by taking into account the relationship with counterparty entities as necessary.

(8) Fair Value of Financial Instruments

The fair value hierarchy of financial instruments is categorized from Level 1 to Level 3 as follows

Level 1 Fair value measured at the quoted price in the active market

Level 2 Fair value that is calculated using the observable price other than categorized in Level 1 directly or indirectly

Level 3 Fair value that is calculated based on valuation techniques which include inputs that are not based on observable market data

(i) Financial instruments measured at amortized cost

The carrying amount and fair value hierarchy of financial instruments measured at amortized cost as of each fiscal year end are as follows

FY2013 As of March 31, 2014

	Millions of yen				
	FY2013				
	Fair value				
	Carrying amount	Level 1	Level 2	Level 3	Total
Long-term borrowings ^(Note)	¥ 36 259	¥ —	¥ —	¥36 259	¥ 36 259
Bonds ^(Note)	303 532	309,025	—	—	309,025

FY2014 As of December 31, 2014

	Millions of yen				
	FY2014				
	Fair value				
	Carrying amount	Level 1	Level 2	Level 3	Total
Long-term borrowings ^(Note)	¥ 40,976	¥ —	¥ —	¥40,976	¥ 40,976
Bonds ^(Note)	139,954	142,586	—	—	142,586

(Note) Current portion is included

With regard to short-term financial assets and short-term financial liabilities measured at amortized cost, their fair value approximates the carrying amount.

The fair value of long-term borrowings is calculated based on the present value which is obtained by discounting the total of the principal and interest by the interest rate assumed in a case where the same loan is newly made.

(ii) Financial instruments measured at fair value

The fair value hierarchy of financial instruments measured at fair value is as follows

FY2013 As of March 31, 2014

	Millions of yen			
	FY2013			
	Level 1	Level 2	Level 3 ^(Note)	Total
Derivative assets	¥ —	¥8,600	¥ —	¥ 8 600
Equity securities	49 809	—	3,896	53,705
Other	201	—	1,333	1 534
Total	¥50 011	¥8,600	¥5 229	¥63,840
Derivative liabilities	¥ —	¥4 856	¥ —	¥ 4,856
Total	¥ —	¥4 856	¥ —	¥ 4 856

FY2014 As of December 31, 2014

	Millions of yen			
	Level 1	Level 2	Level 3 (Note)	FY2014 Total
Derivative assets	¥ —	¥31,837	¥ —	¥31,837
Equity securities	55,499	—	3,856	59,355
Other	279	—	1,555	1,834
Total	¥55,778	¥31,837	¥5,411	¥93,025
Derivative liabilities	¥ —	¥10,010	¥ —	¥10,010
Total	¥ —	¥10,010	¥ —	¥10,010

(Note) The schedule of financial instruments that are classified in Level 3 is as follows

	Millions of yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Nine months ended December 31, 2014)
Balance at the beginning of the period	¥4,625	¥5,229
Total gain (loss)		
Profit or loss (Note 1)	289	294
Other comprehensive income (Note 2)	258	212
Purchases	89	—
Sales	(32)	(324)
Balance at the end of the period	¥5,229	¥5,411

(Note 1) Gains and losses included in profit or loss for the year ended March 31, 2014 and for the nine months ended December 31, 2014 are related to financial assets measured at fair value through profit or loss as of the fiscal year end date. These gains and losses are included in "Financial income" and "Financial costs."

(Note 2) Gains and losses included in other comprehensive income for the year ended March 31, 2014 and for the nine months ended December 31, 2014 are related to financial assets measured at fair value through other comprehensive income as of the fiscal year end date. These gains and losses are included in "Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income."

34. Related Parties

Based on the Japan Tobacco Inc. Act, the Japanese government shall hold more than one-third of all of the shares issued by the Company (excluding the type of shares for which it is stipulated that voting rights may not be exercised on any matters that can be resolved by Annual Shareholders Meeting). As of December 31, 2014, the Japanese government held 33.35% of all outstanding shares of the Company.

(1) Related-party Transactions

Related-party transactions are conducted under the same conditions as regular business transactions.

The Company's revenue from CJSC TK Megapolis, the local Russian distribution affiliate, for the nine months ended December 31, 2014 was ¥309,519 million. The Company held trade receivables of ¥47,393 million and ¥33,302 million from CJSC TK Megapolis as of March 31, 2014 and December 31, 2014, respectively.

(2) Remuneration for Directors and Audit & Supervisory Board Members

Remuneration for directors and audit & supervisory board members for each fiscal year is as follows.

	Millions of yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Nine months ended December 31, 2014)
Remuneration and bonuses	¥814	¥526
Share-based payments	107	84
Total	¥921	¥610

35 Subsidiaries, Associates and Others

(The composition of the Group)

The composition of the Group by reportable segment as of each fiscal year end is as follows

Reportable Segments	FY2013 (As of March 31, 2014)		FY2014 (As of December 31, 2014)	
	Number of subsidiaries	Number of entities accounted for using the equity method ^(Note)	Number of subsidiaries	Number of entities accounted for using the equity method ^(Note)
Domestic Tobacco	14	2	14	2
International Tobacco	148	7	145	6
Pharmaceuticals	3	—	3	—
Beverage	17	—	17	—
Processed Food	28	3	28	3
Other	8	1	8	1
Total	218	13	215	12

(Note) No associates or joint ventures are considered to be material to the Group

There is no significant change in the composition of the Group for the nine months ended December 31, 2014

Regarding the restrictions on its ability to use the assets of the Group, please refer to Note "7 Cash and Cash Equivalents"

36. Commitments

(1) Commitments for the Acquisition of Assets

Commitments for the acquisition of assets after each fiscal year end date are as follows

	Millions of yen	
	FY2013 (As of March 31, 2014)	FY2014 (As of December 31, 2014)
Acquisition of property, plant and equipment	¥62,670	¥64,832
Acquisition of intangible assets	934	2,612
Total	¥63,605	¥67,444

(2) Procurement of Domestic Leaf Tobacco

With regard to the procurement of domestic leaf tobacco by the Company based on the Tobacco Business Act, the Company enters into purchase contracts with domestic leaf tobacco growers every year, and the contracts determine the area under

cultivation by type of tobacco and the prices by type and quality of tobacco leaf. Under the contracts, the Company is obligated to purchase all domestic leaf tobacco produced pursuant to such contracts, except for any domestic leaf tobacco not suited for the manufacture of tobacco products.

37 Contingencies

Contingent Liabilities

The Company and some of its subsidiaries are defendants in lawsuits. Provisions are not accounted for in matters it is not practicable to reasonably estimate the final outcomes.

The Company and its subsidiaries, who are defendants in such lawsuits, believe that our defenses asserted in these lawsuits are based on substantial evidence and implements the system for the response to action with the assistance of external lawyers.

(1) Smoking and Health Related Litigation

The Company and some of its subsidiaries are defendants in lawsuits filed by plaintiffs seeking damages for harm allegedly caused by smoking, the marketing of tobacco products, or exposure to tobacco smoke. As of December 31, 2014, there were a

total of 19 smoking and health related cases pending in which one or more members of the Group were named as a defendant or for which the Company may have certain indemnity obligations pursuant to the agreement for the Company's acquisition of RJR Nabisco Inc.'s overseas (non-U.S.) tobacco operations.

The major ongoing smoking and health related cases are as follows:

a Individual Claim

There is one individual case brought against the Company's indemnitee in South Africa.

South Africa Individual Claim (Joselowitz)

The individual claim was brought against the Company's indemnitee in South Africa in October 2000. Plaintiff seeks compensatory and punitive damages, alleging that the Company's indemnitee

marketed products which it knew to be dangerous to health manipulated nicotine content to foster addiction, failed to comply with South African labeling requirements and participated in a clandestine worldwide operation to encourage children to smoke. This case has been dormant since February 2001.

In addition, there is one individual case (which is currently dormant) brought against the Company's subsidiary in Ireland.

b Class Actions

There are eight ongoing class actions in Canada against the Company's subsidiary and/or indemnitees.

Canada Quebec Class Action (Cecilia Letourneau)

This class action was brought in September 1998 against three Canadian tobacco manufacturers including JTI-Macdonald Corp (hereinafter referred to as 'JTI-Mac'), the Company's Canadian subsidiary. Plaintiffs are seeking a total of approximately ¥475.8 billion (approximately CAD 4.6 billion) in compensatory damages, an amount for which all the defendants would be jointly and severally liable. Plaintiffs are seeking an additional amount of approximately ¥475.8 billion (approximately CAD 4.6 billion) in punitive damages, to be divided among all the defendants based on their respective market shares. The class was certified by the court in February 2005. The trial commenced in March 2012. The defendants filed a third-party claim against the Government of Canada seeking contribution and indemnity on the grounds that the Canadian government was highly involved in the tobacco industry in respect of smoking and health related matters. The Court of First Instance denied the Government of Canada's motion to dismiss such third-party claim in February 2012. The Court of Appeal thereafter granted the Government of Canada's appeal of the decision of the Court of First Instance in November 2012. The defendants did not appeal that decision, which dismissed the Government of Canada as a defendant in the case. The Court of First Instance granted plaintiffs' motion to amend their claims in March 2014 and thereby the claim amount currently sought is as set out above.

Canada Quebec Class Action (Conseil Quebecois sur le tabac et la sante)

This class action was brought in November 1998 against three Canadian tobacco manufacturers including JTI-Mac. Plaintiffs are seeking a total of approximately ¥1,288.9 billion (approximately CAD 12.4 billion) in compensatory damages, an amount for which all the defendants would be jointly and severally liable. Plaintiffs are seeking an additional amount of approximately ¥84 billion (approximately CAD 0.8 billion) in punitive damages, to be divided among all the defendants based on their respective market shares. The class was certified by the court in February 2005. The trial commenced in March 2012. The defendants filed a third-party claim against the Government of Canada seeking contribution and indemnity on the grounds that the Canadian government was highly involved in the tobacco industry in respect of smoking and health related matters. The Court of First Instance denied the Government of Canada's motion to dismiss such third-party claim in February 2012. The Court of Appeal thereafter granted the Government of Canada's appeal of the decision of the Court of First Instance in November 2012. The defendants did not appeal

that decision, which dismissed the Government of Canada as a defendant in the case. The Court of First Instance granted plaintiffs' motion to amend their claims in March 2014, and thereby the claim amount currently sought is as set out above.

Canada Saskatchewan Class Action (Adams)

This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2009. Plaintiffs are seeking unspecified compensatory and punitive damages on behalf of class members who allege to be or have been addicted to the nicotine contained in cigarettes manufactured by the defendants. The preliminary motions are pending. The case is currently dormant.

Canada Manitoba Class Action (Kunta)

This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2009. Plaintiffs are seeking unspecified compensatory and punitive damages on behalf of class members who allege to be or have been addicted to the nicotine contained in cigarettes manufactured by the defendants. The statement of claim was served on the Company's indemnitees but not on JTI-Mac. The class action is currently dormant.

Canada Nova Scotia Class Action (Semple)

This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2009. Plaintiffs are seeking unspecified compensatory and punitive damages on behalf of class members who allege to be or have been addicted to the nicotine contained in cigarettes manufactured by the defendants. The statement of claim was served on the Company's indemnitees but not on JTI-Mac. The class action is currently dormant.

Canada British Columbia Class Action (Bourassa)

This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2010. Plaintiffs are seeking unspecified compensatory and punitive damages for class members. The preliminary motions are pending. The pre-trial process is ongoing. A trial date is not yet scheduled.

Canada British Columbia Class Action (McDermid)

This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2010. Plaintiffs are seeking unspecified compensatory and punitive damages for class members. The preliminary motions are pending. The case is currently dormant.

Canada Ontario Class Action (Jacklin)

This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2012. Plaintiffs are seeking unspecified compensatory and punitive damages for class members. The class action has been dormant since the date it was served on defendants.

c Health-Care Cost Recovery Litigation

There are nine ongoing health-care cost recovery cases in Canada pending against the Company's subsidiary and indemnitees brought by the Provinces of British Columbia, New Brunswick, Ontario, Newfoundland and Labrador, Manitoba, Quebec, Alberta, Saskatchewan and Prince Edward Island. These provinces filed

lawsuits under their own provincial legislation which was enacted exclusively for the purpose of authorizing the provincial government to file a direct action against tobacco manufacturers to recoup the health-care costs the government has incurred and will incur, resulting from tobacco related wrongs.

Canada British Columbia Health-Care Cost Recovery Litigation

This health-care cost recovery litigation was filed by the Province of British Columbia in January 2001 against tobacco industry members including JTI-Mac and the Company's indemnitees based on its provincial legislation, the Tobacco Damages and Health-Care Costs Recovery Act. The claim amount is unspecified. In 2001, several defendants challenged the legislation's constitutionality, which was ultimately rejected by the Supreme Court of Canada in September 2005. The action remains pending in the first instance. The defendants further filed a third-party claim against the Government of Canada seeking contribution and indemnity on the grounds that the Canadian government was highly involved in the tobacco industry in respect of smoking and health related matters. In July 2011, the Supreme Court of Canada ultimately dismissed the defendants' third-party claim against the Government of Canada. The pre-trial process is ongoing. A trial date is not yet scheduled.

Canada New Brunswick Health-Care Cost Recovery Litigation

This health-care cost recovery litigation was filed by the Province of New Brunswick in March 2008 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The pre-trial process is ongoing. A trial date is not yet scheduled.

Canada Ontario Health-Care Cost Recovery Litigation

This health-care cost recovery litigation was filed by the Province of Ontario in September 2009 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The statement of claim contains allegations of joint and several liabilities among all the defendants but does not specify any individual amount or percentages within the total claimed amount of ¥5,181.5 billion (CAD 50.0 billion). The pre-trial process is ongoing. A trial date is not yet scheduled.

Canada Newfoundland and Labrador Health Care Cost Recovery Litigation

This health-care cost recovery litigation was filed by the Province of Newfoundland and Labrador in February 2011 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The pre-trial process is ongoing. A trial date is not yet scheduled.

Canada Manitoba Health-Care Cost Recovery Litigation

This health-care cost recovery litigation was filed by the Province of Manitoba in May 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The pre-trial process is ongoing. A trial date is not yet scheduled.

Canada Quebec Health Care Cost Recovery Litigation

This health-care cost recovery litigation was filed by the Province of Quebec in June 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The statement of claim in this case contains allegations of joint and several liabilities among all the defendants but does not specify any individual amount or percentages within the total amount of the claim approximately ¥6,285.9 billion (approximately CAD 60.7 billion). The pre-trial process is ongoing. A trial date is not yet scheduled.

Canada Alberta Health-Care Cost Recovery Litigation

This health-care cost recovery litigation was filed by the Province of Alberta in June 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on the legislation similar to that introduced in the Province of British Columbia. The statement of claim in this case contains allegations of joint and several liabilities among all the defendants but does not specify any individual amount or percentages within the total claimed amount of at least ¥1,036.3 billion (CAD 10.0 billion). The pre-trial process is ongoing. A trial date is not yet scheduled.

Canada Saskatchewan Health Care Cost Recovery Litigation

This health-care cost recovery litigation was filed by the Province of Saskatchewan in June 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The pre-trial process is ongoing. A trial date is not yet scheduled.

Canada Prince Edward Island Health-Care Cost Recovery Litigation

This health-care cost recovery litigation was filed by the Province of Prince Edward Island in September 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The pre-trial process is ongoing. A trial date is not yet scheduled.

(2) Other Litigation

The Company and some of its subsidiaries are also named as defendants in other litigation such as commercial and tax disputes. One major case is pending.

Commercial Litigation

Japan Compensatory Damages Claim

In February 2010, a former President & CEO of Katokichi Co., Ltd. filed a claim against TableMark Holdings Co., Ltd. (renamed after acquisition of Katokichi Co., Ltd. by the Company) and its subsidiary seeking damages allegedly incurred by the plaintiff from an asset purchase agreement between the plaintiff and Katokichi Co., Ltd. and a joint and several guarantee provided by the plaintiff. The plaintiff argues the invalidity of the asset purchase agreement.

(Note) The amount of damages sought denominated in foreign currencies is translated into Japanese yen at the rates of 31 December 2014.

38. Subsequent Events

(1) Legal Matter

Subsequent to December 31, 2014, the following health-care cost recovery litigation was filed:

Canada Nova Scotia Health Care Cost Recovery Litigation

This health-care cost recovery litigation was filed by the Province of Nova Scotia on January 2, 2015, against tobacco industry members including JTI-Mac and the Company's indemnitees based on its provincial legislation, the "Tobacco Damages and Health-Care Costs Recovery Act." The Province of Nova Scotia is seeking to recoup the health-care costs the province has incurred and will incur resulting from tobacco-related wrongs. The claim amount is unspecified. The pre-trial process is ongoing. A trial date is not yet scheduled.

(2) Withdrawal from the Manufacture and Sale of JT Beverage Products

The Company decided by resolution at a meeting of the Board of Directors held on February 4, 2015, to withdraw from manufacture and sale of JT beverage products in the beverage business. The manufacture and sale of JT beverage products conducted by JT's beverage business division and JT Beverage Inc. is expected to be discontinued by the end of September 2015. The impact of the decision on the consolidated financial statements for fiscal year ending December 31, 2015, has not been confirmed at present.

(3) Acquisition of Own Shares

As a supplemental measure for the adjusted EPS growth at constant FX in the mid- to long-term in the framework of shareholder return, the Company's Board of Directors made a resolution on February 5, 2015, for the Company to acquire its own shares according to the particulars stated below pursuant to the provision of Article 156 of the Companies Act, as applied by replacing the relevant terms pursuant to the Act's provision of Article 165, paragraph 3.

a. Class of shares to be acquired	Common stock
b. Number of shares to be acquired	Up to 36,000,000 shares
c. Total payment amount to acquire shares	Up to ¥100,000 million
d. Period of share acquisition	From February 9, 2015 to June 9, 2015
e. Method of acquisition	Purchase on the stock exchange via a trust bank

Based on this resolution, the Company acquired 26,896,200 shares of its common stock for a total acquisition price of ¥100,000 million during the period between February 9, 2015, and March 18, 2015 (contract basis), and has completed the acquisition of its common stock as resolved by the Board of Directors.

39. Consolidated Statement of Income (2014 January–December)

Consolidated statement of income assuming that the fiscal year of the Group had been the twelve-month period from January 1, 2014, to December 31, 2014, is as follows:

	Millions of yen 2014 (January–December)
Revenue	¥2,433,463
Cost of sales	(987,231)
Gross profit	1,446,232
Other operating income	50,477
Share of profit in investments accounted for using the equity method	7,812
Selling, general and administrative expenses	(932,754)
Operating profit	571,767
Financial income	14,773
Financial costs	(12,976)
Profit before income taxes	573,565
Income taxes	(177,857)
Profit for the year	¥ 395,708
Attributable to	
Owners of the parent company	¥ 389,065
Non-controlling interests	6,643
Profit for the year	¥ 395,708
Earnings per share	
Basic (Yen)	¥ 214.06
Diluted (Yen)	213.94

Reconciliation from "Operating profit" to "Adjusted operating profit"

	Millions of yen
	2014 (January–December)
Operating profit	¥571,767
Amortization cost of acquired intangibles	29,465
Adjustment items (income)	(46,113)
Adjustment items (costs)	104,980
Adjusted operating profit	¥660,099

Consolidated Supplementary Information

A Quarterly Information for the Nine Months ended December 31, 2014

	Q1 From April 1, 2014 to June 30, 2014	Q2 From April 1, 2014 to September 30, 2014	FY2014 From April 1, 2014 to December 31, 2014
Revenue	¥556,448	¥1,174,450	¥2,153,970
Profit before income taxes for the period (year)	147,516	302,952	502,299
Profit for the period (year)	107,796	223,149	368,626
Basic earnings per share for the period (year) (yen)	58.42	120.68	199.67

	Q1 From April 1, 2014 to June 30, 2014	Q2 From July 1, 2014 to September 30, 2014	Q3 ^(Note) From October 1, 2014 to December 31, 2014
Basic earnings per share for the quarter (yen)	¥58.42	¥62.26	¥79.00

(Note) The period from October 1, 2014 to December 31, 2014 consists of financial results of the Company and its subsidiaries whose fiscal year end was March 31 for the three month period from October 1, 2014 to December 31, and financial results of the JTIH Group for the six month period from July 1, 2014 to December 31, 2014.

B Significant Lawsuits

The significant lawsuits of the Group are as stated in '37 Contingencies' and '38 Subsequent Events' in the notes to consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Japan Tobacco Inc

We have audited the accompanying consolidated statement of financial position of Japan Tobacco Inc (the "Company") and its consolidated subsidiaries as of December 31, 2014, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the fiscal year from April 1, 2014 to December 31, 2014, and notes to consolidated financial statements

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Japan Tobacco Inc and its consolidated subsidiaries as of December 31, 2014, and the consolidated results of their operations and their cash flows for the fiscal year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

As discussed in "2. Basis of Preparation—(5) Change of fiscal year end," the Company has changed its fiscal year end from March 31 to December 31. Our opinion is not qualified in respect of this matter.

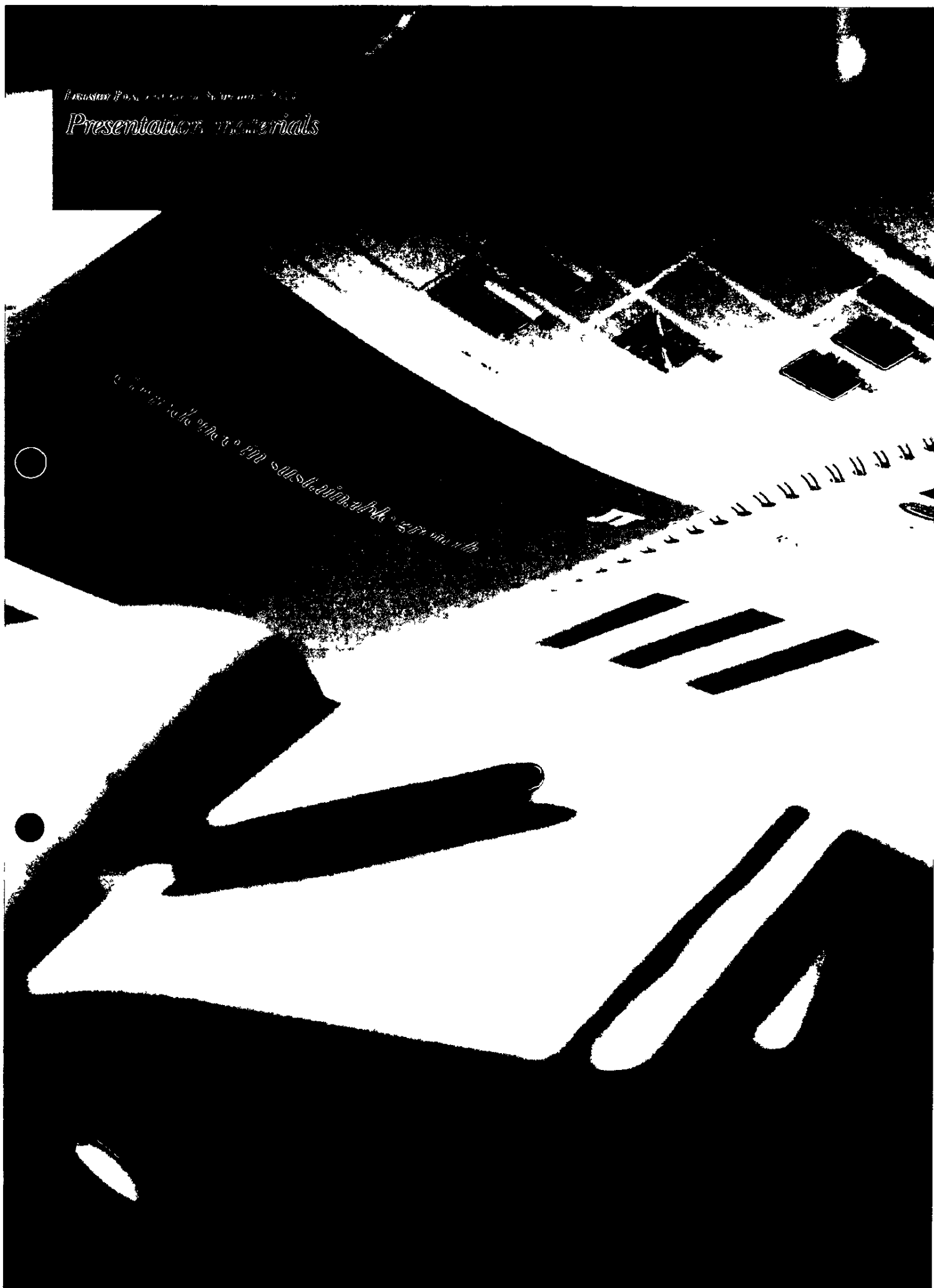
Deloitte Touche Tohmatsu LLC

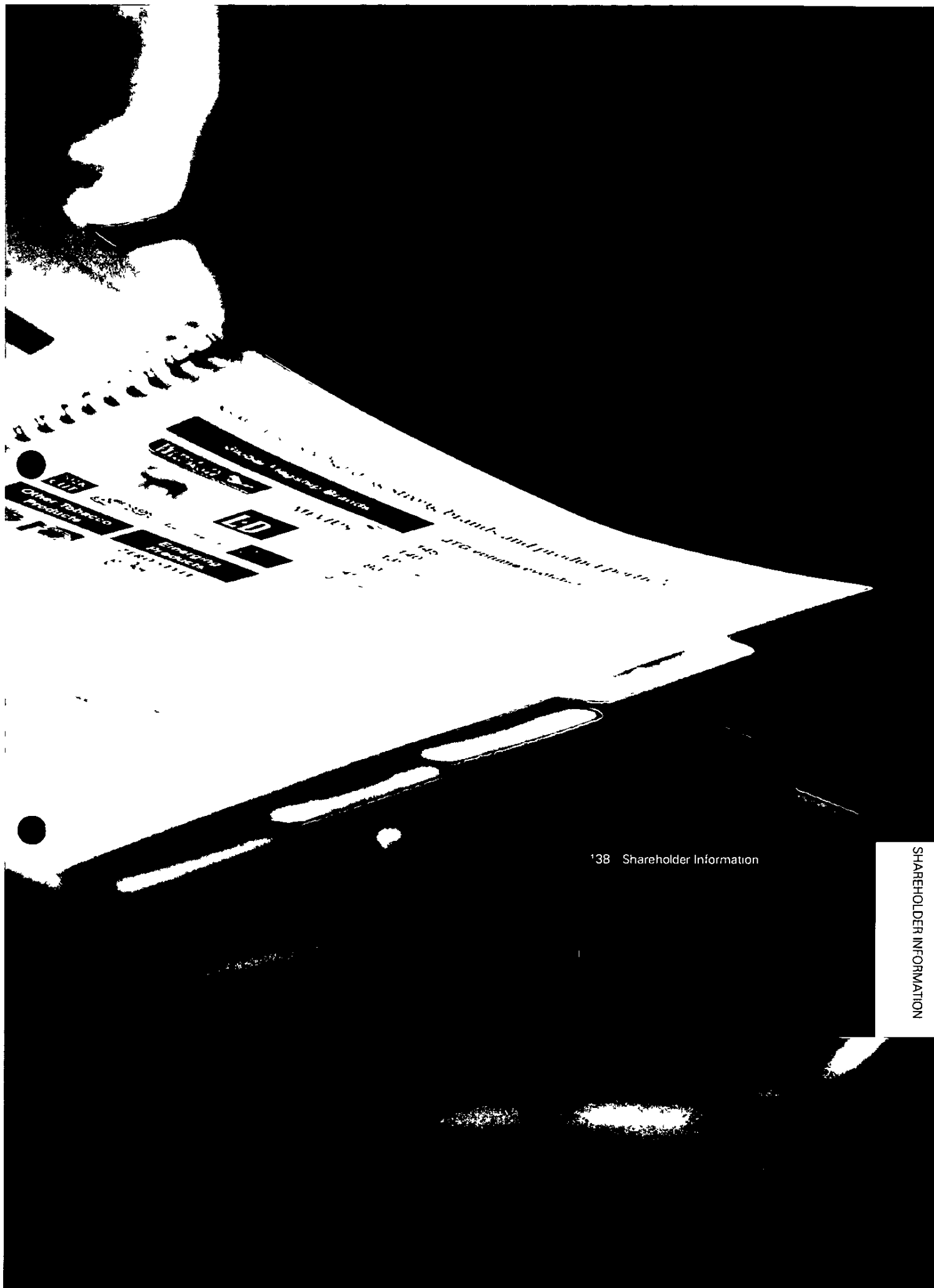
March 20, 2015

Presenting your business sustainably

Presentation materials

Presenting your business sustainably





Shareholder Information

(As of December 31, 2014)

Common Stock

Note: A 200 for 1 stock split was completed on July 1, 2012

Authorized	8,000,000,000
Issued	2,000,000,000
Number of shareholders	147,546

Administration of the Registry of Shareholders

The Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo

Stock Exchange Listings

First Sections of Tokyo Stock Exchange

Principal Shareholders

Name	Shares held
The Minister of Finance	666,930,000
The Master Trust Bank of Japan, Ltd. (Trust Account)	48,016,600
Japan Trustee Services Bank, Ltd. (Trust Account)	44,042,200
JPMorgan Chase Bank 380055 (Standing proxy: Mizuho Bank, Ltd. Settlement Sales Department)	40,614,441
State Street Bank and Trust Company (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	37,725,319
State Street Bank and Trust Company 505223 (Standing proxy: Mizuho Bank, Ltd., Settlement Sales Department)	37,079,564
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	33,800,000
State Street Bank and Trust Company (Standing proxy: Mizuho Bank, Ltd. Settlement Sales Department)	33,575,126
HSBC Bank plc A/C The Children's Investment Master Fund (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	28,362,300
JPMorgan Chase Bank 385632 (Standing proxy: Mizuho Bank, Ltd. Settlement Sales Department)	16,560,688

Composition of Shareholders

(%)

0.7 0.6	0.7 0.6	0.5 1.1	1.1 1.2	0.9 1.4	1.3 2.3
7.2	7.8	7.5	15.9	13.4	13.7
26.5	26.6	27.4	33.5	35.1	33.6
15.0	14.4	13.5	15.0	15.9	15.9
50.0	50.0	50.0	33.3	33.3	33.3
2010 Mar 31	2011 Mar 31	2012 Mar 31	2013 Mar 31	2014 Mar 31	2014 Dec 31

- Individuals and others
- Foreign institutions and others
- Other institutions
- Securities companies
- Financial institutions
- Government of Japan

Offering JT Shares by Government

1st Offering

Method	Offering by Bids	Offering by non-Bids
Offer Price (Pricing Date)	Bid Price From ¥1 362,000 to ¥2 110 000 Weighted Average Price ¥1,438,000 (August 29 1994)	¥1 438,000 (August 31 1994)
Number of Offering shares	229,920 shares	164 356 shares
Offering Term	From August 15 to 18 1994	From September 2 to 8 1994

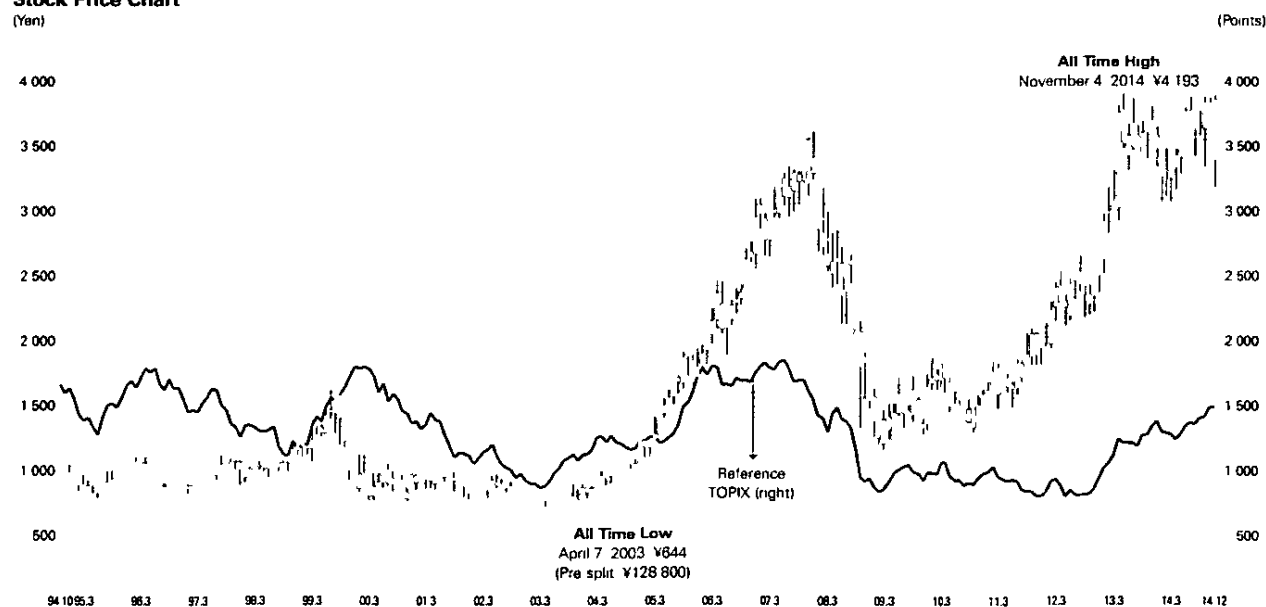
Note

The Listing date
October 27 1994 First Sections of Tokyo Stock Exchange

2nd and 3rd, 4th Offering

	2nd Offering	3rd Offering	4th Offering
Method	Offering by Book-Building formula	Offering by Book-Building formula	Offering by Book-Building formula
Offer Price (Pricing Date)	Bid Price ¥815 000 (June 17 1996)	¥843,000 (June 7, 2004)	¥2,949 (March 11 2013)
Number of Offering shares	Japan 237 390 shares International 35,000 shares (Total 272,390 shares)	Japan 198,334 shares International 91,000 shares (Total 289 334 shares)	Japan 145,625 500 shares International 107 636,300 shares (Total 253 261,800 shares)
Offering Term	From June 18 to 19 1996	From June 8 to 10 2004	From March 12 to 13 2013

Stock Price Chart



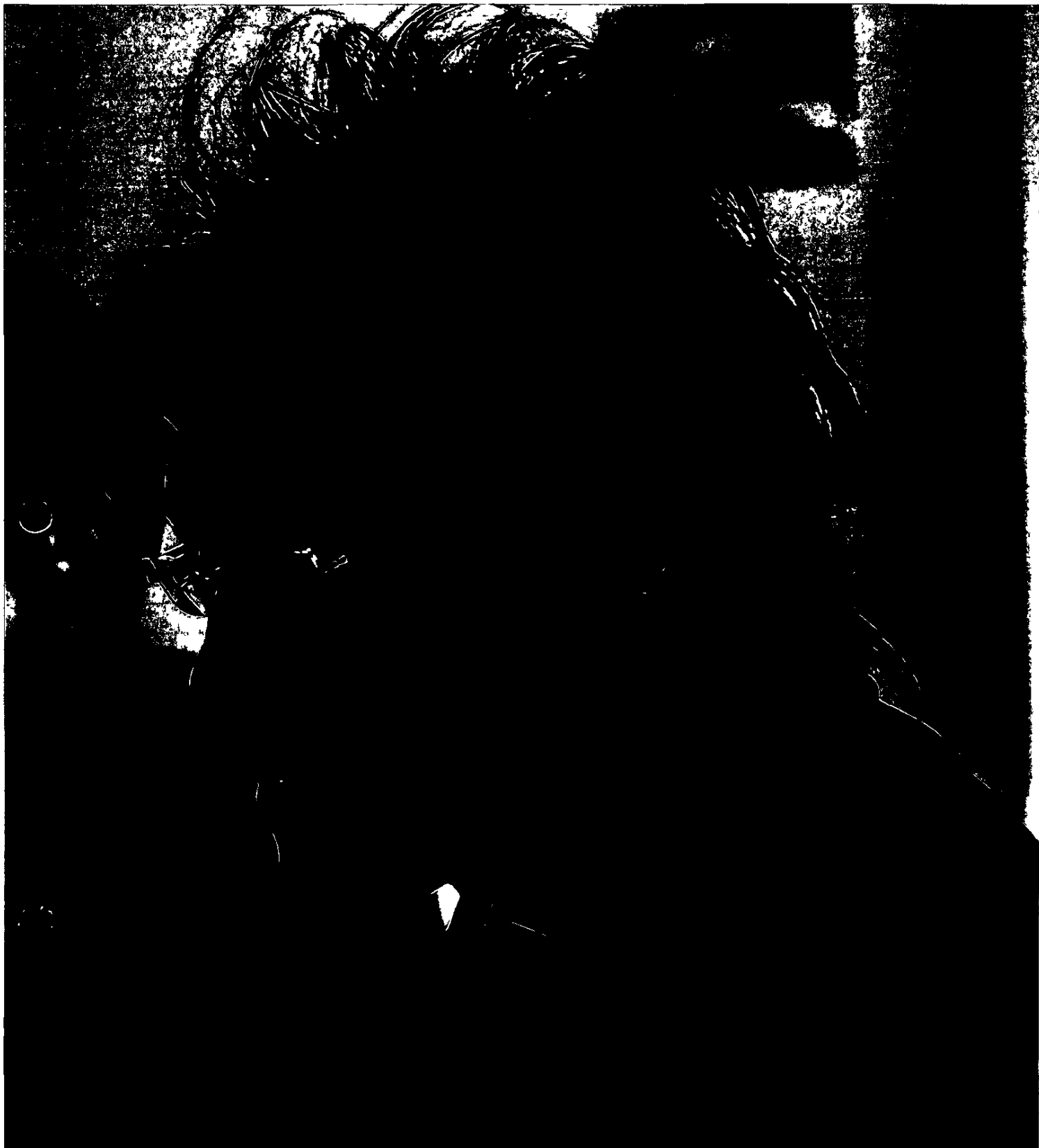
Note

Due to a 5 for-1 stock split on April 1 2006 and a 200 for 1 stock split on July 1 2012 stock prices reflect post split levels

Meeting at JTI Tokyo headquarters

Always striving for the best results





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History of the JT Group

Before 1985

JT's history in Japan dates back to 1898, when the Government formed a monopoly bureau to operate the exclusive sale of domestic tobacco leaf

The JT Group's overseas history began with the founding of Austria Tabak in 1784. Roughly 70 years later, Tom Gallaher started out in business in Northern Ireland, laying the foundations for the Gallaher Group. Meanwhile, R J Reynolds Tobacco Co (RJR), which would subsequently create the Camel and Winston brands, was established in 1874 in the U.S. In this manner, the current JT Group can trace its origins to many different countries and regions such as Austria, Northern Ireland, the U.S. and Japan. The JT Group has a long history and extensive experience in the tobacco business.

History in Japan from the early 20th century to 1984, when the Japan Tobacco Inc. Act was enacted

Our history in Japan dates back to 1898, when the Government formed a monopoly bureau to undertake the exclusive sale of domestic leaf tobacco. In the early 1900s, the Japanese government extended this monopoly to all tobacco products in Japan and to the domestic salt business. On June 1, 1949, the bureau was established and duly named the Japan Tobacco and Salt Public Corporation, or JTS. This corporation helped to ensure the stable supply of tobacco and secure fiscal revenues for the Government.

The growth in demand for cigarettes in Japan began to slow in the mid-1970s as a result of demographic trends and growing concern about health risks associated with smoking. This trend continued, such that growth in industry sales essentially stopped. In addition to the structural change, the domestic tobacco market opened up substantially to foreign suppliers, triggering competition between domestic and foreign tobacco products in Japan.

Foreign countries stepped up pressure on Japan to take further measures to open the market that were difficult to implement within the framework of the monopoly tobacco sales system. Amid such pressure as well as moves toward the reform of Government-run public corporations, a Government panel was established in March 1981 to conduct research into the public corporation system. In its third report (July 30, 1982), the panel proposed drastic reform of the monopoly and public corporation systems. In response to this proposal, the Government conducted a comprehensive review of these systems and drafted bills to

- Abolish the tobacco monopoly law to liberalize tobacco imports and establish a tobacco business law to make necessary adjustments related to the tobacco business
- Abolish the JTS law, reorganize JTS as a joint stock corporation so as to enable it to pursue rational corporate management as much as possible and establish the Japan Tobacco Inc. Act, which provides for a necessary minimum level of regulation in light of the corporation's need to compete with foreign tobacco companies on an equal footing in the domestic market following the liberalization of tobacco imports

These bills were enacted on August 3, 1984 in the 101st session of the Diet and promulgated on August 10 of the same year. In April 1985, JT was founded as an entity that took over the whole of the business operations and assets of JTS.

JT is a joint stock corporation that was incorporated in April 1985 under the Commercial Code of Japan, pursuant to the Japan Tobacco Inc. Act, or the JT Act

1784

Austria Tabak is founded by Emperor Joseph II

1857

Tom Gallaher sets up his business in Londonderry Northern Ireland

1874

RJR is founded by Richard Joshua Reynolds in Winston North Carolina

1879

Sobranie is registered in London to become one of the oldest cigarette brands in the world

1891

The Moscow-based Ducat factory is founded

1898

The Japanese Monopoly Bureau is established for the sale of domestic leaf tobacco

1913

Camel is launched

1931

Cellophane is introduced by RJR in order to preserve the freshness of tobacco

1949

The Monopoly Bureau becomes the Japan Tobacco and Salt Public Corporation

1954

Winston is launched

1955

Benson & Hedges is acquired by Gallaher

1956

Salem is launched

1957

HOPE (10) is launched as Japan's first domestically produced filter cigarettes

1964

Silk Cut is launched

1968

Gallaher is acquired by the American Tobacco Company

1969

Seven Stars is launched featuring Japan's first domestically produced charcoal filter

1977

Mild Seven is launched (Japan)

1981

Mild Seven is launched internationally

1984

Japan Tobacco Inc. Act is enacted

History of the JT Group *continued*

In and after 1985

1985

April

Japan Tobacco Inc. is established (Japanese tobacco market opened to Foreign tobacco manufacturers)

The Business Development Division is established to promote new businesses

The Business Development Division is later reorganized into operational divisions engaged in the food and pharmaceutical businesses, finishing in July 1990

1987

April

Import tariffs on imported cigarettes are abolished

1988

October

JT communication name is introduced

1992

Acquisition of Manchester Tobacco Company Ltd
Acquisition of AS-Petro (Russia)

1993

September

The Central Pharmaceutical Research Institute is established to enhance in-house research capabilities

1994

October

Government releases first tranche of outstanding JT shares for initial public offering (394 276 shares offered at ¥1 438 000 apiece)

JT stock is listed on the first sections of stock exchanges in Tokyo, Osaka and Nagoya

November

JT stock is listed on the stock exchanges in Kyoto, Hiroshima, Fukuoka, Niigata and Sapporo

Acquisition of Yeleys (Russia)

1995

May

Head office is moved back to Minato-ku from Shinagawa-ku following completion of new head office building

Peter I is launched (Russia)

1996

June

Government releases second tranche of outstanding JT shares (272 390 shares offered at ¥815 000 apiece)

Acquisition of Tanzanian tobacco production facility

1997

April

JT ends its salt monopoly business in line with abolition of the salt monopoly system

The Tobacco Mutual Aid Pension scheme is integrated into the Employees Pension scheme

American Brands spins off Gallaher which becomes Gallaher Group Plc and is listed on the London and New York stock exchanges

1998

April

JT signs an agreement with Unimat Corporation (currently, Japan Beverage Holdings Inc.) on a tie up regarding beverage business. JT later acquires a majority stake in Unimat

December

JT acquires a majority stake in Torii Pharmaceutical Co. Ltd. through a tender offer

1999

May

JT acquires the non-U.S. tobacco business of RJR Nabisco Inc.

July

JT acquires the food business of Asahi Kasei Corporation including Asahi Foods and seven other subsidiaries

October

Under a business tie-up between JT and Torii Pharmaceutical Co. Ltd. the two companies' R&D operations related to medical pharmaceuticals are concentrated at JT while their promotion operations are combined at Torii Pharmaceutical

LD launched (Russia)

2000

Acquisition of Liggett-Ducat (Russia)

2001

Acquisition of Austria Tabak

2003

October

JT repurchases 45 800 of its own shares to increase its management options

2004

June

Government releases third tranche of outstanding JT shares (289 334 shares offered at ¥843 000 apiece) reducing its stake in JT to the minimum level allowed under law

November-March 2005

JT repurchases 38 184 of its own shares to increase its management options

2005

April

JT terminates a licensing contract under which it had exclusive rights to produce and sell Marlboro brand products in Japan and use the Marlboro trademark in the country

June

Acquisition of CRES Neva Ltd (Russia). Glamour is launched (Russia, Ukraine, Kazakhstan)

2006

April

JT implements a five-for-one stock split in order to expand the investor base, effective April 1, 2006

May

Acquisition of AD Duvanska Industrija Senta in Serbia

2007

April

JT acquires all outstanding shares of Gallaher Group Plc

2008

January

JT acquires a majority stake in Katokichi Co. Ltd. through a tender offer

April

JT acquires a majority stake in Fuji Foods Corporation

July

JT concentrates its processed food operations including frozen food and seasonings operations at the Katokichi Group

2009

May

JTI celebrates its 10th anniversary

June

JTI Leaf Services (U.S.) LLC is established

October

Acquisition of leaf suppliers Kannenberg & Cia. Ltda (Brazil) and Kannenberg, Barker, Hail & Cotton Tabacos Ltda (Brazil)

November

Acquisition of leaf suppliers Trnabac Leaf Limited (UK)

2010

January

Katokichi Co. Ltd is renamed TableMark Co. Ltd

May

Smokeless tobacco product Zerostyle Mint is launched

2011

March

JT repurchases 58,630 of its own shares as part of its shareholder return measures

November

Acquisition of Haggag Cigarette & Tobacco Factory Ltd (North Sudan) and Haggag Cigarette & Tobacco Factory Ltd (South Sudan)

2012

July

For the purpose of enlarging Company's investor base, a 200 for 1 stock-split is conducted. At the same time, JT adopts the share unit system, setting a share trading unit at 100 shares

August

Acquisition of Gryson NV, a Belgium Fine Cut maker

2013

February

The name change of Mild Seven to MEVIUS in Japan

Government releases

fourth tranche of outstanding JT shares (333,333,200 shares offered)

On February 27, JT repurchases 86,805,500 shares through ToSTNet-3, including 80,071,400 shares from the Government

Excluding the share repurchased by JT, 253,261,800 shares are offered by the Government in March

March

Acquisition of Al Nakhla Tobacco Company S.A.E. and Al Nakhla Tobacco Company - Free Zone S.A.E., a leading Egyptian water-pipe company

May

Launch of a novel anti-HIV drug "Stribild Combination Tablets" in Japan containing our original compound (elvitegravir)

December

JT acquires a minority interest in Megapolis, the leading Russian distribution company

2014

April

TableMark establishes a holding company

October

Launch of Cedatoren, sublingual drop Japanese Cedar Pollen, a sublingual Immunotherapy Drug for Japanese Cedar Pollinosis

November

Acquisition of e-cigarettes company Zandera Ltd (UK)

The corporate history of JT is summarized in the table to the left. For the international tobacco business, the history before JT's acquisitions of RJR Nabisco's non-US tobacco operations and Gallaher is included.

The operating environment for JT changed drastically in just two years after the foundation of the Company, with the yen's strong appreciation following the Plaza Accord in 1985, a tobacco tax hike in 1986 and the abolition of tariffs on imported cigarettes in 1987. Amid the yen's upsurge, a price increase for JT products due to the tobacco tax hike, coupled with price cuts for imported cigarettes attributable to the tariff abolition, eliminated the price advantage of JT products over imported products, which had stood at around ¥60 to ¥80 when JT was founded in 1985. As a result, competition between JT and foreign tobacco makers intensified in the Japanese market, leading to a decline in JT's market share from 97.6% in fiscal 1985 to 90.2% in fiscal 1987.

To cope with the rapid deterioration of the operating environment, JT implemented rationalization measures to enhance its cost-competitiveness and pursued diversification while taking measures to strengthen its marketing capability. In the 1990s, JT's competition with foreign rivals in the Japanese market intensified further. Furthermore, overall cigarette demand in Japan peaked in the latter half of the 1990s due to a contraction of the adult population and growing concerns with health problems associated with smoking. Amid the increasingly difficult operating environment for the Japanese domestic tobacco business, JT took additional rationalization steps, pursued consolidation of operations in its areas of business diversification and expanded the international tobacco business, thereby strengthening its business foundation.

JT significantly strengthened the international tobacco business by acquiring RJR Nabisco's non-US tobacco operations in 1999 and Gallaher in 2007. With its international sales volume exceeding its domestic sales volume, the JT Group continues to grow as a global tobacco company. The international tobacco business is the engine of the JT Group's profit growth through its comprehensive brand portfolio which includes Winston, Camel, Mild Seven – MEVIUS and LD as well as Benson & Hedges, Silk Cut, Sobranie and Glamour.

* Topics of RJR Nabisco's non-US operations before participating in the JT Group
** Topics of Gallaher before participating in the JT Group

Regulation and Other Relevant Laws

Tobacco business

Regulation in the international markets

In international markets where JT Group's tobacco products are sold, World Health Organization (WHO) adopted the Framework Convention on Tobacco Control ("FCTC") at its 56th World Health Assembly held in May 2003. It came into force in February 2005 (Government of Japan accepted it in June 2004). Since then, there has been a rising trend in regulations regarding sales promotions, packages and outer wrappers, marketing of tobacco products and smoking.

The purpose of the FCTC is to continuously and substantively control the proliferation of smoking. Its provisions include, among others, price and tax measures to reduce tobacco demand, non-price measures to reduce the demand for tobacco (such as protection from exposure to tobacco smoke, regulation of contents and emissions of tobacco products, regulation of disclosure of tobacco products, regulations on packaging and labeling of tobacco products, regulations on tobacco advertising, promotion and sponsorship, among others), and measures relating to the reduction of the supply of tobacco (such as prevention of illicit trade, prohibition of sale of tobacco products to minors, among others). In addition, descriptive expressions such as "mild" and "light" are stipulated by some provisions as numerous steps are being taken. Moreover, in November 2012, the protocol to eliminate illicit trade in tobacco products was adopted at the fifth session of the Conference of the Parties. As general obligation, signatories to the protocol are to formulate, adopt, periodically update and review strategies, plans and programs for tobacco regulation. However, the content, scope and method of specific controls undertaken in these nations are ultimately legislated by each respective nation.

Regulation by country or region

In May 2014, the 'EU Tobacco Product Directive (EU TPD)', revised from the earlier Directive promulgated in July 2001, entered into force. This revised Directive includes, among others, strengthening of packaging and labeling regulations, restrictions on the use of additives including menthol for cigarettes and fine cut, and regulations related to electronic cigarettes. All EU member states are required to establish their domestic laws, regulations and ordinances to conform the revised directive. This revised Directive will be implemented

(except some measures such as prohibiting menthol products) by May 2017, through legislation of each EU member state by May 2016.

One of the most notable regulations adopted recently is the plain packaging legislation in Australia. In Australia, individual packages of tobacco products must be of a prescribed color, and product names must be displayed on the packages in a prescribed location, font size, color and style. In addition, visual warning labels must take up 75% of the front side and 90% of the back side of packages. The legislation was passed in 2011 and came into effect in December 2012. The plain packaging legislation in Ireland was also enacted in March 2015. A number of other countries are considering the implementation of similar measures.

In the UK, one of our key markets, the plain packaging regulation was enacted in March 2015. In addition, laws including "Restrictions on the in-store display of tobacco products" and "Ban on sale of tobacco products through vending machines" are already enforced in the UK.

In Russia, another of our key markets, legislation was passed in February 2013, which includes protection from exposure to tobacco smoke and other matters related to tobacco consumption. The legislation came into effect, starting from June 2013 and is being implemented in steps through up to 2017. It contains a number of provisions including display ban, restrictions on sales of tobacco products in certain retail stores, ban on advertising, sponsorship and promotions, introduction of minimal pricing and ban on smoking in public places.

Although it is impossible to predict the content of future laws, regulations and industry guidelines relating to sales activities, marketing and smoking, the JT Group expects regulations like the above and new regulations (including those of local governments) to diffuse across Japan and other countries where the group sells its products.

Regulation in Japan

The Tobacco Business Act, related acts and statutes and voluntary standards set forth the regulations for the sale and promotion activities of tobacco products in Japan that include the indication of warning labels on tobacco product advertisements and packages that urge caution over the relationship between the consumption of tobacco products and health

In November 2003, the Ordinance for Enforcement of the Tobacco Business Act was revised including the wording of the cautions over the relationship between the consumption of tobacco products and health indicated on tobacco product packages and, starting July 2005, all tobacco products sold in Japan have been in conformity to the revised regulations. In addition, the Japanese Minister of Finance has indicated a "Guideline for Advertising of Tobacco Products" based on the Tobacco Business Act which, in March 2004, was revised with tougher language. The Tobacco Institute of Japan has established voluntary standards regarding the advertising and sales promotion activities for tobacco products. All member companies, including JT, comply with these standards. Recently in Japan from the perspective of passive smoking prevention, cases where smoking in public areas including restaurants and office buildings has been restricted by laws and regulations and the like are on the rise. Moreover, from the perspective of labor protection, a number of initiatives are being implemented and promoted by the government and governing bodies, while revision of the law is also being considered. We expect this trend to continue in the future.

Tobacco Business Act

Importers and wholesalers of tobacco products must register with the Minister of Finance and, retailers of tobacco products must obtain the license of the Minister of Finance. The retailers of tobacco products are required to sell the tobacco products manufactured by JT and imported tobacco products at the fixed retail price which is approved by the Minister of Finance. The Minister of Finance must approve the filed retail sales prices unless otherwise considered unfairly prejudicial to consumers. The Tobacco Business Act requires JT to annually enter into purchase contracts with tobacco growers regarding the aggregate cultivation area for specific varieties of leaf tobacco and the prices for leaf tobacco by variety and grade. JT must purchase all leaf tobacco produced pursuant to such contracts, except for any not suited for the manufacture of tobacco products. When JT decides the aggregate cultivation

area and the prices of leaf tobacco for its contracts with tobacco growers, it is required to respect the opinion of the Leaf Tobacco Deliberative Council (hatabako shingikai), which consists of members appointed by JT with the approval of the Minister of Finance from among the representatives of domestic leaf tobacco growers and academic appointees. Much like many other agricultural products in Japan, production costs for domestically-grown leaf tobacco is higher than those of foreign-grown leaf tobacco to the extent that the purchasing price for the former (before re-drying) is approximately three times that of the latter (after re-drying).

In November 2003, the Ordinance for Enforcement of the Tobacco Business Act was revised and the wording of warnings concerning tobacco consumption and health indicated on the tobacco product package was changed. In addition, the Ordinance stipulated that when wording like "mild" and "light" is used on the package, they must be accompanied by a warning that clarifies that such words do not mean that the risk to their health is lower than other tobacco products so as to prevent consumers from misunderstanding the relationship between the consumption of tobacco products and health. JT has been adhering to this rule since July 1, 2005.

Self-regulation on marketing

Prevention of youth smoking

Youth smoking prevention is an issue which must be addressed by society as a whole. The JT Group has a voluntary code, 'Global Tobacco Products Marketing Standard', to govern its business and marketing activities in support of youth smoking prevention. We are working with government and other relevant organizations to take steps towards preventing youth smoking in the countries in which we operate. For further details, please refer to the following website pages.

Initiatives taken in Japan

<http://www.jti.co.jp/corporate/enterprise/tobacco/responsibilities/activity/index.html>

Initiatives taken in the international markets

<http://www.jti.com/how-we-do-business/product-regulation/youth-smoking-prevention/>

Regulation and Other Relevant Laws *continued*

Global Tobacco Products Marketing Standards

The JT Group complies with all the national regulation and has implemented a 'Global Tobacco Products Marketing Standard', a self-regulatory code, which governs the marketing of its tobacco products in every country. The key provisions include 'Strict minimum guidelines applicable to advertise tobacco products', and 'Indication of health warnings in ads and other media', 'Restrictions on sponsorships', among others.

Please refer to the following link for more information regarding the Global Tobacco Product Marketing Standards of JTI

<http://www.jti.com/how-we-do-business/product-regulation/jti-global-marketing-standard/>

Pharmaceutical Business

The pharmaceutical industry operates in a highly regulated environment. In many countries, R&D, manufacturing and sales activities are strictly regulated. Moreover, in recent years, the approval process for new drugs has been tightening due to the increased requirements to promote public health and safety. Today, compared to the past, pharmaceutical companies are required to spend more time to examine pharmaceutical safety issues and conduct a greater number of clinical trials on subjects to collect more data on the efficacy of new pharmaceuticals. Consequently, clinical trials are growing in scale, cost and time.

In Japan, the marketing of pharmaceutical products is subject to the supervision of the Ministry of Health, Labor and Welfare, or MHLW, primarily under the Act on Securing Quality, Efficacy and Safety of Pharmaceuticals, Medical Devices, Regenerative and Cellular Therapy Products, Gene Therapy Products, and Cosmetics, while part of its supervisory authority is undertaken by the relevant prefectural governor. Under the act, in order to conduct the marketing business of pharmaceuticals, a person is required to obtain from the relevant prefectural governor a renewable, generally five-year marketing business license. In addition, under the act, in order to market pharmaceuticals, it is necessary to obtain marketing approval from the MHLW for each kind of product.

The national health insurance system covers virtually the entire Japanese population. To sell a pharmaceutical product in Japan, a marketing business license holder of pharmaceutical products must first have a new pharmaceutical product listed on the National Health Insurance Pharmaceutical Price List for coverage under the national health insurance system. Generally, prices on the price list are subject to revision once every two years as part of the government's policy to control health-care spending.

Processed Food Business

As a producer and seller of food products, the JT Group's processed food business is subject to regulations mainly under the Food Safety Basic Act, the Food Sanitation Act and the JAS Act.

The Food Safety Basic Act requires food-related companies to take necessary measures to ensure food safety in each process of the supply chain, as well as to make efforts to provide accurate information about foods and food-related goods in an appropriate manner. The Food Sanitation Act concentrates on prevention of sanitary problems arising from consumption of foods and beverages. This Act requires food companies to take necessary measures under their own responsibility to ensure the safety of foods, additives, appliances and packages. The measures discussed in the Act include the acquisition of knowledge and skills, assurance of the safety of raw materials and voluntary inspection. The JAS Act sets the quality labeling standards which define the labeling requirements to indicate quality-related items such as materials and the origin. Manufacturers and others must comply with the standards in preparing their product labels.

The JT Group is striving to establish a high level of food safety control from the above-mentioned four perspectives – "food safety", "food defense", "food quality" and "food communication" – in addition to complying with these laws and regulations and ensuring thorough awareness about them.

Litigation

JT and some of its subsidiaries are defendants in lawsuits filed by plaintiffs seeking damages for harm allegedly caused by smoking, the marketing of tobacco products, or exposure to tobacco smoke. As of the fiscal year-end date, there were a total of 19 smoking and health-related cases pending in which one or more members of the JT Group were named as defendant or for which JT may have certain indemnity obligations pursuant to the agreement for JT's acquisition of RJR Nabisco Inc.'s overseas (non-U.S.) tobacco operations. We believe it is possible that other similar smoking and health-related lawsuits may be filed in the future.

In addition, JT and some of its subsidiaries are also defendants in lawsuits other than the smoking and health-related cases. Please refer to "Note 37" to the consolidated financial statements (Contingencies -Contingent Liabilities) for major lawsuits to which JT and some of its subsidiaries are named as defendants. Similar lawsuits involving us may be filed and contested in courts in the future.

To date, we have never lost a case or paid any settlement award in connection with smoking and health-related litigation. However, we are unable to predict the outcome of currently pending or future lawsuits. If a court ruling is unfavorable for us, in such cases whether lawsuits are smoking and health related or not, our financial results, production, sales and imports/exports of tobacco products may be adversely affected.

In recent decades, numerous, large-scale, smoking and health-related cases have been brought against tobacco product manufacturers in the United States of America, and some of the cases resulted in verdicts with massive damage awards.

As of the fiscal year-end date, there are nine ongoing health-care cost recovery cases in Canada pending against JTI-Macdonald Corp. and JT's indemnitees (RJR Nabisco Inc.'s affiliate), brought by Canadian provinces. In addition, there are eight pending class actions in Canada, in which plaintiffs are seeking damages for harm allegedly caused by smoking of cigarettes. Damages claimed in some of these cases reach sums in the multi-billion dollar range. We will continue to take all appropriate actions to defend such claims vigorously, and believe there are a number of valid defenses.

In recent decades, numerous, large-scale, smoking and health-related cases have been brought against tobacco product manufacturers in the United States of America, and some of the cases resulted in verdicts with massive damage awards. JT and its subsidiaries are not defendants in any of these lawsuits, nor are they subject to any indemnity claims. The tobacco business which JT acquired from RJR Nabisco Inc. did not include brands in the United States of America, and even now, our historic and current tobacco business scale in the United States of America remains very small. Accordingly, we consider its exposure to smoking and health-related litigation in the United States of America to be low, and we thus believe that situations under the litigation in the United States of America will not materially affect our businesses in the near future.

As a tobacco product manufacturer, we continue to monitor closely the developments and trends of litigation involving tobacco companies in the United States of America, Canada, and elsewhere, with particular interest and attention.

Members of the Board, Audit & Supervisory Board Members, and Executive Officers

(As of March 20, 2015)

Members of the Board

Chairman of the Board

Yasutake Tango

Representative Directors

Mitsuomi Koizumi

Yasushi Shingai

Nonaki Okubo

Akira Saeki

Members of the Board

Hideki Miyazaki

Motoyuki Oka

Main Kohda*

* Outside Directors under the Companies Act of Japan

Audit & Supervisory Board Members

Futoshi Nakamura

Tomotaka Kojima

Yoshinori Imai*

Hiroshi Ohbayashi*

* Outside Audit & Supervisory Board Members under the Companies Act of Japan

Executive Officers

President

Mitsuomi Koizumi

Chief Executive Officer

Executive Deputy Presidents

Yasushi Shingai

Compliance, Strategy HR General Administration, Legal and Operation Review & Business Assurance

Nonaki Okubo

Pharmaceutical, Beverage, and Processed Food Business

Akira Saeki

President, Tobacco Business

Hideki Miyazaki

CSR Finance and Communications

Senior Executive Vice Presidents

Kenji Iijima

Chief Marketing & Sales Officer Tobacco Business

Ryoji Chijiwa

Compliance and Chief General Affairs Officer

Mutsuo Iwai

Chief Strategy Officer

Executive Vice President

Kazuhito Yamashita

Head of China Division, Tobacco Business

Senior Vice Presidents

Junichi Fukuchi

Chief Corporate Scientific & Regulatory Affairs Officer, Tobacco Business

Yasuyuki Yoneda

Chief R&D Officer Tobacco Business

Masahiko Sato

Head of Manufacturing General Division Tobacco Business

Kiyohide Hirowatan

Head of Tobacco Business Planning Division, Tobacco Business

Yasushi Hasegawa

Head of Domestic Leaf Tobacco General Division, Tobacco Business

Muneaki Fujimoto

President Pharmaceutical Business

Shigenori Ohkawa

Head of Central Pharmaceutical Research Institute Pharmaceutical Business

Goichi Matsuda

Head of Beverage Business

Ryoko Nagata

CSR

Takahiko Tsutsui

Business Development and Corporate Strategy

Chito Sasaki

Chief Human Resources Officer

Naohiro Minami

Chief Financial Officer

Yuki Maeda

Chief Communications Officer

Haruhiko Yamada

Chief Legal Officer

Members of JTI Executive Committee

(As of April 1 2015)

Thomas A. McCoy

President and Chief Executive Officer

Masamichi Terabatake

Deputy CEO Executive Vice President
Emerging Products & Corporate Strategy

Eddy Pirard

Executive Vice President Business
Development Corporate Affairs and
Corporate Communications

Jorge da Motta

Regional President Central Europe

Bruno Duguay

Senior Vice President Compliance and
Corporate Social Responsibility

Stefan Fitz

Regional President Asia Pacific

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Senior Vice President Finance, Information
Technology and Chief Financial Officer

Paul Neumann

Senior Vice President Global Leaf

Howard Parks

Senior Vice President
Marketing & Sales

Fadoul Pekhazis

Regional President Middle East, Near East,
Africa Turkey and World Wide Duty Free

Michel Poirier

Regional President Americas

Jorg Schapper

Senior Vice President Human Resources

Bill Schulz

Senior Vice President Global Supply Chain

Takehisa Shibayama

Senior Vice President Research &
Development

Kevin Tomlinson

Regional President CIS+

Vassilis Vovos

Regional President Western Europe

Wade Wright

Senior Vice President Legal &
Regulatory Affairs

Glossary of Terms

Unless otherwise stated, terms and numbers reported in this glossary are in accordance with IFRS

Adjusted Operating Profit Operating profit + Amortization cost of acquired intangibles + Adjusted items (income and costs)*

* Adjusted items (income and costs) = impairment losses on goodwill ± restructuring income and costs ± others

Adjusted EPS (Profit or loss attributable to owners of the parent company ± adjustment items (income and costs)* ± tax and minority interests adjustments) / (weighted-average common shares + increased number of ordinary shares under subscription rights to shares)

* Adjustment items (income and costs) = impairment losses on goodwill ± restructuring income and costs ± others

Adjusted Profit Profit for the year (profit attributable to owners of the parent company) ± adjustment items (income and costs)* ± (tax and minority interests adjustments)

* Adjustment items (income and costs) = impairment losses on goodwill ± restructuring income and costs ± others

BnU: Billion Units

CAGR. Compound annual growth rate

Contraband Genuine products smuggled from abroad. Genuine products diverted from the legitimate supply chain and sold in a country different from the intended market of retail sale and without domestic duty paid in that country

Constant Exchange Rates Constant exchange rates measures are computed by restating current year results at the previous year's foreign currency exchange rate. Results at constant rates of exchange should be considered in addition to, not as a substitute for, results reported in accordance with IFRS

Core revenue (International Tobacco Business): Includes revenues from waterpipe tobacco and emerging products, but excludes revenues from distribution, contract manufacturing and other peripheral businesses

Core Revenue (Japanese Domestic Tobacco Business) Excludes revenue from the distribution business of imported tobacco

Counterfeit Fake products appearing to be a genuine brand. Products protected by intellectual property rights which are manufactured without authorization from the rights' owners and with the intent to copy the genuine brand to deceive the consumer, also sold without duties being paid

FCF (Free Cash Flow): Cash flow from operating activities + Cash flow from investing activities excluding the following items

- Cash flows from interest and dividends received and its tax effect / interest paid and its tax effect in operating activities
- Cash flows from purchase of short-term investment securities, proceeds from sale and redemption of short-term investment securities, purchase of investment securities, proceeds from sale of investment securities, payments into time deposits, proceeds from withdrawal of time deposits and others in investing activities (those from purchase/sale of securities held for business operation are not included here)

GFB Global Flagship Brands (Winston, Camel, MEVIUS, LD, Benson & Hedges, Glamour, Silk Cut and Sobranie)

FY2014: Results for the fiscal year ended December 31, 2014

In FY2014, the Company and its subsidiaries with fiscal year ends other than December 31 have changed their fiscal year ends to December 31

The fiscal year end for international business continues to be December 31 as before, hence the Group consolidates financial results of international business for the twelve-month period from January 1, 2014 to December 31, 2014 into the Group's consolidated financial results for the nine months ended December 31, 2014 (Reported basis)

For the purpose of fair comparison of business performance, we are providing figures for the twelve-month period from January 1, 2014 to December 31, 2014 (Like-for-Like basis) with regard to all business segments

Results for Nine months ended December 31, 2014 (Reported basis)

For domestic businesses consolidated nine-month results from April 1 to December 31, 2014

For international business consolidated twelve-month results from January 1 to December 31, 2014

Results for Jan-Dec 2014 (Like-for-Like basis):

For the purpose of fair comparison of business performance, we also provide figures with regard to all business segments for January – December 2014, in comparison to results for the twelve-month period for January – December 2013

- Revenue, operating profit, adjusted operating profit and profit attributable to owners of the parent company for January – December, 2014 would be disclosed in the Financial Statements and Notes, which would be audited
- For the purpose of fair comparison and reference, the same accounting methods were applied to both financial results of January – December 2013 and 2014. Financial results of January – December, 2013 would not be audited

Results for the year ended December 2015.

With regard to the forecast for FY2015, the figures are presented on a January to December basis

	Jan Mar	Apr Jun	Jul Sep	Oct Dec	Jan Mar	Apr Jun	Jul Sep	Oct Dec
Domestic								
International								
	FY2013				FY2014			

	Jan Mar	Apr Jun	Jul Sep	Oct Dec	Jan Mar	Apr Jun	Jul Sep	Oct Dec
Domestic								
International								
	2013 Jan – Dec				2014 Jan – Dec			

	Jan Mar	Apr Jun	Jul Sep	Oct Dec	Jan Mar	Apr Jun	Jul Sep	Oct Dec
Domestic								
International								
	FY2014				FY2015			

Illicit whtes Legitimately manufactured brands intentionally sold on the illicit market. Brands manufactured legitimately in one country but smuggled into another country to provide consumers with cheap brands, also without duties being paid

IFRS: International Financial Reporting Standards

JPY BN: Billion Japanese Yen

Restated: See 'Constant Exchange Rates'

Revenue Excluding tobacco excise taxes and revenue from agent transactions

Profit: Profit attributable to owners of the Parent

TableMark References to "TableMark" are to TableMark Holdings Co., Ltd., TableMark Co., Ltd.

Total Shipment Volume (International Tobacco Business) Includes fine cut, cigars, pipe tobacco and snus but excludes contract manufactured products, waterpipe tobacco and emerging products

Total Sales Volume (Japanese Domestic Tobacco Business) Excludes sales volume of domestic duty free and the China business

US\$ MM. Million US Dollars

Corporate Data

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This annual report is printed using
ink that contains less than 1% Volatile
Organic Compounds (VOCs)

Printed in Japan