Contents

Management
001  Financial Highlights
004  At a Glance
006  Consolidated Five-year Financial Summary
008  Message from the Chairman and CEO
010  CEO Business Review
012  Management Principle, Strategic Framework and Resource Allocation
014  Business Plan 2015
015  Role and Priority of Each Business
016  Performance Measures

Operations & Analysis
022  Industry Overview
024  Tobacco Business
025  Pharmaceutical Business
026  Review of Operations
028  International Tobacco Business
034  Japanese Domestic Tobacco Business
038  Pharmaceutical Business
042  Processed Food Business
044  Beverage Business
045  JT Group and Sustainability
046  Risk Factors
050  Corporate Governance

Financial Review
066  Financial Review

Financial Statements
078  Financial Statements and Notes
084  Notes to the accounts
135  Independent Auditor’s report

Shareholder Information
138  Shareholder Information

Other Information
142  History of the JT Group
146  Regulation and Other Relevant Laws
149  Litigation
150  Members of the Board, Audit & Supervisory Board Members, and Executive Officers
151  Members of JT Executive Committee
152  Glossary of Terms
154  Corporate Data

Fact Sheets
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 JT 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 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

**Adj. Operating Profit (JPY BN)**

<table>
<thead>
<tr>
<th>Jan</th>
<th>Mar</th>
<th>Apr</th>
<th>Jun</th>
<th>Jul</th>
<th>Sep</th>
<th>Oct</th>
<th>Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>2014</td>
<td>2013</td>
<td>2014</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Dividend Payout Ratio (%):**

- **Reported basis** (Nine months ended December 31, 2014)
  - Adjusted Operating Profit (JPY BN): **588.6**
  - Dividend Payout Ratio (%): **50.1**

**Adjusted EPS (JPY):**

<table>
<thead>
<tr>
<th>Jan</th>
<th>Mar</th>
<th>Apr</th>
<th>Jun</th>
<th>Jul</th>
<th>Sep</th>
<th>Oct</th>
<th>Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>2014</td>
<td>2013</td>
<td>2014</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### FY2015 Forecasts

**2015 forecasts (comparison with Jan-Dec 2014)**

<table>
<thead>
<tr>
<th>Jan</th>
<th>Mar</th>
<th>Apr</th>
<th>Jul</th>
<th>Sep</th>
<th>Oct</th>
<th>Jan</th>
<th>Mar</th>
<th>Apr</th>
<th>Jul</th>
<th>Oct</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>2014</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

Financial Statements and Notes
Investor Presentation in September 2014:
Conference room ready to greet the investors
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.
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

Global brand ranking
(excluding China National Tobacco Corp)

Source: Euromonitor, JTI Estimate.
Note: The brand rankings of Winston and Camel include sales by Reynolds American Inc.
Revenue breakdown by business segment

- Beverage: 7.4%
- Pharmaceutical: 2.7%
- Japanese domestic tobacco: 28.2%
- Processed food: 6.6%
- International tobacco: 54.6%
- Others: 0.5%

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 profit.

Composition of JT SOM as of 2014

- MEVIUS: 32.1%
- Hope
- Peace
- Cabin
- Caster
- Pianissimo
- SevenStars
- Others

32.1% of our SOM 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.

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.

<table>
<thead>
<tr>
<th></th>
<th>FY2010 (IFRS)</th>
<th>FY2011 (IFRS)</th>
<th>FY2012 (IFRS)</th>
<th>FY2013 (IFRS)</th>
<th>2013 (Jan-Dec)</th>
<th>2014 (Jan-Dec)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>For the year:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue (Note 1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International Tobacco</td>
<td>2,059.4</td>
<td>2,033.8</td>
<td>2,120.2</td>
<td>2,399.8</td>
<td>2,372.2</td>
<td>2,433.5</td>
</tr>
<tr>
<td>Japanese Domestic Tobacco</td>
<td>963.5</td>
<td>966.3</td>
<td>1,010.7</td>
<td>1,270.0</td>
<td>1,270.0</td>
<td>1,328.0</td>
</tr>
<tr>
<td>Pharmaceutical</td>
<td>665.8</td>
<td>646.2</td>
<td>687.1</td>
<td>710.3</td>
<td>690.5</td>
<td>685.9</td>
</tr>
<tr>
<td>Food</td>
<td>44.1</td>
<td>47.4</td>
<td>53.2</td>
<td>64.4</td>
<td>58.2</td>
<td>65.8</td>
</tr>
<tr>
<td>Beverage</td>
<td>367.5</td>
<td>359.4</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>181.3</td>
</tr>
<tr>
<td>Processed Food</td>
<td>188.8</td>
<td>185.5</td>
<td>184.5</td>
<td>183.8</td>
<td></td>
<td>181.1</td>
</tr>
<tr>
<td>Others</td>
<td>18.5</td>
<td>14.6</td>
<td>15.0</td>
<td>13.6</td>
<td>12.6</td>
<td>11.3</td>
</tr>
<tr>
<td>Core revenue (Note 2)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International Tobacco</td>
<td>887.8</td>
<td>894.6</td>
<td>943.1</td>
<td>1,200.7</td>
<td>1,200.7</td>
<td>1,258.2</td>
</tr>
<tr>
<td>Japanese Domestic Tobacco</td>
<td>632.2</td>
<td>611.9</td>
<td>654.0</td>
<td>676.2</td>
<td>656.3</td>
<td>649.8</td>
</tr>
<tr>
<td>Operating profit (Note 3)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International Tobacco</td>
<td>401.3</td>
<td>459.2</td>
<td>532.2</td>
<td>648.3</td>
<td>642.7</td>
<td>571.8</td>
</tr>
<tr>
<td>Japanese Domestic Tobacco</td>
<td>225.9</td>
<td>252.4</td>
<td>289.4</td>
<td>376.4</td>
<td>376.4</td>
<td>379.5</td>
</tr>
<tr>
<td>Pharmaceutical</td>
<td>202.3</td>
<td>209.3</td>
<td>241.3</td>
<td>258.1</td>
<td>235.6</td>
<td>181.5</td>
</tr>
<tr>
<td>Food</td>
<td>(13.3)</td>
<td>(13.5)</td>
<td>(16.2)</td>
<td>(9.0)</td>
<td>(13.7)</td>
<td>(7.3)</td>
</tr>
<tr>
<td>Beverage</td>
<td>(3.6)</td>
<td>2.0</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(0.5)</td>
</tr>
<tr>
<td>Processed Food</td>
<td>4.5</td>
<td>2.3</td>
<td>(2.1)</td>
<td>(2.1)</td>
<td></td>
<td>(1.2)</td>
</tr>
<tr>
<td>Others</td>
<td>(9.9)</td>
<td>9.0</td>
<td>21.2</td>
<td>25.0</td>
<td>45.7</td>
<td>19.9</td>
</tr>
<tr>
<td>Adjusted EBITDA/Adjusted operating profit (Note 3)</td>
<td>522.0</td>
<td>577.1</td>
<td>622.0</td>
<td>641.8</td>
<td>612.6</td>
<td>660.1</td>
</tr>
<tr>
<td>International Tobacco</td>
<td>277.9</td>
<td>314.8</td>
<td>343.2</td>
<td>410.8</td>
<td>410.8</td>
<td>447.1</td>
</tr>
<tr>
<td>Japanese Domestic Tobacco</td>
<td>247.2</td>
<td>262.3</td>
<td>281.3</td>
<td>257.7</td>
<td>234.6</td>
<td>238.7</td>
</tr>
<tr>
<td>Pharmaceutical</td>
<td>(9.8)</td>
<td>(10.0)</td>
<td>(12.7)</td>
<td>(9.0)</td>
<td>(13.7)</td>
<td>(7.3)</td>
</tr>
<tr>
<td>Food</td>
<td>17.7</td>
<td>20.0</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Beverage</td>
<td>14.6</td>
<td>12.4</td>
<td>(2.1)</td>
<td>(2.1)</td>
<td></td>
<td>(0.5)</td>
</tr>
<tr>
<td>Processed Food</td>
<td>5.4</td>
<td>7.4</td>
<td>0.6</td>
<td>0.6</td>
<td></td>
<td>1.4</td>
</tr>
<tr>
<td>Others</td>
<td>(11.0)</td>
<td>(9.8)</td>
<td>(9.6)</td>
<td>(16.2)</td>
<td>(17.6)</td>
<td>(19.3)</td>
</tr>
<tr>
<td>Depreciation and amortization (Note 3)</td>
<td>118.0</td>
<td>118.8</td>
<td>116.5</td>
<td>132.9</td>
<td>132.7</td>
<td>139.5</td>
</tr>
<tr>
<td>Profit (attributable to owners of the parent) (Note 4)</td>
<td>243.3</td>
<td>320.9</td>
<td>343.6</td>
<td>428.0</td>
<td>443.0</td>
<td>389.1</td>
</tr>
<tr>
<td>Free cash flow (FCF) (Note 5)</td>
<td>300.4</td>
<td>451.3</td>
<td>316.0</td>
<td>212.6</td>
<td>316.4</td>
<td>455.4</td>
</tr>
</tbody>
</table>
**FY2014**: Results for the fiscal year ended December 31, 2014

<table>
<thead>
<tr>
<th></th>
<th>FY2010 (IFRS)</th>
<th>FY2011 (IFRS)</th>
<th>FY2012 (IFRS)</th>
<th>FY2013 (IFRS)</th>
<th>FY2014 (IFRS)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>At year-end:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets</td>
<td>3,655.2</td>
<td>3,667.0</td>
<td>3,852.6</td>
<td>4,616.8</td>
<td>4,704.7</td>
</tr>
<tr>
<td>Interest-bearing Debts</td>
<td>709.1</td>
<td>502.4</td>
<td>327.2</td>
<td>375.9</td>
<td>228.2</td>
</tr>
<tr>
<td>Liabilities</td>
<td>2,053.9</td>
<td>1,952.4</td>
<td>1,960.1</td>
<td>2,020.7</td>
<td>2,082.2</td>
</tr>
<tr>
<td>Equity</td>
<td>1,601.3</td>
<td>1,714.6</td>
<td>1,892.4</td>
<td>2,596.1</td>
<td>2,622.5</td>
</tr>
<tr>
<td><strong>Major Financial Ratios:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROE (Note 7)</td>
<td>15.3%</td>
<td>20.3%</td>
<td>20.0%</td>
<td>19.9%</td>
<td>14.4%</td>
</tr>
<tr>
<td>ROA (Note 8)</td>
<td>10.2%</td>
<td>12.1%</td>
<td>13.5%</td>
<td>15.0%</td>
<td>10.8%</td>
</tr>
<tr>
<td>Equity Ratio (Note 9)</td>
<td>41.7%</td>
<td>44.6%</td>
<td>46.9%</td>
<td>54.3%</td>
<td>53.9%</td>
</tr>
<tr>
<td><strong>Amounts per share:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diluted EPS (Notes 10/11)</td>
<td>25,407</td>
<td>168.44</td>
<td>180.98</td>
<td>235.35</td>
<td>199.56</td>
</tr>
<tr>
<td>Book value per share</td>
<td>160,180</td>
<td>858.09</td>
<td>993.98</td>
<td>1,378.57</td>
<td>1,395.74</td>
</tr>
<tr>
<td>Dividend per share (Note 11)</td>
<td>6,800</td>
<td>50</td>
<td>68</td>
<td>96</td>
<td>100.0</td>
</tr>
<tr>
<td>Dividend payout ratio (Note 12)</td>
<td>26.8%</td>
<td>29.7%</td>
<td>37.6%</td>
<td>40.8%</td>
<td>50.1%</td>
</tr>
</tbody>
</table>

**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 effects/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 200-for-one share split is done, effective as of July 1, 2012.
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.
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.

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 Stribild 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 Lisanfillian, 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

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.

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.

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

- 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

**International Tobacco Business**

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

**Japanese Domestic Tobacco Business**

Maintain its highly competitive platform of profitability

**Pharmaceutical Business**

Strive to strengthen the profit base through value maximization of each product and R&D promotion for next generation of strategic compounds.

**Processed Food Business**

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

<table>
<thead>
<tr>
<th>Calendar year basis</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>436.5</td>
<td>417.5</td>
<td>398.0</td>
<td></td>
</tr>
</tbody>
</table>

-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)

<table>
<thead>
<tr>
<th>FY2012</th>
<th>2013 Jan-Dec</th>
<th>2014 Jan-Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>116.2</td>
<td>116.5</td>
<td>112.4</td>
</tr>
</tbody>
</table>

-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)

<table>
<thead>
<tr>
<th>Calendar year basis</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>268.8</td>
<td>267.5</td>
<td>262.2</td>
<td></td>
</tr>
</tbody>
</table>

-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)

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales</th>
<th>Operations</th>
<th>FX</th>
<th>FX Restated*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>11,655</td>
<td>427</td>
<td>-790</td>
<td>12,273</td>
</tr>
<tr>
<td>2013</td>
<td>12,273</td>
<td>427</td>
<td>-790</td>
<td>12,700</td>
</tr>
<tr>
<td>2014</td>
<td>12,700</td>
<td>2014</td>
<td>-790</td>
<td>11,911</td>
</tr>
</tbody>
</table>

* 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)

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>654.0</td>
</tr>
<tr>
<td>2013</td>
<td>656.3</td>
</tr>
<tr>
<td>2014</td>
<td>649.8</td>
</tr>
</tbody>
</table>

-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

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>2,120.2</td>
</tr>
<tr>
<td>2013</td>
<td>2,372.2</td>
</tr>
<tr>
<td>2014</td>
<td>2,433.5</td>
</tr>
</tbody>
</table>

+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 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 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)

<table>
<thead>
<tr>
<th>Year</th>
<th>Dividend per share</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2012</td>
<td>68</td>
</tr>
<tr>
<td>FY2013</td>
<td>96</td>
</tr>
<tr>
<td>FY2014</td>
<td>100</td>
</tr>
</tbody>
</table>

+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)

<table>
<thead>
<tr>
<th>Year</th>
<th>Adjusted EPS (diluted)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>173.64</td>
</tr>
<tr>
<td>2013 Jan-Dec</td>
<td>221.98</td>
</tr>
<tr>
<td>Operations</td>
<td>246.57</td>
</tr>
<tr>
<td>2014 Jan-Dec</td>
<td>239.01</td>
</tr>
<tr>
<td>2014 at constant currency</td>
<td>246.57</td>
</tr>
<tr>
<td>FX</td>
<td>7.56</td>
</tr>
</tbody>
</table>

+**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.