Factory floor of Kansai factory:

One of the key tobacco manufacturing plants in Japan
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.

E- cigarettes use vaporized liquid solutions often containing nicotine, and vapor is inhaled to offer a different experience. E-cigarettes 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 2014. 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.

**Top 10 countries by volume**

<table>
<thead>
<tr>
<th>Country</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>2,316.7</td>
<td>2,406.2</td>
<td>2,461.6</td>
<td>2,490.5</td>
<td>2,542.9</td>
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<tr>
<td>Russia</td>
<td>383.1</td>
<td>375.1</td>
<td>370.8</td>
<td>346.3</td>
<td>316.5</td>
</tr>
<tr>
<td>U.S.</td>
<td>309.1</td>
<td>300.6</td>
<td>292.7</td>
<td>279.5</td>
<td>270.2</td>
</tr>
<tr>
<td>Indonesia</td>
<td>181.6</td>
<td>191.8</td>
<td>203.1</td>
<td>221.2</td>
<td>238.9</td>
</tr>
<tr>
<td>Japan</td>
<td>217.9</td>
<td>195.9</td>
<td>197.4</td>
<td>194.1</td>
<td>187.5</td>
</tr>
<tr>
<td>India</td>
<td>98.6</td>
<td>102.8</td>
<td>102.1</td>
<td>100.9</td>
<td>95.9</td>
</tr>
<tr>
<td>Turkey</td>
<td>93.4</td>
<td>91.2</td>
<td>95.3</td>
<td>91.7</td>
<td>94.7</td>
</tr>
<tr>
<td>South Korea</td>
<td>90.5</td>
<td>89.9</td>
<td>89.3</td>
<td>88.5</td>
<td>89.5</td>
</tr>
<tr>
<td>Philippines</td>
<td>101.4</td>
<td>97.4</td>
<td>102.5</td>
<td>86.7</td>
<td>82.7</td>
</tr>
<tr>
<td>Germany</td>
<td>83.9</td>
<td>84.5</td>
<td>83.4</td>
<td>79.6</td>
<td>80.4</td>
</tr>
</tbody>
</table>

Source: Euromonitor.

**Top market players**

<table>
<thead>
<tr>
<th>Brand</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philip Morris</td>
<td>24.6</td>
<td>25.1</td>
<td>25.7</td>
<td>25.7</td>
<td>26.2</td>
</tr>
<tr>
<td>British American</td>
<td>18.7</td>
<td>19.1</td>
<td>19.0</td>
<td>19.1</td>
<td>19.2</td>
</tr>
<tr>
<td>Japan Tobacco</td>
<td>16.3</td>
<td>15.6</td>
<td>16.0</td>
<td>16.3</td>
<td>16.0</td>
</tr>
<tr>
<td>Imperial Tobacco</td>
<td>8.7</td>
<td>8.6</td>
<td>8.5</td>
<td>8.5</td>
<td>8.5</td>
</tr>
</tbody>
</table>

Source: Euromonitor. Excluding China National Tobacco Corp (CNTC).

**Top brands**

<table>
<thead>
<tr>
<th>Brand</th>
<th>Company</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marlboro</td>
<td>• Philip Morris International Inc.</td>
<td>414.4</td>
<td>410.8</td>
<td>414.1</td>
<td>395.9</td>
<td>391.4</td>
</tr>
<tr>
<td></td>
<td>• Altria Group Inc.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Winston</td>
<td>• Japan Tobacco Inc.</td>
<td>122.4</td>
<td>122.4</td>
<td>130.2</td>
<td>135.9</td>
<td>127.9</td>
</tr>
<tr>
<td></td>
<td>• Reynolds American Inc.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pall Mall</td>
<td>• British American Tobacco Plc.</td>
<td>99.4</td>
<td>101.0</td>
<td>101.6</td>
<td>104.8</td>
<td>109.1</td>
</tr>
<tr>
<td></td>
<td>• Reynolds American Inc.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>L&amp;M</td>
<td>• Philip Morris International Inc.</td>
<td>84.7</td>
<td>87.3</td>
<td>88.1</td>
<td>89.5</td>
<td>89.0</td>
</tr>
<tr>
<td>Mevius</td>
<td>• Japan Tobacco Inc.</td>
<td>95.2</td>
<td>81.2</td>
<td>84.4</td>
<td>83.7</td>
<td>79.1</td>
</tr>
<tr>
<td>Camel</td>
<td>• Japan Tobacco Inc.</td>
<td>64.3</td>
<td>60.6</td>
<td>60.3</td>
<td>60.8</td>
<td>66.2</td>
</tr>
<tr>
<td></td>
<td>• Reynolds American Inc.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gudang Garam</td>
<td>• Gudang Garam Tbk PT.</td>
<td>52.3</td>
<td>53.7</td>
<td>57.8</td>
<td>60.5</td>
<td>64.3</td>
</tr>
<tr>
<td>Kent</td>
<td>• British American Tobacco Plc.</td>
<td>57.0</td>
<td>60.2</td>
<td>63.6</td>
<td>61.8</td>
<td>60.2</td>
</tr>
<tr>
<td>Gold Flake</td>
<td>• ITC Ltd.</td>
<td>59.2</td>
<td>59.0</td>
<td>61.9</td>
<td>60.6</td>
<td>52.9</td>
</tr>
<tr>
<td></td>
<td>• British American Tobacco Plc.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dunhill</td>
<td>• British American Tobacco Plc.</td>
<td>48.0</td>
<td>47.1</td>
<td>47.0</td>
<td>51.5</td>
<td>52.8</td>
</tr>
</tbody>
</table>

Source: Euromonitor. Excluding China National Tobacco Corp (CNTC).
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.

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.

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**

![Chart showing market share by company]


**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.
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.”

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

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 by 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 slims globally.

Camel

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 by 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 JT in 1999.

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 JT to investors, but not to promote sales of tobacco products or to encourage smoking by consumers.
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%.

<table>
<thead>
<tr>
<th></th>
<th>South &amp; West Europe</th>
<th>North &amp; Central Europe</th>
<th>CIS+</th>
<th>Rest-of-the-World</th>
<th>Total JTI (BnU)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total shipment volume</td>
<td>59.8</td>
<td>51.6</td>
<td>165.7</td>
<td>120.8</td>
<td>398.0</td>
</tr>
<tr>
<td>GFB shipment volume</td>
<td>51.4</td>
<td>27.8</td>
<td>115.7</td>
<td>67.2</td>
<td>262.2</td>
</tr>
</tbody>
</table>

**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**

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.
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%.

### Mevius

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

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%.

### Glamour

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%.

### Silk Cut

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.

### Sobranie

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%.

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

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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 JT to investors, but not to promote sales of tobacco products or to encourage smoking by consumers.
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.

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

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>(BnU)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>116</td>
<td>112</td>
</tr>
<tr>
<td></td>
<td>3.0%</td>
<td></td>
</tr>
</tbody>
</table>

Core Revenue and Adjusted Operating Profit

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>(JPY BN)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Core Revenue</td>
<td>656.3</td>
<td>649.8</td>
</tr>
<tr>
<td>Adjusted Operating Profit</td>
<td>234.6</td>
<td>238.7</td>
</tr>
<tr>
<td></td>
<td>+1.8%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-1.0%</td>
<td></td>
</tr>
</tbody>
</table>
Our Core Brands

MEVIUS
- 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 smell and less smoke**.
- The pianissimo family comprises a line-up of 9 products (as of February 28, 2015).

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

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.

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.

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.
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.

JAPAN TOBACCO INC. ANNUAL REPORT FY2014
Pharmaceutical Business
FY2014: Results for Jan-Dec 2014 (Like-for-Like basis)

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).

[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.
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
### In-house development

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

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

<table>
<thead>
<tr>
<th>Compound (JT's code)</th>
<th>License</th>
<th>Mechanism</th>
<th>Description</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>elvitegravir (JTK-303)</td>
<td>Gilead Sciences</td>
<td>HIV Integrase inhibitor</td>
<td>Suppresses blood HIV levels by inhibiting the activity of integrase, an enzyme involved in the replication of HIV.</td>
<td>New Single Tablet Regimen: (elvitegravir/cobicistat/emtricitabine/ tenofovir alafenamide) U.S. and EU marketing approvals submitted</td>
</tr>
<tr>
<td>trametinib</td>
<td>GlaxoSmithKline*</td>
<td>MEK inhibitor</td>
<td>Inhibits cellular growth by specifically inhibiting the activity of MAPK/ERK Kinase (MEK1/2).</td>
<td>Metastatic melanoma, trametinib+dabrafenib Phase3</td>
</tr>
<tr>
<td>Anti-ICOS monoclonal antibody</td>
<td>MedImmune</td>
<td>ICOS antagonist</td>
<td>Suppresses overactive immune response via inhibition of ICOS which regulates activation of T cells.</td>
<td></td>
</tr>
<tr>
<td>JTE-052</td>
<td>LEO Pharma</td>
<td>JAK inhibitor</td>
<td>Suppresses overactive immune response via inhibition of Janus kinase (JAK) related to immune signal.</td>
<td></td>
</tr>
</tbody>
</table>

* Oncology products and pipeline compounds of GlaxoSmithKline were acquired by Novartis on March 2, 2015.
<table>
<thead>
<tr>
<th>Location</th>
<th>Phase 1</th>
<th>Phase 2</th>
<th>Phase 3</th>
<th>Preparing to file</th>
<th>Filed</th>
<th>Origin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>New Single Tablet Regimen: JTK-303(elvitegravir); In-house Cobicistat, Emtricitabine, Tenofovir Alafenamide; In-license (Gilead Sciences)</td>
</tr>
<tr>
<td>Japan</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>In-house</td>
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<tr>
<td>Overseas</td>
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<td>In-house</td>
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<tr>
<td>Japan</td>
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<td>In-house</td>
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<tr>
<td>Overseas</td>
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<td>In-house</td>
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<tr>
<td>Overseas</td>
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<td></td>
<td>In-house</td>
</tr>
<tr>
<td>Japan</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>In-license (ALK-Abelló) Co-development with Torii</td>
</tr>
<tr>
<td>Overseas</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>In-house</td>
</tr>
<tr>
<td>Overseas</td>
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<td>In-house</td>
</tr>
<tr>
<td>Japan</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>In-house</td>
</tr>
</tbody>
</table>
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.

**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.*
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 food 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)**

<table>
<thead>
<tr>
<th></th>
<th>2013 Jan-Dec</th>
<th>2014 Jan-Dec</th>
<th>Year-on-year change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue (JPY BN)</strong></td>
<td>183.8</td>
<td>181.3</td>
<td>-2.5</td>
</tr>
<tr>
<td><strong>Adjusted operating profit (JPY BN)</strong></td>
<td>-2.1</td>
<td>-0.5</td>
<td>+1.6</td>
</tr>
</tbody>
</table>

**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.

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**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.
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.

To learn more about JT Group’s approach and commitment to sustainability, please visit our website for Sustainability Report FY2014.
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.

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 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 B.V. 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.
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

<table>
<thead>
<tr>
<th>Rigorous supervisory and advisory function</th>
<th>Quality and prompt decision-making</th>
<th>Efficient business execution</th>
</tr>
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<tbody>
<tr>
<td>Set up the Compliance Committee FY2000</td>
<td>Reduced number of directors FY2000</td>
<td>Introduced executive officer system FY2001</td>
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<tr>
<td>Set up the Advisory Committee* FY2001</td>
<td>Promoted the delegation of business execution to the executive officers FY2000, FY2008 and FY2011</td>
<td></td>
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<tr>
<td>Set up the Compensation Advisory Panel FY2006</td>
<td>Invited outside directors FY2012</td>
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* Abolition of the Advisory Committee on June 30, 2014.

Our corporate governance system

![Diagram of the corporate governance system]

- General Meeting of Shareholders
  - Selection or dismissal of members
  - Accounting audit/Operating audit
- Board of Directors
  - eight members (including two outside directors)
  - Supervision of the performance
  - Review of the policy and the rule relating to compensation for board members and executive officers
- President and Chief Executive Officer
  - JT Group Compliance Committee
    - five members (including three outside members)
- Compensation Advisory Panel
  - five members (including two outside directors and two outside auditors)
- Operational Review and Business Assurance Division
- Executive Officers
- Departments
- Group Companies
- Independent Auditors
- Lawyers
- Audit Report
- Accountant’s Office
- Selection or dismissal of members
- Accounting audit/Operating audit
- Audit & Supervisory Board
  - four members (including two outside Audit & Supervisory board members)
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.

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.

<table>
<thead>
<tr>
<th>Members</th>
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<td>8 (including two independent outside directors)</td>
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<table>
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<tr>
<th>Average rate of attendance</th>
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<tr>
<td>Directors</td>
<td>97%</td>
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<tr>
<td>Audit &amp; Supervisory Board Members</td>
<td>98%</td>
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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, and Chief Financial Officer

June 2007
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  

Decision-Making, Business Execution, Supervision  

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 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) |
| Average rate of attendance | 100% |

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 Members, 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
Advisor, 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)
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.
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 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.
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.

<table>
<thead>
<tr>
<th>Category</th>
<th>Total remuneration and other payments (million yen)</th>
<th>Total amount of remuneration and other payments by type (million yen)</th>
<th>Number to be paid (people)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors (excluding Outside Directors)</td>
<td>423</td>
<td>235 102 86</td>
<td>8</td>
</tr>
<tr>
<td>Audit &amp; Supervisory Board member (excluding Outside Audit &amp; Supervisory Board members)</td>
<td>54</td>
<td>54 – –</td>
<td>2</td>
</tr>
<tr>
<td>Outside Directors and Outside Audit &amp; Supervisory Board members</td>
<td>41</td>
<td>41 – –</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>517</td>
<td>329 102 86</td>
<td>14</td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th>Name</th>
<th>Category</th>
<th>Company</th>
<th>Basic remuneration</th>
<th>Director’s bonus</th>
<th>Stock option grants</th>
<th>Total (million yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mitsuomi Koizumi</td>
<td>Representative Director</td>
<td>JT</td>
<td>56</td>
<td>34</td>
<td>21</td>
<td>111</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Resolution date</th>
<th>Positions and number of people grants</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Directors (excluding outside Directors): six persons</td>
</tr>
<tr>
<td></td>
<td>Executive officers (excluding persons serving as Directors): 19 persons</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of shares</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>35,600 shares</td>
<td>to Directors (excluding outside Directors)</td>
</tr>
<tr>
<td>33,200 shares</td>
<td>to Executive officers (excluding persons serving as Directors)</td>
</tr>
<tr>
<td>Total 68,800</td>
<td>shares (200 shares per stock acquisition right)</td>
</tr>
</tbody>
</table>