

[This is an English translation prepared for the convenience of non-resident shareholders. Should there be any inconsistency between the translation and the official Japanese text, the latter shall prevail.]

Securities Code: 2914  
February 29, 2016

To Our Shareholders

Mitsuomi Koizumi  
President, Chief Executive Officer and  
Representative Director  
**Japan Tobacco Inc.**  
2-1, Toranomom 2-chome, Minato-ku, Tokyo

## **NOTICE OF CONVOCATION OF THE 31ST ORDINARY GENERAL MEETING OF SHAREHOLDERS**

You are cordially invited to attend the 31<sup>st</sup> Ordinary General Meeting of Shareholders of Japan Tobacco Inc. (“JT” or the “Company”) to be held as set forth below.

**If you cannot attend the meeting, you may exercise your voting rights in written form or by electromagnetic means including the Internet. Please see the “Reference Documents for the General Meeting of Shareholders” hereinafter described and exercise your voting rights by 6:00 p.m., on Tuesday, March 22, 2016, by returning to us by that time the Voting Rights Exercise Form enclosed herewith indicating whether you are for or against each of the items, or by accessing the web-site designated by us for the exercise of voting rights (<http://www.evotep.jp/>).**

### Particulars

1. **Date and Time of the Meeting:** Wednesday, March 23, 2016 at 10:00 a.m.
2. **Place of the Meeting:** The Prince Park Tower Tokyo  
Second basement, Ball Room  
8-1, Shibakoen 4-chome, Minato-ku, Tokyo
3. **Purpose of the Meeting:**
  1. **Matters to be Reported:**
    1. Report on the Business Report, the Consolidated Financial Statements, and the Accounting Auditors’ Report and JT’s Audit & Supervisory Board Report on the Consolidated Financial Statements for the 31st Business Term (From January 1, 2015 to December 31, 2015)
    2. Report on the Non-Consolidated Financial Statements for the 31st Business Term (From January 1, 2015 to December 31, 2015)
  2. **Matters to be Resolved:**
    - Item 1:** Distribution of Surplus
    - Item 2:** Partial Amendment to the Articles of Incorporation
    - Item 3:** Election of Seven (7) Members of the Board
    - Item 4:** Election of One (1) Substitute Audit & Supervisory Board Member
4. **Other Decisions on the Convocation of the Meeting**
  - (1) If the voting right is exercised both by posting the Voting Rights Exercise Form and via the Internet, only the exercise of the voting right via the Internet shall be valid.
  - (2) If the voting right is exercised more than once via the Internet, only the last exercise of the voting right shall be valid.

1. Notes to Consolidated and Non-Consolidated Financial Statements are posted on our web-site (<https://www.jti.co.jp/>) in accordance with laws and regulations, and the provision in Article 17 of the Articles of Incorporation. Therefore, they are not included in this Notice of Convocation of the 31st Ordinary General Meeting of Shareholders.

In addition to documents stated in the reference documents attached to the Notice of Convocation of the 31st Ordinary General Meeting of Shareholders, Notes to Consolidated and Non-Consolidated Financial Statements posted on the Company's web-site are included in Consolidated and Non-Consolidated Financial Statements audited by Audit & Supervisory Board Members and the Accounting Auditors in the course of preparing Audit Report and Accounting Auditors' Report respectively.

2. If there is any amendment to the Reference Documents for the General Meeting of Shareholders, Business Report (available in Japanese), or Non-Consolidated and Consolidated Financial Statements (available in Japanese), it will be published on our web-site (<https://www.jti.co.jp/>).

JT's web-site



<https://www.jti.co.jp/>

#### Guidance to our shareholders attending the General Meeting of Shareholders

- \* For those attending, please bring this Notice of Convocation of the 31st Ordinary General Meeting of Shareholders with you.
- \* It is expected to be crowded immediately before the meeting begins. If meeting room No.1 becomes full, you will be ushered to meeting room No.2. We ask that you come to the meeting at your earliest convenience.
- \* In case an agent attends the meeting, your agent must bring a letter of attorney along with the Voting Rights Exercise Form. Only one other shareholder who can exercise the voting rights at the 31st Ordinary General Meeting of Shareholders is supposed to be eligible to serve as your agent.
- \* Please note that the meeting will be conducted in Japanese only. An interpreter, including a sign language interpreter, may accompany you. If you would like to have an interpreter accompany you, please tell so at the reception desk. It is also possible for us to arrange a Japanese sign language interpreter for you. If you are in need of this service, please inquire us in writing by March 15 (Tuesday) (your letter of inquiry must reach us by this date).
- \* The Company plans to give gifts to the shareholders who attend on the day. Please note, however, shareholders will receive just one package, regardless of how many Voting Rights Exercise Forms are held.

## Instructions for Exercising Your Voting Rights

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Exercise of voting rights at the Company's General Meeting of Shareholders is shareholders' important right. Please by all means exercise your voting rights.

**There are three methods to exercise your voting rights as indicated below.**

A. Attend the meeting	▶ Please present the Voting Rights Exercise Form at the reception desk on arrival at the meeting. (Not required to place a seal.) Date and time of the General Meeting of Shareholders: 10:00 a.m., on Wednesday, March 23, 2016
B. Post the Voting Rights Exercise Form	▶ Please post the Voting Rights Exercise Form indicating whether you are for or against each of the items. Exercise due date: To be returned to us no later than 6:00 p.m., on Tuesday, March 22, 2016
C. Exercise the Voting Rights via the Internet	▶ Please access the Voting Rights Exercise Web-site ( <a href="http://www.evot.jp/">http://www.evot.jp/</a> ) and indicate whether you are for or against each of the items. Exercise due date: No later than 6:00 p.m., on Tuesday, March 22, 2016
<p>Guide to filling in the Voting Rights Exercise Form</p> <p>Please indicate for or against about each item.</p> <p>Items 1, 2, and 4</p> <p>When you are for the proposed item, mark <input type="radio"/> in the "for" box, and when you are against the item, mark <input type="radio"/> in the "against" box.</p> <p>Item 3</p> <p>When you are for all of the proposed persons in the item, mark <input type="radio"/> in the "for" box, and when you are against all in the item, mark <input type="radio"/> in the "against" box.</p> <p>If you are against certain candidates, mark <input type="radio"/> in the "for" box, and also write the candidate number for each candidate you are against inside the parentheses.</p>	

\* For those attending, procedures for posting the Voting Rights Exercise Form or exercising your voting rights via the Internet are unnecessary.

## **Instructions for Exercise of the Voting Rights via the Internet**

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For the exercise of the voting rights via the Internet, please access the designated web-site for the exercise of the voting rights (“Voting Rights Exercise Web-site”), and exercise your voting rights after confirming the items below.

If you have any enquiries, please contact “Enquiries on systems, etc. (Help Desk)” provided below.

For those attending, procedures for posting the Voting Rights Exercise Form or exercising your voting rights via the Internet are unnecessary.

### Particulars

#### **1. Voting Rights Exercise Web-site**



- (1) The exercise of the voting rights via the Internet is available only by accessing the Voting Rights Exercise Web-site from your computer or smartphone. (However, you will not be able to access the web-site from 2:00 a.m. to 5:00 a.m. each day during the exercise period.)
- (2) If you use firewalls, etc. for the Internet connection, antivirus programs or a proxy server, you may not be able to access the web-site depending on your Internet environment.
- (3) The exercise of the voting rights via the Internet is only available until 6:00 p.m. on Tuesday, March 22, 2016. We appreciate it if you exercise your voting rights at your earliest convenience.

#### **2. Exercise of the Voting Rights via the Internet**

- (1) On the Voting Rights Exercise Web-site, please indicate whether you are for or against each of the items following the directions on the web-site using the “Log-in ID” and “Temporary Password” described in the Voting Rights Exercise Form.
- (2) In order to prevent unauthorized access (web spoofing) or alteration of the voting by non-shareholders, you will be asked to change your “Temporary Password” on the Voting Rights Exercise Web-site.
- (3) JT will notify you of the new “Log-in ID” and “Temporary Password” at each convocation of the General Meeting of Shareholders.

#### **3. In the Event Voting Rights Are Exercised More than Once**

- (1) If the voting right is exercised both by posting the Voting Rights Exercise Form and via the Internet, only the exercise of the voting right via the Internet shall be valid.
- (2) If the voting right is exercised more than once via the Internet, only the last exercise of the voting right shall be valid.

#### **4. Fees Incurred When Accessing the Voting Rights Exercise Web-site**

Each shareholder shall bear any fees for accessing the Voting Rights Exercise Web-site (Internet provider connection fees, communications fees, etc.).

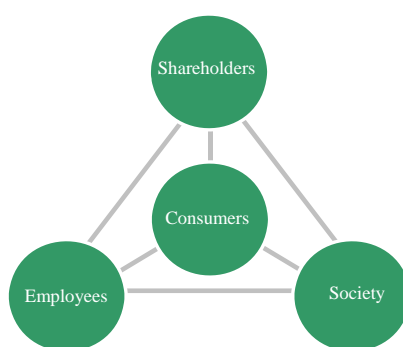
If you have any enquiries, please contact “Help Desk” shown below.

Enquiries on systems, etc.		Mitsubishi UFJ Trust and Banking Corporation Corporate Agency Division Help Desk Tel: 0120-173-027 (Japanese-language only) (Business hours: 9:00 to 21:00, Toll-free)
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To institutional investors	JT participates in the electronic voting rights exercise platform operated and administered by ICJ, Inc.
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## Reference



### Management Principles

We will balance the interests of consumers, shareholders, employees and wider society, and fulfill our responsibilities towards them, aiming to exceed their expectations.

In accordance with the 2016 Business Plan, the Group will continue to pursue mid to high single-digit<sup>\*1</sup> annual average growth rate over the mid- to long-term with an adjusted operating profit growth (at constant rates of exchange)<sup>\*2</sup>.

The Group's management resources allocation policy and returns to shareholders policy are as follows.

### Management resources allocation policy

Execute management resources allocation, based on the 4S model that underlies the Group's management principles.	<ul style="list-style-type: none"> <li>• Prioritize business investments that lead to sustained profit growth over the mid- to long-term</li> <li>• Emphasize a balance between profit growth through business investments and returns to shareholders</li> </ul>
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### Returns to shareholders policy

Improve returns to shareholders in agreement with mid- to long-term profit growth, while maintaining a firm financial base <sup>*3</sup>	<ul style="list-style-type: none"> <li>• Aim for stable and continuous growth in dividend per share</li> <li>• Consider the pros and cons of implementing own shares purchases, taking into account the mid- to long-term outlook for the business environment and financial conditions.</li> <li>• Continue to monitor trends in returns among global FMCGs<sup>*4</sup></li> </ul>
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\*1 mid to high single-digit: mid to high single-digit-percentage

\*2 Adjusted operating profit is calculated by deducting amortization cost of acquired intangibles associated with acquisitions and adjustment items (income and costs) from operating profit (loss). Adjustment items (income and costs) include impairment losses on goodwill and restructuring-related income and costs. Adjusted operating profit growth rate (at constant rates of exchange) is a financial measurement that excludes foreign exchange effects by converting and calculating adjusted operating profit for the current period in the international tobacco business using the foreign exchange rates of the same period in the previous fiscal year.

\*3 As its financial policy, JT will maintain a strong financial base that secures stability in case of changes in business environment such as economic crises and flexibility enabling expeditious responses to business investment opportunities.

\*4 A Fast-Moving Consumer Goods (daily consumer goods) company is a company that achieves a high-growth business by adopting a stakeholder model.

**Item 2: Partial Amendment to the Articles of Incorporation**

1. Reasons for the Proposed Amendments

- (1) The purpose of Proposed Amendment is to build an optimal framework for executing business by allowing the selection of the President and Executive Vice President not only from among Members of the Board, but also from among Executive Officers who are not Members of the Board by amending Articles 23 of the Articles of Incorporation. In conjunction with this, other necessary amendments are proposed regarding provisions for convening a General Meeting of Shareholders or a Board of Directors and the chairing of such meetings (Articles 15, 16, and 24 of the Articles of Incorporation).
- (2) The Company introduced the Executive Officer System in 2001. In conjunction with the above amendments, a certain provision (Article 27 of the Articles of Incorporation) will be newly created to clarify the selection method and roles of Executive Officers, and the title of the Chapter containing the said article will be revised accordingly.
- (3) In light of the fact that the Act Partially Amending the Companies Act of the Companies (Act No.90 of 2014) enacted on May 1, 2015, allowing the execution of an agreement on limitation of liability with Members of the Board who do not execute business and Audit & Supervisory Board Members (previously allowed solely with Outside Directors and Outside Audit & Supervisory Board Members), amendments of Articles 26 and 31 of the Articles of Incorporation are proposed to enable the said Members of the Board and the said Audit & Supervisory Board Members to fully perform their expected roles, and to allow the Company to secure appropriate personnel from a larger pool of resources whether inside or outside the Company.

In addition, the Audit & Supervisory Board Members have unanimously agreed to the amendment to the provision on limitation of liability for Members of the Board (Article 26 of the Articles of Incorporation).

- (4) In connection with the above amendments, subsequent numbering of Articles will be adjusted accordingly.

2. Proposed amendments

Proposed amendments are as follows.

(Underlined parts denote amendments)

Current Articles of Incorporation	Proposed Amendments
<p>(Convocation)</p> <p>Article 15</p> <p>1. The ordinary General Meeting of Shareholders of the Company shall be convened in March of every year and the extraordinary General Meeting of Shareholders may be convened at any time when deemed necessary by the <u>President</u> pursuant to the resolution of the Board of Directors.</p> <p>2. If the <u>President</u> is prevented from so acting, one of the other Members of the Board shall convene the General Meeting of Shareholders in his/her place in the order previously determined by the resolution of the Board of Directors.</p> <p>3. The General Meeting of Shareholders may be convened at the location of the Company's head office or its neighborhood.</p>	<p>(Convocation)</p> <p>Article 15</p> <p>1. The ordinary General Meeting of Shareholders of the Company shall be convened in March of every year and the extraordinary General Meeting of Shareholders may be convened at any time when deemed necessary by the <u>Member of the Board previously appointed by the Board of Directors</u> pursuant to the resolution of the Board of Directors.</p> <p>2. If the <u>Member of the Board appointed pursuant to the preceding paragraph</u> is prevented from so acting, one of the other Members of the Board shall convene the General Meeting of Shareholders in his/her place in the order previously determined by resolution of the Board of Directors.</p> <p>3. (Same as current version)</p>



Current Articles of Incorporation	Proposed Amendments
<p>(The Chairman of General Meeting of Shareholders)</p> <p>Article 16</p> <ol style="list-style-type: none"> <li>1. The <u>President of the Company</u> shall act as chairman at the General Meeting of Shareholders.</li> <li>2. If the <u>President</u> is prevented from so acting, one of the other Members of the Board shall act on his/her behalf in the order previously determined by the resolution of the Board of Directors.</li> </ol>	<p>(The Chairman of General Meeting of Shareholders)</p> <p>Article 16</p> <ol style="list-style-type: none"> <li>1. The <u>Member of the Board previously appointed by the Board of Directors</u> shall act as chairman at the General Meeting of Shareholders.</li> <li>2. If the <u>Member of the Board appointed pursuant to the preceding paragraph</u> is prevented from so acting, one of the other Members of the Board shall act on his/her behalf in the order previously determined by the resolution of the Board of Directors.</li> </ol>
<p>Chapter 4 Members of the Board <u>and</u> Board of Directors</p> <p>(Representative Director <u>and</u> Executive Director)</p> <p>Article 23</p> <ol style="list-style-type: none"> <li>1. The Company shall elect one President and, as the needs arise, <u>one Chairman of the Board, and</u> a certain number of Executive Vice Presidents, from among the Members of the Board, by the resolution of the Board of Directors.</li> <li>2. <u>The President has the authority to represent the Company.</u></li> <li>3. <u>In addition to the President,</u> the Company may appoint by the resolution of the Board of Directors a certain number of Members of the Board who have the authority to represent the Company.</li> <li>4. The President presides, oversees and manages the business of the Company in accordance with the resolution of the Board of Directors.</li> <li>5. Executive Vice Presidents shall execute the business of the Company as assistants to the President.</li> <li>6. If the President is prevented from performing his/her duty, the other Members of the Board shall act on his/her behalf in the order previously determined by the resolution of the Board of Directors.</li> </ol>	<p>Chapter 4 Members of the Board, Board of Directors, <u>Etc.</u></p> <p>(Representative Director, Executive Director, <u>Etc.</u>)</p> <p>Article 23</p> <ol style="list-style-type: none"> <li>1. The Company shall elect one President and, as the needs arise, a certain number of Executive Vice Presidents, from among the Members of the Board <u>and the Executive Officers,</u> by the resolution of the Board of Directors.</li> <li>2. <u>The Company shall elect, as the needs arise, one Chairman of the Board from among the Members of the Board by the resolution of the Board of Directors.</u></li> <li>3. The Company shall appoint by the resolution of the Board of Directors a certain number of Members of the Board who have the authority to represent the Company.</li> <li>4. (Same as current version)</li> <li>5. (Same as current version)</li> <li>6. If the President is prevented from performing his/her duty, the other Members of the Board <u>or Executive Officers</u> shall act on his/her behalf in the order previously determined by the resolution of the Board of Directors.</li> </ol>
<p>(Board of Directors)</p> <p>Article 24</p> <ol style="list-style-type: none"> <li>1. The <u>President</u> shall convene the meeting of the Board of Directors and shall act as chairman of the meeting.</li> </ol>	<p>(Board of Directors)</p> <p>Article 24</p> <ol style="list-style-type: none"> <li>1. The <u>Member of the Board previously appointed by the Board of Directors</u> shall convene the meeting of the Board of Directors and shall act as chairman of the meeting.</li> </ol>

Current Articles of Incorporation	Proposed Amendments
<p>2. Notwithstanding the provision of the preceding paragraph, any meeting of the Board of Directors shall be convened by the Chairman of the Board if such officer is appointed, and the Chairman of the Board shall act as chairman thereof; provided, however, that if the Chairman of the Board is prevented from so acting, the <u>President</u> shall convene the meeting and act as its chairman.</p> <p>3. For the convocation of the meeting of the Board of Directors, a notice thereon shall be given at least three (3) days prior to the date of the meeting to each Member of the Board and each Audit &amp; Supervisory Board Member; provided, however, that such period may be shortened when the convocation of the meeting is urgent.</p> <p>4. If a Member of the Board makes a proposal on any agenda concerning the objectives of resolution of the Board of Directors and all Members of the Board who may participate in the voting for such agenda unanimously agree to his/her proposal in writing or by electromagnetic records, the Company shall deem that such proposal is adopted by the resolution of the Board of Directors unless objected by a Audit &amp; Supervisory Board Member.</p> <p>5. Other matters in respect of the Board of Directors shall be in accordance with the Regulations of the Board of Directors adopted by the resolution of the Board of Directors.</p>	<p>2. Notwithstanding the provision of the preceding paragraph, any meeting of the Board of Directors shall be convened by the Chairman of the Board if such officer is appointed, and the Chairman of the Board shall act as chairman thereof; provided, however, that if the Chairman of the Board is prevented from so acting, the <u>other Members of the Board</u> shall convene the meeting and act as its chairman <u>in the order previously determined by the resolution of the Board of Directors.</u></p> <p>3. (Same as current version)</p> <p>4. (Same as current version)</p> <p>5. (Same as current version)</p>
<p>(Limitation of Liability for Members of the Board) Article 26</p> <p>1. In accordance with the provision of Article 426, Paragraph 1 of the Companies Act, the Company may, by the resolution of the Board of Directors, exempt any Member of the Board (including any former Member of the Board) from the liabilities under Article 423, Paragraph 1 of the Companies Act, to the extent permitted by laws and regulations.</p> <p>2. In accordance with the provision of Article 427, Paragraph 1 of the Companies Act, the Company may enter into an agreement with <u>Outside Directors</u> to limit the liability under Article 423, Paragraph 1 of the Companies Act to the amount provided by laws and regulations.</p> <p>(Newly Established)</p>	<p>(Limitation of Liability for Members of the Board) Article 26</p> <p>1. (Same as current version)</p> <p>2. In accordance with the provision of Article 427, Paragraph 1 of the Companies Act, the Company may enter into an agreement with <u>Members of the Board (excluding those are Executive Directors, etc.)</u> to limit the liability under Article 423, Paragraph 1 of the Companies Act to the amount provided by laws and regulations.</p> <p>(Executive Officers) Article 27 <u>The Company may, by the resolution of the Board of Directors, appoint Executive Officers, set forth</u></p>

Current Articles of Incorporation	Proposed Amendments
	<u>their duties and responsibilities, and cause them to execute business of the Company.</u>
<p>Article <u>27</u>~Article <u>30</u> (Omitted)</p> <p>(Limitation of Liability for Audit &amp; Supervisory Board Members)</p> <p>Article <u>31</u></p> <p>1. In accordance with the provision of Article 426, Paragraph 1 of the Companies Act, the Company may, by the resolution of the Board of Directors, exempt any Audit &amp; Supervisory Board Member (including any former Audit &amp; Supervisory Board Member) from the liabilities under Article 423, Paragraph 1 of the Companies Act, to the extent permitted by laws and regulations.</p> <p>2. In accordance with the provision of Article 427, Paragraph 1 of the Companies Act, the Company may enter into an agreement with <u>Outside Audit &amp; Supervisory Board Members</u> to limit liability under Article 423, Paragraph 1 of the Companies Act to the amount provided by laws and regulations.</p> <p>Article <u>32</u>~Article <u>34</u> (Omitted)</p>	<p>Article <u>28</u>~Article <u>31</u> (Same as current Article 27~Article 30)</p> <p>(Limitation of Liability for Audit &amp; Supervisory Board Members)</p> <p>Article <u>32</u></p> <p>1. (Same as current version)</p> <p>2. In accordance with the provision of Article 427, Paragraph 1 of the Companies Act, the Company may enter into an agreement with Audit &amp; Supervisory Board Members to limit liability under Article 423, Paragraph 1 of the Companies Act to the amount provided by laws and regulations.</p> <p>Article <u>33</u>~Article <u>35</u> (Same as current Article 32~Article 34)</p>

**Item 3: Election of Seven (7) Members of the Board**

The terms of office of all eight (8) present Members of the Board will expire at the conclusion of this Ordinary General Meeting of Shareholders. Accordingly, the election of seven (7) Members of the Board is proposed.

The candidates for the office of Member of the Board are as follows:

No.	Name	Current Positions and Responsibilities in the Company	Attendance at meetings of the Board of Directors Number of years as director
1	Yasutake Tango [Reappointed]	Chairman of the Board	Attended 18 out of 18 meetings held 1 year and 9 months
2	Mitsuomi Koizumi [Reappointed]	President, Chief Executive Officer and Representative Director	Attended 18 out of 18 meetings held 8 years and 9 months
3	Yasushi Shingai [Reappointed]	Executive Vice President, Deputy Chief Executive Officer and Representative Director Assistant to CEO in Compliance, General Administration, Legal, Strategy, IT, Business Development, HR and Operational Review & Business Assurance	Attended 18 out of 18 meetings held 10 years and 9 months
4	Mutsuo Iwai [Newly appointed]	Senior Executive Vice President President, Tobacco Business Headquarters	- -
5	Hideki Miyazaki [Reappointed]	Executive Vice President, Member of the Board Assistant to CEO in Finance, CSR and Communications	Attended 18 out of 18 meetings held 3 years and 9 months
6	Motoyuki Oka [Reappointed] [Candidate for Outside Director] [Independent Director]	Outside Director	Attended 16 out of 18 meetings held 3 years and 9 months
7	Main Kohda [Reappointed] [Candidate for Outside Director] [Independent Director]	Outside Director	Attended 18 out of 18 meetings held 3 years and 9 months

- (Notes)
1. Attendance at meetings of the Board of Directors held in the fiscal year ended December 31, 2015 is presented.
  2. The numbers of years as Member of the Board at the conclusion of this Ordinary General Meeting of Shareholders are presented.

Candidate Number			
1	<b>Yasutake Tango</b>	(Born March 21, 1951)	Number of the Company's Shares Held 1,700
<b>Brief Personal History, Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company</b>			
	<p>April 1974 Entered Ministry of Finance</p> <p>October 2006 Director-General of the Financial Bureau</p> <p>July 2007 Deputy Vice Minister</p> <p>July 2008 Director-General of the Budget Bureau</p> <p>July 2009 Administrative Vice Minister</p> <p>July 2010 Retired from the office of Administrative Vice Minister</p> <p>December 2010 Corporate Auditor, The Yomiuri Shimbun Holdings</p> <p>December 2012 Special Advisor to the Cabinet</p> <p>April 2014 Retired from Special Advisor to the Cabinet</p> <p>June 2014 Chairman of the Board of the Company (Current Position)</p>		<p><b>Reasons for nomination as a candidate for Director</b></p> <p>Yasutake Tango assumed the position of Chairman of the Board of the Company in June 2014. In addition to a career history that includes such important positions as Administrative Vice Minister of the Ministry of Finance in his long-standing experience in ministries and bureaus, he also possesses abundant knowledge and experience on topics that include corporate governance, gained through networking with diverse personal connections not limited to the public or private sectors. We therefore propose his election as we believe his broad outlook and high standing, backed by his experienced, will be essential to the improvement of the governance of the JT Group going forward.</p>
<b>(Significant Concurrent Positions outside the Company)</b>			
Reappointed	Outside Director, The Ogaki Kyoritsu Bank, Ltd.		

2 Mitsuomi Koizumi

(Born April 15, 1957)

Number of the Company's Shares Held

26,900

**Brief Personal History, Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company**

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, Executive Deputy President, and President, Tobacco Business Headquarters
June 2012	President and Representative Director
January 2016	President, Chief Executive Officer and Representative Director
	(Current Position)

**Reasons for nomination as a candidate for Director**

Mitsuomi Koizumi assumed the position of Member of the Board of the Company in June 2007, and assumed the position of President and Representative Director in June 2012. Amid challenging business environments, he has demonstrated excellent management ability as a senior executive, always maintaining a broad perspective while working to develop a firm foundation for the sustainable growth of the Company with the aim of transforming the Company into one that grows on a global scale with the tobacco business at its core. We therefore propose his election as we believe his broad and in-depth expertise in various fields and leadership backed by experience, will be essential to the JT Group management going forward.

Reappointed
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**Brief Personal History, Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company**

April 1980	Joined the Company (Japan Tobacco and Salt Public Corporation)	<p><b>Reasons for nomination as a candidate for Director</b></p> <p>Yasushi Shingai, assumed the position of Member of the Board of the Company in June 2005, and assumed the position of Executive Vice President, Representative Director in June 2011. He has demonstrated excellent management ability as a senior executive, always maintaining a broad perspective. Some of his major feats including leading the M&amp;A with British company Gallaher while Executive Vice President of JT International S.A. and establishing the strong base that has allowed the International Tobacco Business to deliver profit growth. We therefore propose his election as we believe the broad and in-depth expertise and experience that he has thusfar gained both in Japan and overseas are essential to the JT Group management going forward.</p>
July 2001	Vice President of Financial Planning Division	
June 2004	Senior Vice President, Head of Finance Group	
July 2004	Senior Vice President, Chief Financial Officer	
June 2005	Member of the Board, Senior Vice President, and Chief Financial Officer	
June 2006	Member of the Board Executive Vice President, JT International S.A.	
June 2011	Executive Vice President, Representative Director, Assistant to CEO in Strategy, HR, Legal and Food Business	
June 2012	Executive Vice President, Representative Director, Assistant to CEO in Compliance, Strategy, HR, General Administration, Legal, and Operation Review & Business Assurance	
January 2016	Executive Vice President, Deputy Chief Executive Officer and Representative Director, Assistant to CEO in Compliance, General Administration, Legal, Strategy, IT, Business Development, HR and Operational Review& Business Assurance (Current Position)	

**(Significant Concurrent Positions outside the Company)**

Outside Director, Recruit Holdings Co., Ltd.

Reappointed

Candidate Number			
4	<b>Mutsuo Iwai</b>	(Born October 29, 1960)	Number of the Company's Shares Held 19,800
<b>Brief Personal History, Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company</b>			
	<p>April 1983      Joined the Company (Japan Tobacco and Salt Public Corporation)</p> <p>June 2003      Vice President of Corporate Planning Division</p> <p>July 2004      Vice President of Corporate Strategy Division</p> <p>June 2005      Senior Vice President, and Vice President of Food Business Division, Food Business</p> <p>June 2006      Member of the Board, Executive Vice President, and President, Food Business</p> <p>June 2008      Executive Vice President, and Chief Strategy Officer</p> <p>June 2010      Member of the Board, Senior Vice President, and Chief Strategy Officer and Assistant to CEO in Food Business</p> <p>June 2011      Member of the Board Executive Vice President, JT International S.A.</p> <p>June 2013      Senior Executive Vice President, and Chief Strategy Officer</p> <p>January 2016    Senior Executive Vice President, and President, Tobacco Business Headquarters  (Current Position)</p>	<p><b>Reasons for nomination as a candidate for Director</b></p> <p>Mutsuo Iwai, has taken command of business operations in various areas such as food business, beverage business, and corporate strategy. As Executive Vice President at JT Internationals S.A., in the International Tobacco Business, he undertook major responsibilities concerning business growth and contributed to achieving this growth. Since January 2016, he assumed the position of President of the Tobacco Business Headquarters that take command of both domestic and international tobacco business. We therefore propose his election as Member of the Board as we judge from the experience he has thus far accumulated that he amply possesses immense ability in executing business backed by accurate decision-making and the capacity to oversee business operations from diverse perspectives.</p>	
<b>Newly appointed</b>	<p><b>(Significant Concurrent Positions outside the Company)</b></p> <p>Chairman, JT International Group Holding B.V.</p>		



5

Hideki Miyazaki

(Born January 22, 1958)

Number of the Company's Shares Held

14,300

**Brief Personal History, Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company**

April 1980	Joined Nomura Securities Co., Ltd.	<p><b>Reasons for nomination as a candidate for Director</b></p> <p>Hideki Miyazaki assumed the position of Executive Vice President, Member of the Board of the Company in June 2012. He has long-standing experience with both the Company and his previous place of employment and has cultivated indepth knowledge regarding financial and taxation matters of Japan and overseas. He has demonstrated excellent management ability as an executive, mainly in the fields of finance, CSR, and communications, concentrating on establishing a strong base necessary for the sustainable growth of the Company. We therefore propose his election as we believe his experience and knowledge are essential for the JT Group management going forward.</p>
July 2005	Senior Manager of Accounting Division of the Company	
January 2006	Deputy Chief Financial Officer	
June 2008	Senior Vice President, and Chief Financial Officer	
June 2010	Executive Vice President, and Chief Financial Officer	
June 2012	Executive Vice President, Member of the Board, Assistant to CEO in CSR, Finance and Communications  (Current Position)	

Reappointed
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Candidate Number																		
6	<b>Motoyuki Oka</b>	(Born September 15, 1943)      Number of the Company's Shares Held      0																
<div style="border: 1px solid black; padding: 2px; margin-bottom: 5px;">Reappointed</div> <div style="border: 1px solid black; padding: 2px; margin-bottom: 5px;">Candidate for Outside Director</div> <div style="border: 1px solid black; padding: 2px;">Independent Director</div>	<b>Brief Personal History, Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company</b>																	
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding: 2px;">April 1966</td> <td style="padding: 2px;">Joined Sumitomo Corporation</td> </tr> <tr> <td style="padding: 2px;">June 1994</td> <td style="padding: 2px;">Director, Sumitomo Corporation</td> </tr> <tr> <td style="padding: 2px;">April 1998</td> <td style="padding: 2px;">Managing Director, Sumitomo Corporation</td> </tr> <tr> <td style="padding: 2px;">April 2001</td> <td style="padding: 2px;">Senior Managing Director, Sumitomo Corporation</td> </tr> <tr> <td style="padding: 2px;">June 2001</td> <td style="padding: 2px;">President and CEO, Sumitomo Corporation</td> </tr> <tr> <td style="padding: 2px;">June 2007</td> <td style="padding: 2px;">Chairman of the Board of Directors, Sumitomo Corporation</td> </tr> <tr> <td style="padding: 2px;">June 2012</td> <td style="padding: 2px;">Adviser, Sumitomo Corporation (Current Position)</td> </tr> <tr> <td style="padding: 2px;">June 2012</td> <td style="padding: 2px;">Outside Director of the Company (Current Position)</td> </tr> </table>	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 and CEO, Sumitomo Corporation	June 2007	Chairman of the Board of Directors, Sumitomo Corporation	June 2012	Adviser, Sumitomo Corporation (Current Position)	June 2012	Outside Director of the Company (Current Position)	<p><b>Reasons for nomination as a candidate for Outside Director</b></p> <p>Since June 2012, Motoyuki Oka has served as Outside Director of the Company. We have benefited from his long-standing abundant experience and broad knowledge of management in global corporations and of the financial sector being reflected in the management of the Company and he has worked tirelessly to supervise business execution from an independent and fair standpoint. He has also enormously contributed to improving corporate governance in the Group through actively providing proposals and advice to the Board of Directors. We therefore propose his election as we believe his experience and knowledge are essential for the JT Group management going forward.</p>
	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 and CEO, Sumitomo Corporation																	
June 2007	Chairman of the Board of Directors, Sumitomo Corporation																	
June 2012	Adviser, Sumitomo Corporation (Current Position)																	
June 2012	Outside Director of the Company (Current Position)																	
<b>(Significant Concurrent Positions outside the Company)</b>																		
Outside Director, NEC Corporation																		

Candidate Number																
7	<b>Main Kohda</b>	(Born April 25, 1951)      Number of the Company's Shares Held      0														
<div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;">Reappointed</div> <div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;">Candidate for Outside Director</div> <div style="border: 1px solid black; padding: 5px;">Independent Director</div>	<b>Brief Personal History, Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company</b>															
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%;">September 1995</td> <td>Started independently as Novelist (Current Position)</td> </tr> <tr> <td>January 2003</td> <td>Member of Financial System Council, Ministry of Finance Japan</td> </tr> <tr> <td>April 2004</td> <td>Visiting professor, Faculty of Economics, Shiga University</td> </tr> <tr> <td>March 2005</td> <td>Member of the Council for Transport Policy, Ministry of Land, Infrastructure, Transport and Tourism</td> </tr> <tr> <td>November 2006</td> <td>Member of the Tax Commission, Cabinet Office, Government of Japan</td> </tr> <tr> <td>June 2010</td> <td>Member of the Board of Governors, Japan Broadcasting Corporation</td> </tr> <tr> <td>June 2012</td> <td>Outside Director of the Company (Current Position)</td> </tr> </table>	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	Outside Director of the Company (Current Position)	<p><b>Reasons for nomination as a candidate for Outside Director</b></p> <p>Since June 2012, Main Kohda has served as Outside Director of the Company. We have benefitted from her abundant knowledge of international finance, her broad experience gained from serving on government examination committees and similar positions, and her deep insight and objective point of view that she has demonstrated through her activities as a novelist being reflected in the management of the Company and she has worked tirelessly to supervise business execution from an independent and fair standpoint. She has also enormously contributed to improving corporate governance in the Group through actively providing proposals and advice to the Board of Directors. We therefore propose her election as we believe her experience and knowledge are essential for the JT Group management going forward.</p>
	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	Outside Director of the Company (Current Position)															
<b>(Significant Concurrent Positions outside the Company)</b>																
<p>Novelist</p> <p>Outside Director, LIXIL Group Corporation</p>																

- (Notes)
1. No conflict of interest exists between the Company and the above candidates.
  2. The Company has entered into agreements with both Motoyuki Oka and Main Kohda to limit their liabilities stipulated in Article 423, Paragraph 1 of the Companies Act to the extent permitted by the laws and regulations. Should their election be approved, the Company intends to extend the respective agreements.  
  
If item 2: Partial Amendment to the Articles of Incorporation and the election of Yasutake Tango are approved during this General Meeting, the Company intends to enter into an agreement with him, pursuant to the provision of Article 26 of the amended Articles of Incorporation, to limit his liabilities stipulated in Article 423, Paragraph 1 of the Companies Act to the extent permitted by the laws and regulations.
  3. Both Motoyuki Oka and Main Kohda satisfy the Criteria for Evaluating the Independence of Outside Executives of the Company and the requirements of an independent director prescribed by the Tokyo Stock Exchange, Inc.
  4. The Company has designated Motoyuki Oka and Main Kohda as independent directors as prescribed by the Tokyo Stock Exchange, Inc. and intends to designate both of them as such again, should their election be approved.

**Item 4: Election of One (1) Substitute Audit & Supervisory Board Member**

In preparation against a situation where the number of Outside Audit & Supervisory Board Member falls below the statutory required number, the election of one (1) Substitute Audit & Supervisory Board Member is proposed.

The Audit & Supervisory Board has approved this proposition.

The candidate for the office of Substitute Audit & Supervisory Board Member is as follows:

<b>Michio Masaki</b> (Born February 20, 1961)                      Number of the Company's Shares Held                      0		
	<b>Brief Personal History, Positions in the Company, and Significant Concurrent Positions outside the Company</b>	
	April 1987                      Judicial Apprentice April 1989                      Appointed as Public Prosecutor July 2003                      Head of Takasaki Branch, Maebashi District Public Prosecutors Office April 2004                      Registered as Attorney at Law City-Yuwa Partners (Current Position)	<b>Reasons for candidacy as a Substitute Outside Audit &amp; Supervisory Board Member</b>  Michio Masaki possesses abundant experience in the legal circles and broad insight. Therefore, we judge he would be able to appropriately execute his duty as Outside Audit & Supervisory Board Member of the Company.  While he has not been involved in corporate management except the role of outside executive, we judged that he would be able to appropriately execute his duty as Outside Audit & Supervisory Board Member for the above-mentioned reasons.
	<b>(Significant Concurrent Positions outside the Company)</b>  Attorney at Law, City-Yuwa Partners  Outside Director, Hamai Co., Ltd.	

- (Notes)
1. No conflict of interest exists between the Company and the above candidate.
  2. The Company proposes Michio Masaki be elected as substitute Outside Audit & Supervisory Board Member.
  3. Should Michio Masaki assume the position of Audit & Supervisory Board Member, the Company intends to enter into an agreement with him to limit his liabilities stipulated in Article 423, Paragraph 1 of the Companies Act to the extent permitted by the laws and regulations.
  4. Michio Masaki satisfies the Criteria for Evaluating the Independence of Outside Executives of the Company and the requirements of an independent auditor prescribed by the Tokyo Stock Exchange, Inc.

**【Reference】** Criteria for Evaluating the Independence of Outside Executives

The Company has established a Criteria for Evaluating the Independence of Outside Executives and Independent Directors/Audit & Supervisory Board Members must not fall under any of the following categories.

- 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:
  - (1) 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)
  - (2) A member of the board, audit & supervisory board member, audit advisor, executive officer or employee of JT or an affiliate or sister company of JT
  - (3) A person who has fit the descriptions in (1) or (2) in the recent past

## **Business Report**

(From January 1, 2015 to December 31, 2015)

Effective from the previous fiscal year, the Company and those of its consolidated subsidiaries with fiscal year ends other than December 31 have changed their fiscal year ends to December 31. As a result of this change, the accounting period for the previous fiscal year was the 9-month period from April 1, 2014, through December 31, 2014. In addition, the fiscal year end date of JT International Holding B.V. and its subsidiaries, which operate the Group's International Tobacco Business, is already December 31. Consequently, the accounting periods of these companies for the previous fiscal year were the 12-month period from January 1, 2014, through December 31, 2014.

Comparisons of the current fiscal year accounting period are with the same 12-month period in the previous fiscal year (January 1, 2014 to December 31, 2014).

In addition, for the current fiscal year, as a result of the transfer of shares the Company held in subsidiaries conducting the vending machine operation business and the termination of the manufacture and sale of JT beverage products, the "Beverage Business" has been classified as discontinued operations, and continuing operations and discontinued operations are presented separately. (Revenue, operating profit, adjusted operating profit, and profit attributable to owners of the parent company are shown for continuing operations.)

Performance for the same period of the previous fiscal year is shown in the same manner.

### **I. Matters Concerning Present State of the Corporate Group**

#### **1. Overview and results of operations**

##### **General summary**

##### **Revenue**

Revenue remained at the same level as the same period of the previous fiscal year, ¥2,252.9 billion (a 0.3% decrease year-on-year). This was mainly the result of increases in revenue in the Pharmaceutical Business and the Processed Food Business despite major unfavorable foreign exchange effects on local currencies in the International Tobacco Business and decreased revenue in the Domestic Tobacco Business.

##### **Operating profit, adjusted operating profit and profit attributable to owners of the parent company**

Adjusted operating profit decreased by ¥34.3 billion, or 5.2%, from the same period of the previous fiscal year to ¥626.7 billion. This was mainly the result of unfavorable foreign exchange effects on local currencies in the International Tobacco Business. Adjusted operating profit at constant rates of exchange increased by 9.9% from the same period of the previous fiscal year. Operating profit decreased by ¥7.4 billion, or 1.3%, from the same period of the previous fiscal year to ¥565.2 billion. This was due to decreased costs for the measures to strengthen the competitiveness of the Domestic Tobacco Business and the restructuring of manufacturing facilities of the International Tobacco Business in Europe, despite decreased gain on sales of real estate and the recording of loss on disposal of real estate.

Profit attributable to owners of the parent company from continuing operations increased by ¥7.0 billion, or 1.8%, from the same period of the previous fiscal year to ¥398.5 billion, due to decrease in income taxes and others despite a decrease in operating profit. Profit attributable to owners of the parent company from discontinued operations was ¥87.2 billion (loss of ¥2.4 billion for the same period of the previous fiscal year). This was due to gains relating to the transfer of shares the Company held in its subsidiaries conducting the operation business in the Beverage Business, despite expenses relating to the withdrawal from the manufacture and sale of beverage products of the Company.

Profit attributable to owners of the parent company increased by ¥96.6 billion, or 24.8%, from the same period of the previous fiscal year to ¥485.7 billion.

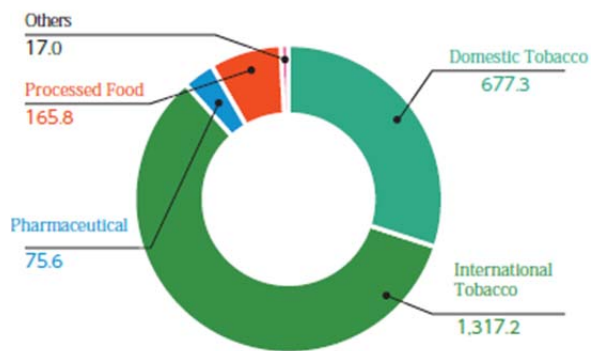
**Consolidated performance 31st term (From January 1, 2015 to December 31, 2015)**

	[Billions of yen]	Change [%]
Revenue	2,252.9	(0.3)
Adjusted operating profit <sup>(Note 1)</sup>	626.7	(5.2)
Adjusted operating profit (at constant rates of exchange) <sup>(Note 2)</sup>	726.5	9.9
Profit attributable to owners of the parent company from continuing operations	398.5	1.8
Profit attributable to owners of the parent company (continuing operations + discontinued operations)	485.7	24.8

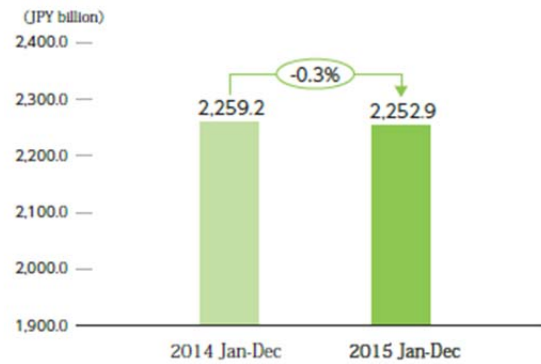
- (Notes)
- Adjusted operating profit is calculated by deducting amortization of intangible assets associated with acquisitions and adjustment items (income and costs) from operating profit (loss). Adjustment items (income and costs) are impairment losses on goodwill, restructuring-related income and costs, and others.
  - Adjusted operating profit (at constant rates of exchange) is a value that excludes foreign exchange effects by translating and calculating adjusted operating profit for the current period in the International Tobacco Business using the foreign exchange rates of the same period of the previous fiscal year.

【Reference】

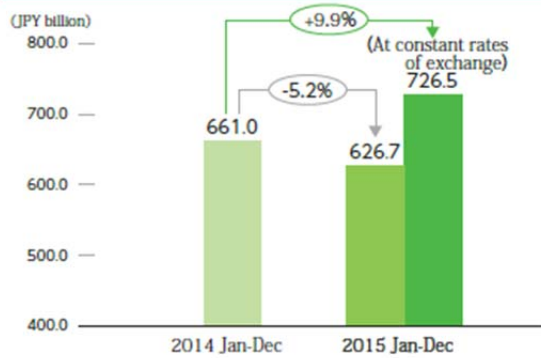
Breakdown of Revenue  
(unit:JPY billion)



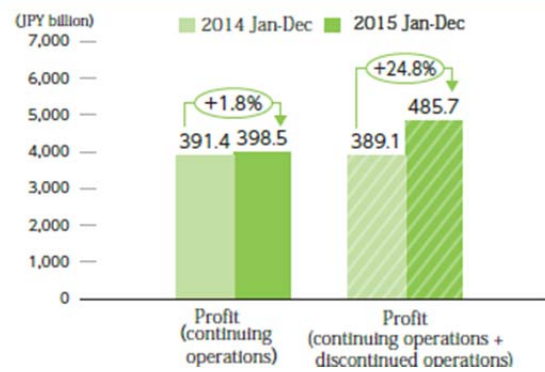
Revenue



Adjusted operating profit



Profit  
(Attributable to owners of parent company)





## Review of operations by business segment

### Domestic Tobacco Business 31st term (From January 1, 2015 to December 31, 2015)

	[Billions of yen]	Change [%]
Revenue	677.3	(1.5)
Core revenue <sup>(Note 1)</sup>	642.2	(1.2)
Adjusted operating profit	254.1	6.4

Sales volume in the fiscal year ended December 31, 2015, decreased by 3.1 billion cigarettes, or 2.8%, from the same period of the previous fiscal year to 109.2 billion cigarettes<sup>(Note 2)</sup>. This mainly reflected a decline in total demand due to a trend toward decline and the impact of the consumption tax hike implemented in April 2014.

Market share was 59.9% (compared with 60.4% for the same period of the previous fiscal year). Amid intensifying competition triggered by new product launches by competitor companies, market share for Mevius was solid, driven by the “Mevius Premium Menthol Option” series. The Company also continued to focus its efforts on proactively launching new products and further strengthening brand equity in Winston, with which brands were integrated in August 2015.

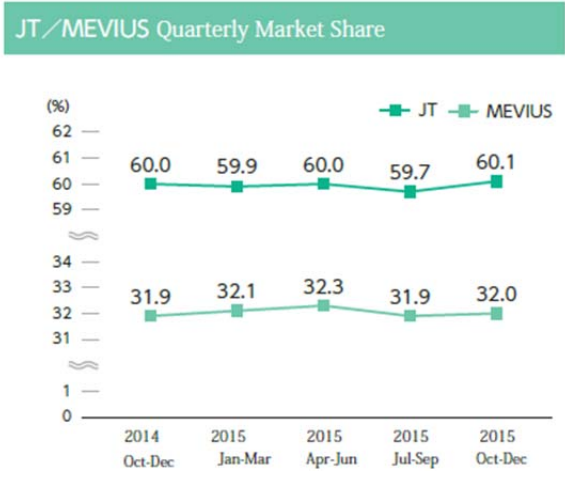
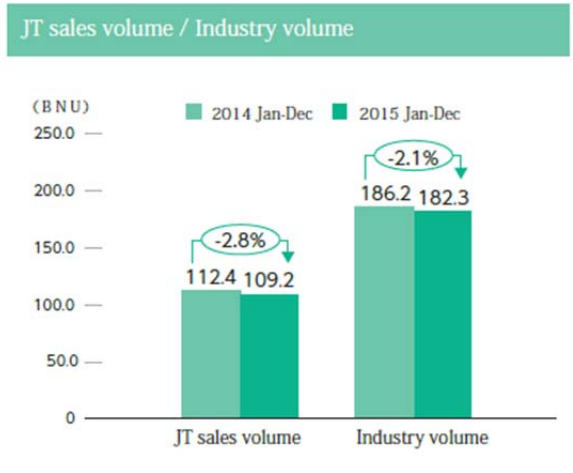
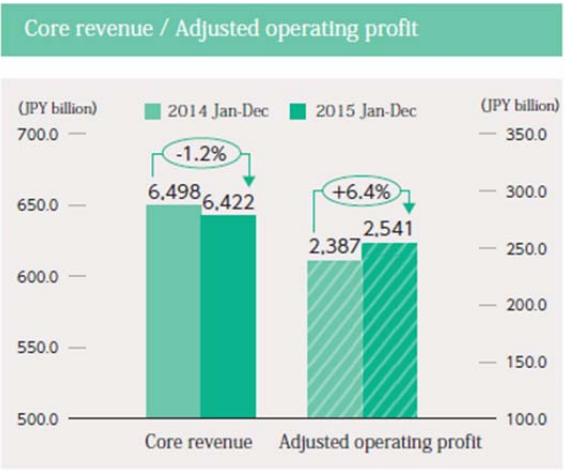
The decline in sales volume was partially offset by favorable pricing, increased sales volume at duty-free shops in Japan and the like, and core revenue decreased by ¥7.6 billion, or 1.2%, from the same period of the previous fiscal year to ¥642.2 billion. Domestic cigarette revenue per 1,000 cigarettes was ¥5,661.

Adjusted operating profit increased by ¥15.3 billion, or 6.4%, from the same period of the previous fiscal year to ¥254.1 billion due to favorable pricing effects and other factors such as the effects of measures to strengthen competitiveness and decreases in temporary costs incurred in the same period of the previous fiscal year.

With the approval of the Minister of Finance, the Company intends to amend the retail price of Mevius and former third class cigarettes<sup>(Note 3)</sup> on April 1, 2016.

- (Notes)
1. Core revenue in the Domestic Tobacco Business is calculated by deducting revenue pertaining to imported tobacco delivery charges, among others, from the revenue.
  2. In addition to the figure stated above, during the fiscal year ended December 31, 2015, 3.8 billion cigarettes were sold at duty-free shops in Japan, as well as at markets in China, Hong Kong and Macau that are under the control of JT's China Division (this amount was 3.4 billion cigarettes in the same period of the previous year).
  3. The term “Former third-class products” refers to tobacco products stipulated as third-class cigarettes in the Tobacco Product Price Act, repealed on April 1, 1985. This applies to Wakaba, Echo, Uruma, Violet, Shinsei, and Golden Bat.

【Reference to Domestic Tobacco Business】



**International Tobacco Business 31st term (From January 1, 2015 to December 31, 2015)**

	[Billions of yen]	Change [%]
Revenue	1,317.2	(0.8)
Core revenue <sup>(Note 1)</sup>	1,252.5	(0.5)
Adjusted operating profit	394.4	(11.8)
Adjusted operating profit (at constant rates of exchange) [Millions of U.S. dollar]	4,712	10.8

Among GFBs<sup>(Note 2)</sup> for the fiscal year ended December 31, 2015, shipment volume increased by 11.4 billion cigarettes, or 4.3%, from the same period of the previous fiscal year to 273.6 billion cigarettes as a result of growth in market shares in countries mainly in Europe, where some improvements in the business environment were seen. Robust sales were also seen in Turkey after a review of sales prices for Camel. Despite the declines in total demand mainly in Russia, total shipment volume<sup>(Note 3)</sup> decreased by 4.1 billion cigarettes, or 1.0%, from the same period of the previous fiscal year to 393.9 billion cigarettes, owing to growth in GFBs.

Despite favorable pricing effects, dollar-based core revenue decreased by \$1,572 million, or 13.2%, from the same period of the previous fiscal year to \$10,338 million, and adjusted operating profit decreased by \$996 million, or 23.4%, to \$3,257 million, due to unfavorable foreign exchange effects on local currencies, particularly the ruble. Adjusted operating profit at constant rates of exchange increased by 10.8% from the same period of the previous fiscal year.

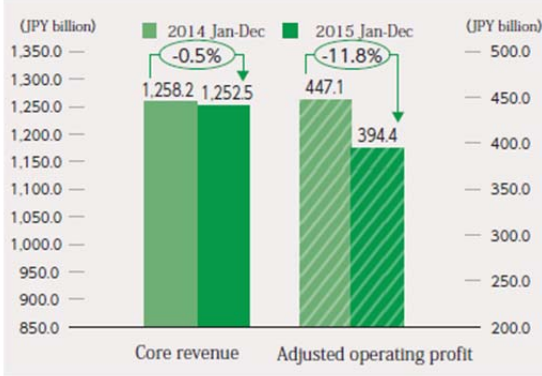
As a result of the effects of a weaker yen when making conversions to that currency, yen-based core revenue decreased by ¥5.7 billion, or 0.5%, from the same period of the previous fiscal year to ¥1,252.5 billion, and adjusted operating profit decreased by ¥52.7 billion, or 11.8%, to ¥394.4 billion.

- (Notes)
1. Core revenue in the International Tobacco Business is calculated by deducting revenue pertaining to distribution business and contract manufacturing, among others, from the revenue.
  2. We have identified eight brands which serve as flagships of the JT Group's brand portfolio, Winston, Camel, Mevius, LD, Benson & Hedges, Glamour, Silk Cut, and Sobranie, which we collectively call the Global Flagship Brands (GFBs).
  3. Includes fine cut tobacco, cigars, pipe tobacco and snus, except for contract manufacturing products, waterpipe tobacco products and emerging products.

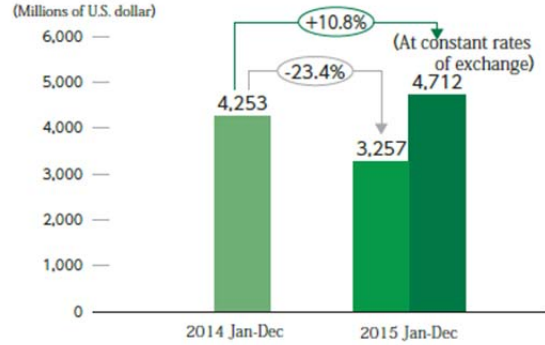
\*

【Reference to International Tobacco Business】

Core revenue / Adjusted operating profit



Adjusted operating profit (USD basis)



Main Market Share

【12-month rolling average】

	2014 Dec	2015 Dec	Variance
Italy	19.9%	21.1%	1.2ppt
France	20.8%	21.4%	0.6ppt
Spain	21.7%	22.3%*	0.6ppt
UK	41.3%	42.0%	0.7ppt
Russia (GFBs)	34.9%	33.6%	△1.3ppt
	23.9%	24.1%	0.2ppt
Turkey	29.0%	30.2%	1.2ppt
Taiwan	38.4%	39.2%	0.8ppt

Source : Internal estimates, Logista, IRI, Nielsen

\*2015 SoM for Spain based on a 12-month rolling average to November.

The exchange rates of major currencies against the U.S. dollar were as follows.

Foreign exchange rate per U.S. dollar	From January 1, 2014 to December 31, 2014	From January 1, 2015 to December 31, 2015
Yen	105.79yen	121.10 yen
Ruble	38.40 rubles	60.98 rubles
Pounds sterling	0.61 pounds sterling	0.65 pounds sterling
Euro	0.75 euros	0.90 euros

**Pharmaceutical Business 31st term (From January 1, 2015 to December 31, 2015)**

	[Billions of yen]	Change
Revenue	75.6	14.8%
Adjusted operating profit	(2.3)	¥(7.3) billion for the same period of the previous fiscal year

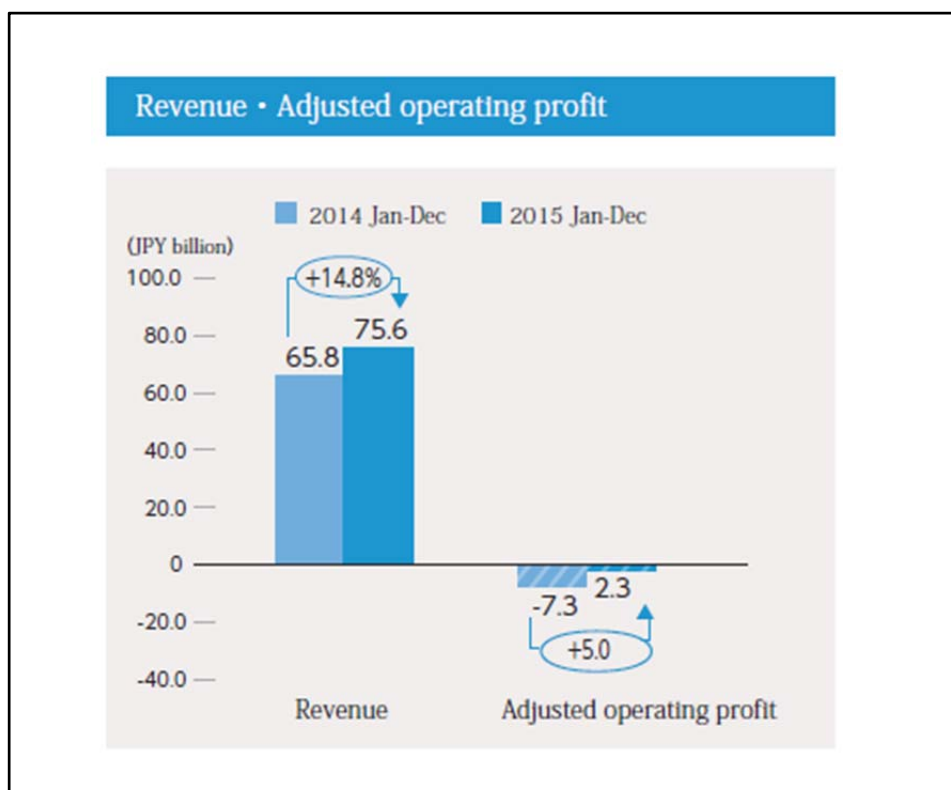
In the Pharmaceutical Business, we are striving to establish a stronger profit platform by maximizing the value of each product and promoting R&D on next-generation strategic products.

In the area of product development, the number of compounds developed in-house that are under clinical development is now nine. Among these compounds, an application for approval of domestic manufacturing and distributing of the anti-HIV drug “elvitegravir/cobicistat/emtricitabine/tenofovir alafenamide fumarate” will be submitted during the first quarter of the fiscal year ending December 31, 2016.

The Group company Torii Pharmaceutical Co., Ltd. launched sales of “MITICURE House Dust Mite Sublingual Tablets,” which is an allergen immunotherapy tablet for house dust mite allergy for the indication of allergic rhinitis, in December 2015 and “Allergen Scratch Extract Positive control (Torii) Histamine Dihydrochloride” in January 2016. In December 2015, the company also filed an application for approval of manufacturing and distributing of “TO-206” (a sublingual tablet), which is an allergen immunotherapy tablet for Japanese cedar pollinosis.

Revenue in the fiscal year ended December 31, 2015 increased by ¥9.8 billion, or 14.8%, from the same period of the previous fiscal year to ¥75.6 billion, reflecting the increased royalty income from growing sales of out-licensed compounds and the strong sales of Torii Pharmaceutical’s products including “Riona<sup>®</sup> Tablets 250mg,” a hyperphosphatemia treatment, and “Stribild<sup>®</sup> Combination Tablets,” an anti-HIV drug. Adjusted operating loss improved by ¥5.0 billion to ¥2.3 billion (compared to adjusted operating loss of ¥7.3 billion in the same period of the previous fiscal year) due to an increase in revenue, etc.

【Reference to Pharmaceutical Business】



【Reference】

Japan Tobacco Inc. Clinical Development as of February 4, 2016

<In-house development>

Code (Generic Name)	Potential Indication/Dosage form	Mechanism		Phase	Note
JTK303(elvitegravir)/ cobicistat/emtricitabine/ tenofovir alafenamide fumarate	HIV infection /Oral	HIV integrase inhibitor/ Nucleoside reverse transcriptase inhibitor	Suppresses blood HIV levels by inhibiting the activities of integrase and reverse transcriptase, enzymes involved in the replication of HIV.	Preparing to file (Japan)	JTK-303(elvitegravir); In-house Cobicistat, Emtricitabine, Tenofovir Alafenamide; In-license (Gilead Sciences)
emtricitabine/ tenofovir alafenamide fumarate	HIV infection /Oral	Nucleoside reverse transcriptase inhibitor	Suppresses blood HIV levels by inhibiting the activity of reverse transcriptase, an enzyme involved in the replication of HIV.	Preparing to file (Japan)	In-license (Gilead Sciences)
JTT-851	Type 2 diabetes mellitus /Oral	G protein-coupled receptor 40 agonist	Decreases blood glucose by stimulation of glucose-dependent insulin secretion.	Phase2 (Japan) Phase2 (Overseas)	In-house
JTZ-951	Anemia associated with chronic kidney disease /Oral	HIF-PHD inhibitor	Increases red blood cells by stimulating production of erythropoietin, an erythropoiesis-stimulating hormone, via inhibition of HIF-PHD.	Phase2(Japan) Phase1(Overseas)	In-house
JTE-052	Autoimmune/allergic diseases /Oral, Topical	JAK inhibitor	Suppresses overactive immune response via inhibition of Janus kinase (JAK) related to immune signal.	Phase2(Japan)	In-house
JTE-051	Autoimmune/allergic diseases /Oral	Interleukin-2 inducible T cell kinase inhibitor	Suppresses overactive immune response via inhibition of the signal to activate T cells related to immune response.	Phase1(Overseas)	In-house
JTE-151	Autoimmune/allergic diseases /Oral	ROR $\gamma$ antagonist	Suppresses overactive immune response via inhibition of ROR $\gamma$ related to Th 17 activation.	Phase1(Overseas)	In-house
JTT-251	Type 2 diabetes mellitus /Oral	PDHK inhibitor	Decreases blood glucose by activation of pyruvate dehydrogenase (PDH) related to carbohydrate metabolism.	Phase1(Overseas)	In-house
JTK-351	HIV infection /Oral	HIV integrase inhibitor	Suppresses blood HIV levels by inhibiting the activity of integrase, an enzyme involved in the replication of HIV.	Phase1(Japan)	In-house

Clinical trial phase presented above is based on the first dose.

<Licensed compounds>

Compound (JT's code)	Licensee	Mechanism		Note
trametinib	Novartis	MEK inhibitor	Inhibits cellular growth by specifically inhibiting the activity of MAPK/ERK Kinase (MEK1/2).	<u>Melanoma</u> Japan marketing approval submitted
Anti-ICOS monoclonal antibody	MedImmune	ICOS antagonist	Suppresses overactive immune response via inhibition of ICOS which regulates activation of T cells.	
JTE-052	LEO Pharma	JAK inhibitor	Suppresses overactive immune response via inhibition of Janus kinase (JAK) related to immune signal.	

## Processed Food Business 31st term (From January 1, 2015 to December 31, 2015)

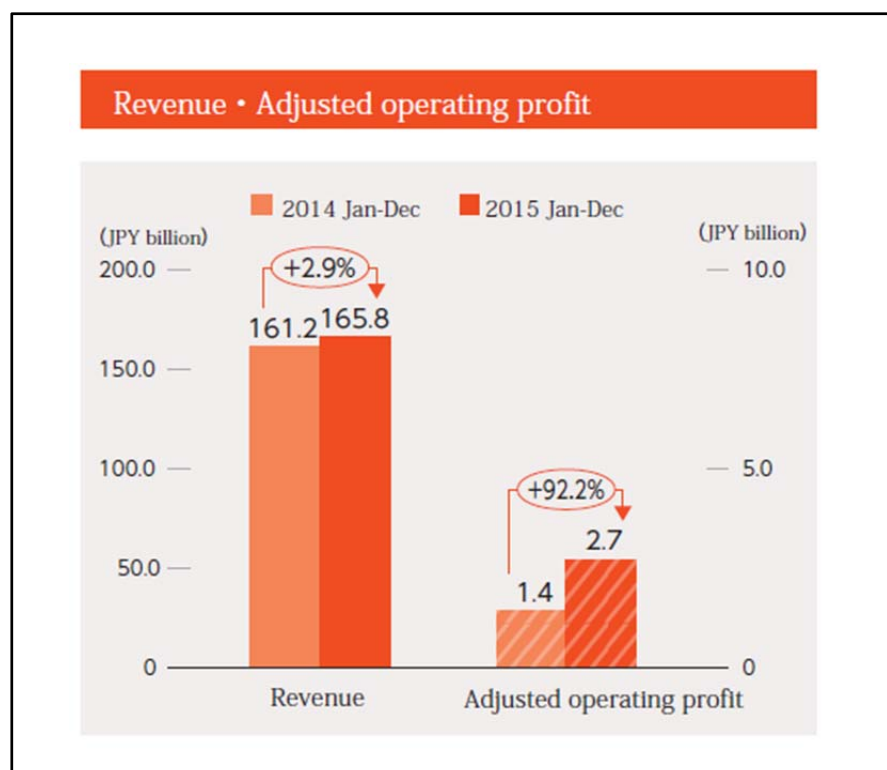
	[Billions of yen]	Change [%]
Revenue	165.8	2.9
Adjusted operating profit	2.7	92.2

With Group company TableMark Co., Ltd. taking a central role, the Processed Food Business is primarily engaged in business concerning frozen and room temperature processed food, mainly staple food products such as frozen noodles, frozen rice, packed rice and baked frozen bread, bakery chain outlets in the Tokyo metropolitan area, and seasonings including yeast extracts and oyster sauce. In the Processed Food Business, we make every effort to produce strong staple food products with established market shares and work to improve cost competitiveness, thus striving to improve profitability.

In the fiscal year ended December 31, 2015, we continued working to expand product sales with an emphasis on staple food products. Specifically, we reviewed products beginning with formulation of ingredients, and launched sales of 38 new and 56 renewed frozen home-use products and room temperature home-use products, including “Sanuki Udon Noodles 5 packs,” with enhanced glutinous and smooth texture, and the “Asari to Takenoko Gohan” series of Japanese rice dishes using selected seasonal ingredients. Marking the 20th year of our packed rice products, we sold logo-branded products and also rolled out products including the new “Bishoku Seikatsu, Niigata-san Koshihikari, Shokumotsu Seniiri Gohan” series, and engaged in active sales promotion.

Revenue in the fiscal year ended December 31, 2015, increased by ¥4.7 billion, or 2.9%, from the same period of the previous fiscal year to ¥165.8 billion, due mainly to strong sales of frozen and room temperature processed food in particular. Adjusted operating profit increased by ¥1.3 billion, or 92.2%, from the same period of the previous fiscal year to ¥2.7 billion, due to the increase in revenue.

### 【Reference to Processed Food Business】



## **2. Status of capital expenditures**

In this fiscal year, we made capital expenditures totaling ¥129.8 billion for continuing operations.

In the Domestic Tobacco Business, we spent ¥37.4 billion, mainly on investments accompanying maintenance and upgrade of manufacturing processes, productivity improvements, adaptation to new products, improvements in product specifications, and others. In the International Tobacco Business, we invested ¥77.2 billion mainly for improvements in product specifications in addition to optimization of manufacturing facilities. In the Pharmaceutical Business, we spent ¥6.2 billion on enhancing and strengthening research and development structures and the like. In the Processed Food Business, we invested ¥5.7 billion in improvement, maintenance and renewals of production capability.

Please note that our own capital was allocated for capital expenditures.

\* Capital expenditures includes land; building and structures; machinery and vehicles; and other property, plant and equipment, as well as goodwill, right of trademark, software and other intangible assets, necessary for production improvements at factories and other facilities, strengthening competitiveness and executing business in a variety of fields, excluding assets acquired through business combinations.

\* In conjunction with the transfer of the Company's holdings of shares of Japan Beverage Holdings Inc. in July 2015, the head office, work sites, and other sales and distribution facilities of that company are excluded from the main facilities of the Group. The book value of those facilities as of the end of July, 2015 is ¥23,480 million.

## **3. Status of financing**

The Company conducted an issuance of corporate bonds totaling ¥115.0 billion on July 15, 2015, to be applied to the repayment of short-term borrowings.

## **4. Business transfers, absorption-type company split or incorporation-type company split**

No items to report.

## **5. Business transfers from other companies**

The Group entered into an agreement with the Reynolds American Inc. group of companies ("RAI") to acquire the Natural American Spirit business outside the United States, including trademarks involved with the Natural American Spirit business outside the United States and all shares of RAI's subsidiaries outside the United States that are sales companies for tobacco products of the same brand. On September 29, 2015, the parties concluded a contract.

In accordance with this contract, the Group completed the acquisition of the business on January 13, 2016.

## **6. Succession of rights and obligations relating to other entities' business as a result of absorption-type merger or company split**

No items to report.

## **7. Acquisition or disposal of shares, other equities or subscription rights to shares of other companies**

We transferred shares we held in our subsidiaries conducting vending machine operation business, Japan Beverage Holdings Inc. and JT A-Star Co., Ltd., and beverage brands of the Company, "Roots" and "Momono Tennensui," to Suntory Beverage & Food Limited on July 31, 2015.



## 8. Trends in assets and operating results

### (1) Trends in assets and operating results of the JT Group

	28th term FY2012	29th term FY2013	30th term From April 1, 2014 to December 31, 2014	(Reference) From January 1, 2014 to December 31, 2014	31st term From January 1, 2015 to December 31, 2015
Revenue (Millions of yen)	2,120,196	2,399,841	2,019,745	2,259,240	2,252,884
Profit before income taxes (Millions of yen)	509,355	636,203	502,526	574,572	565,113
Profit attributable to owners of the parent company (Millions of yen)	343,596	427,987	364,502	391,431	398,454
Basic earnings per share (Yen)	181.07	235.48	200.55	215.36	221.95
Total assets (Millions of yen)	3,852,567	4,616,766	4,704,706	4,704,706	4,558,235
Total equity (Millions of yen)	1,892,431	2,596,091	2,622,503	2,622,503	2,521,524

(Notes) 1. Effective from the previous fiscal year, the Company and those of its consolidated subsidiaries with fiscal year ends other than December 31 have changed their fiscal year ends to December 31. As a result of this change, the accounting period for the previous fiscal year was the 9-month period from April 1, 2014, through December 31, 2014. In addition, the fiscal year end date of JT International Holding B.V. and its subsidiaries, which operate the Group's International Tobacco Business, is already December 31. Consequently, the accounting periods of these companies for the previous fiscal year were the 12-month period from January 1, 2014, through December 31, 2014. Comparisons of the current fiscal year accounting period are with the same 12-month period in the previous fiscal year (January 1, 2014 to December 31, 2014).

2. Consolidated financial statements of the JT Group are prepared based on IFRS.
3. The Company conducted a share split at a ratio of 200 to 1 with July 1, 2012 as effective date. Consequently, basic earnings per share are calculated on the assumption that this share split was conducted at the beginning of the 28th term.
4. The Beverages Business was categorized as discontinued operations during the current fiscal year, and the 30th term is shown revised. Accordingly, revenue, profit before income taxes, profit attributable to owners of the parent company, and basic earnings per share in "30th term," "Reference," and "31st term" are shown for continuing operations.

Profit attributable to owners of the parent company and basic earnings per share with amounts for discontinued operations added are as follows.

	(continuing operations + discontinued operations)		
	30th term From April 1, 2014 to December 31, 2014	(Reference) From January 1, 2014 to December 31, 2014	31st term From January 1, 2015 to December 31, 2015
Profit attributable to owners of the parent company (Millions of yen)	362,919	389,065	485,691
Basic earnings per share (Yen)	199.67	214.06	270.54

## (2) Trends in assets and non-consolidated operating results of JT

	28th term FY2012	29th term FY2013	30th term From April 1, 2014 to December 31, 2014	31st term From January 1, 2015 to December 31, 2015
Net sales (Millions of yen)	781,067	809,967	572,323	732,483
Ordinary income (Millions of yen)	210,568	230,900	159,746	371,989
Net income (Millions of yen)	149,773	168,779	108,656	345,009
Net income per share (Yen)	78.93	92.86	59.78	192.18
Total assets (Millions of yen)	2,784,914	2,732,637	2,729,270	2,756,785
Net assets (Millions of yen)	1,714,529	1,734,379	1,649,151	1,713,068

- (Notes) 1. Effective from the previous fiscal year, the Company has changed its fiscal year end to December 31. As a result of this change, the accounting period for the previous fiscal year was the 9-month period from April 1, 2014, through December 31, 2014.
2. The figures were prepared based on Japanese GAAP.
3. The Company conducted a share split at a ratio of 200 to 1, with July 1, 2012 as effective date. Consequently, net income per share is calculated on the assumption that this share split was conducted at the beginning of the 28th term.

## 9. Issues to be addressed

### (1) Basic management policy

Our management principles are based on the pursuit of the “4S” model (“S” is for satisfaction). The model requires us to fulfill our responsibility towards four classes of stakeholders—consumers, shareholders, employees and society, with a particular emphasis on consumers—in a well-balanced and high level manner ensuring satisfaction for all of them.

We created our vision and mission based on the “4S” model. Our vision is to become a company committed to global growth by providing diversified value that is uniquely available from JT Group. Our mission is to create, develop and nurture our unique brands to win consumer trust, while understanding and respecting the environment and the diversity of societies and individuals.

In order to accomplish it, we have set “The JT Group Way” as code of conduct which all of the JT Group members should follow. The JT Group Way requires that we: fulfill the expectations of our consumers and behave responsibly; strive for quality in everything we do through continuous improvement; and leverage diversity across the JT Group.

The JT Group has attained sustainable profit growth and will continue to do so through the pursuit of the “4S” model. Since attaining sustainable profit growth requires us to continue to provide new value and satisfaction to consumers, we believe it is essential to steadily make business investments for future mid- to long-term profit growth.

We believe that the pursuit of the “4S” model will lead to a consistent increase in corporate value in the mid- to long-term and therefore that it is the best approach to serve the interests of all stakeholders.

### (2) Mid- to long-term management strategy and issues

The JT Group formulated its business plan, a three-year plan that is renewed each year on a rolling basis in order to speed up the Group’s ability to respond appropriately to unexpected changes in accordance with its recognition that strengthening its “adaptability to a changing environment” is an important theme. Through the plan, the Group intends to carry on strategies that have hitherto been implemented for the

Group’s long-term vision of becoming a “Company committed to global growth that provides consumers diversified value uniquely available from JT” while also taking them to a higher level.

In the “Business Plan 2016,” there is no change in the Group’s management resources allocation policy, under which we will continue to place a high priority on making business investments that contribute to sustainable mid- to long-term profit growth as well as on valuing the balance between profit growth through business investments and shareholder returns.

In accordance with the “Business Plan 2016,” the Group will continue to pursue mid to high single-digit annual average growth rate over the mid- to long-term with an adjusted operating profit growth rate (at constant rates of exchange)<sup>(Note 1)</sup>.

With regard to shareholder return policies, the Group will pursue enhanced shareholder returns in proportion to the mid- to long-term profit growth by continually making proactive business investments while maintaining a strong financial base<sup>(Note 2)</sup> that enables response to any possible environmental changes.

Specifically, the Group will work toward stable and consistent growth in dividend per share. Whether to execute the acquisition of treasury shares will be considered in view of factors including the medium-term outlook on business environment and financial positions.

Adopting a stakeholder model, the Group will continue to monitor a trend in shareholder returns of global FMCG<sup>(Note 3)</sup> companies which achieve a high-growth business.

The mid- to long-term targets and roles for each business are as follows.

Tobacco Business	Grow adjusted operating profit at mid to high single-digit rate per annum over the mid- to long-term as the core business and profit growth engine of the JT Group
Domestic	Core business that serves as the highly competitive profit generator
International	Also a core business that serves as the profit growth engine
Pharmaceutical Business	Strive to make stable profit contribution to the JT Group through promotion of R&D on next-generation strategic products and value maximization of each product
Processed Food Business	Strive to achieve operating profit margin that is, at very least, on par with industry average and aim to make further profit contribution to the JT Group

In order to achieve the consolidated mid- to long-term profit targets, our strategic focus across all businesses is to achieve quality top line growth by striving in accordance with each target and role. For each business, our strategic focus is to improve cost competitiveness and business foundations that support these efforts, thereby achieving sustainable profit growth.

We will work to strengthen our CSR initiatives further with an emphasis on the pursuit of high-level, well-balanced stakeholder satisfaction based on the “4S” model, which constitutes JT’s management principles.

We think that the business environment surrounding the JT Group will continue to change on the global scale and at a faster rate. In order to respond to the various changes that may happen in the future, we will continue to strive for sustained profit growth in the mid- to long-term and steadily actualizing shareholder returns, based on the “4S” model and through consistent business investment and an adaptability to a changing environment.

(Notes) 1. Adjusted operating profit is calculated by deducting amortization of intangible assets associated with acquisitions and adjustment items (income and costs) from operating profit (loss). Adjustment items (income and costs) are impairment losses on goodwill, restructuring-related income and costs, and others.

Adjusted operating profit growth rate (at constant rates of exchange) is a financial measurement that excludes foreign exchange effects by translating and calculating adjusted operating profit for the current period in the International Tobacco Business using the foreign exchange rates of the same period of the previous fiscal year.

2. As its financial policy, the Group will maintain a strong financial base that secures stability in case of changes in business environment such as economic crises and flexibility enabling expeditious responses to business investment opportunities.
3. FMCG: Fast Moving Consumer Goods (daily consumer durables)

#### 10. Main business contents

Business segment	Main business
Domestic Tobacco Business	Manufacture and sale of tobacco products, mainly Mevius and Seven Star
International Tobacco Business	Manufacture and sale of tobacco products, mainly Winston and Camel
Pharmaceutical Business	Research and development, manufacture and sale of prescription drugs
Processed Food Business	Manufacture and sale of frozen and room temperature processed foods, bakery products and seasonings

(Note) The Beverage Business was removed from the main businesses in the fiscal year ended December 31, 2015.

#### 11. Status of important subsidiaries

Company name	Capital	Equity ownership (%)	Main business
TS Network Co., Ltd.	(Millions of yen) 460	74.5	Distribution of tobacco products
Japan Filter Technology Co., Ltd.	(Millions of yen) 461	88.6	Manufacture and sale of filters for tobacco products
JT International S.A.	(Thousands of CHF) 1,215,425	(100.0)	Manufacture and sale of tobacco products
Gallaher Ltd.	(Thousands of GBP) 172,495	(100.0)	Manufacture and sale of tobacco products
Torii Pharmaceutical Co., Ltd.	(Millions of yen) 5,190	53.5	Manufacture and sale of prescription drugs
TableMark Co., Ltd.	(Millions of yen) 22,500	(100.0)	Manufacture and sale of processed foods

- (Notes) 1. Figures in parentheses in the “Equity ownership” column indicate indirect holding rates.
2. There were 194 consolidated subsidiaries in this fiscal year, including 6 above-mentioned important subsidiaries, as well as 12 affiliates accounted for by the equity method. In addition, consolidated revenue for the fiscal year ended December 31, 2015 amounted to ¥2,252.9 billion with profit attributable to owners of the parent company from continuing operations at ¥398.5 billion.
  3. JT Beverage Inc. has been removed from important subsidiaries beginning with the fiscal year ended December 31, 2015.
  4. On the last day of the fiscal year ended December 31, 2015, there were no specified wholly owned subsidiaries as stipulated in Article 118, item 4 of the Ordinance for Enforcement of the Companies Act.

## 12. Major lenders

No items to report.

## 13. Major sales offices and factories

### (1) JT

Headquarters: 2-1, Toranomom 2-chome, Minato-ku, Tokyo, Japan

Regional sales headquarters:

Hokkaido (Hokkaido), Tohoku (Miyagi), Joshinetsu (Gunma), Kita-Kanto (Saitama)  
Higashi-Kanto (Chiba), Tokyo (Tokyo), Kanagawa (Kanagawa), Hokuriku (Ishikawa),  
Tokai (Aichi), Kita-Kansai (Osaka), Osaka (Osaka), Chugoku (Hiroshima),  
Shikoku (Kagawa), Kyushu (Fukuoka), Minami-Kyushu (Kagoshima)

Factories: Kita-Kanto (Tochigi), Tokai (Shizuoka), Kansai (Kyoto), Kyushu (Fukuoka),  
and other 2 factories

Laboratories: Leaf Tobacco Research Center (Tochigi),  
Tobacco Science Research Center (Kanagawa),  
and Central Pharmaceutical Research Institute (Osaka)

- (Notes)
1. The Company performed consolidation of sales offices effective April 1, 2015, transitioning from a structure of 25 area branch offices to one of 15 regional sales headquarters.
  2. At the end of March, 2015, the Company discontinued the Koriyama factory, Hamamatsu factory, and Okayama printing factory.

### (2) Subsidiaries

TS Network Co., Ltd. (Tokyo)

Japan Filter Technology Co., Ltd. (Tokyo)

JT International S.A. (Switzerland)

Gallaher Ltd. (U.K.)

Torii Pharmaceutical Co., Ltd. (Tokyo)

TableMark Co., Ltd. (Tokyo)

(Note) Text in parentheses shows the location of head office.

#### 14. Status of employees

##### (1) Employees of the JT Group

Business segment	Number of employees (Person)
Domestic Tobacco Business	9,470
International Tobacco Business	26,200
Pharmaceutical Business	1,839
Processed Food Business	5,798
Common company-wide services within JT	1,178
Total	44,485

(Note) The above number of employees indicates the number of working employees.

##### (2) Employees of JT

Male/Female	Number of employees (Person)	Year on year increase (decrease) (Person)	Average age (Year old)	Average years of service (Year)
Male	6,511	(1,252)	43.5	20.3
Female	1,038	(114)	36.2	11.8
Total or average	7,549	(1,366)	42.5	19.1

(Note) 1. The above number of employees indicates the number of working employees.  
2. The number of employees is reduced by 1,366 from the previous term. This is primarily due to factors including the implementation of voluntary retirement measures.

## II. Matters Concerning Shares of JT

1. **Total number of shares authorized:** 8,000,000,000 shares
2. **Total number of shares issued:** 2,000,000,000 shares  
(Including treasury shares 209,285,431 shares)
3. **Number of shareholders:** 121,931
4. **Major shareholders**

Name of shareholders	Number of shares held (Share)	Equity ownership (%)
The Minister of Finance	666,927,200	37.24
Japan Trustee Services Bank, Ltd. (Trust Account)	54,120,200	3.02
The Master Trust Bank of Japan, Ltd. (Trust Account)	51,189,400	2.86
State Street Bank and Trust Company 505223	44,329,643	2.48
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-trusted by Mizuho Trust and Banking Co., Ltd.	33,800,000	1.89
State Street Bank and Trust Company	33,153,315	1.85
JPMorgan Chase Bank 380055	29,990,439	1.67
GIC Private Limited	27,439,663	1.53
State Street Bank and Trust Company 505001	26,504,296	1.48
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	20,390,143	1.14

(Note) Equity ownership is calculated after deducting treasury stock (209,285,431 shares).

## 5. Other significant matters concerning shares

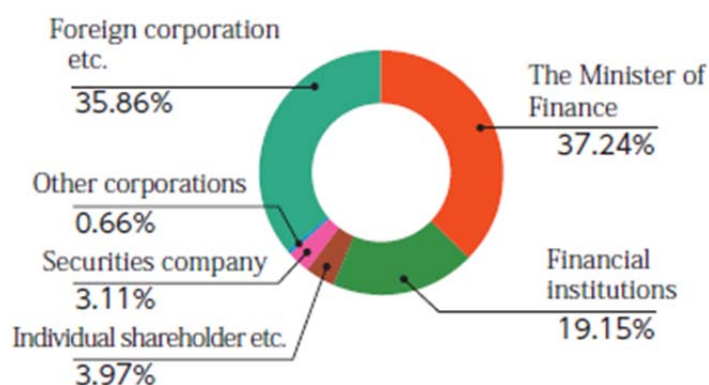
In accordance with a resolution of the Board of Directors on February 5, 2015, and with the aim of supplementing mid- to long-term adjusted EPS\* (at constant rates of exchange) growth as part of efforts to increase shareholder returns, the Company acquired treasury shares as follows.

Class and number of acquired shares	Common shares 26,896,200 shares
Acquisition cost	¥99,999,695,750
Period	From February 9, 2015 to March 18, 2015 (contract basis)
Acquisition method	Purchase on the Tokyo Stock Exchange via a trust bank

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

\* Adjustment items (income and costs): Impairment losses on goodwill ± restructuring income and costs ± others

### 【Reference】 Composition ratio of owner (Deducting treasury stock)





### III. Matters Concerning Subscription Rights to Shares

#### 1. Total number and others of subscription rights to shares as of December 31, 2015

##### (1) Total number of subscription rights to shares:

5,660 units

##### (2) Class and number of shares to be delivered upon exercise of subscription rights to shares:

Common shares 1,132,000 shares  
(200 shares per subscription right to shares)

#### 2. Status of subscription rights to shares held by Members of the Board and Audit & Supervisory Board Members of JT as of December 31, 2015

##### (1) Class and number of shares to be delivered upon exercise of subscription rights to shares:

Common shares 324,800 shares  
(200 shares per subscription right to shares)

##### (2) Value of property to be contributed when subscription rights to shares are exercised

¥1 per share

##### (3) Assignment of subscription rights to shares

The approval of the Board of Directors is required for the assignment of subscription rights to shares.

##### (4) Conditions for exercising subscription rights to shares

Subscription rights to shares holder may exercise his/her subscription rights to shares only if he/she loses his/her all position as Member of the Board, Audit & Supervisory Board Member and Executive Officer (*sikkoyakuin*).

##### (5) Status of ownership by Members of the Board and Audit & Supervisory Board Members of JT

Category	Year granted	Payment due upon allotment of subscription rights to shares	Exercise period of subscription rights to shares	Number of units	Number of shareholders
Member of the Board	FY2007	¥581,269 per unit	From January 9, 2008 to January 8, 2038	46	4
	FY2008	¥285,904 per unit	From October 7, 2008 to October 6, 2038	81	5
	FY2009	¥197,517 per unit	From October 14, 2009 to October 13, 2039	212	5
	FY2010	¥198,386 per unit	From October 5, 2010 to October 4, 2040	183	5
	FY2011	¥277,947 per unit	From October 4, 2011 to October 3, 2041	257	5
	FY2012	¥320,000 per unit	From October 10, 2012 to October 9, 2042	257	5
	FY2013	¥513,400 per unit	From October 8, 2013 to October 7, 2043	165	5
	FY2014	¥483,200 per unit	From October 7, 2014 to October 6, 2044	178	6
	FY2015	¥711,200 per unit	From August 4, 2015 to August 3, 2045	245	6

(Note) Outside Directors are not included in the above category of “Member of the Board.”

**3. Status of subscription rights to shares granted to employees of JT from January 1, 2015 to December 31, 2015**

**(1) Class and number of shares to be delivered upon exercise of subscription rights to shares:**

Common shares 66,200 shares  
(200 shares per subscription right to shares)

**(2) Payment due upon allotment of subscription rights to shares**

¥711,200 per unit

**(3) Value of property to be contributed when subscription rights to shares are exercised**

¥1 per share

**(4) Exercise period of subscription rights to shares**

From August 4, 2015 to August 3, 2045

**(5) Assignment of subscription rights to shares**

The approval of the Board of Directors is required for the assignment of subscription rights to shares.

**(6) Conditions for exercising subscription rights to shares**

Subscription rights to shares holder may exercise his/her subscription rights to shares only if he/she loses his/her all position as Member of the Board, Audit & Supervisory Board Member and Executive Officer (*sikkoyakuin*).

**(7) Status of granting to employees of JT**

331 subscription rights to shares were granted to 18 Executive Officers (*sikkoyakuin*) (excluding persons serving as Members of the Board) of JT.

#### IV. Matters Concerning Members of the Board and Audit & Supervisory Board Members of JT

##### 1. Members of the Board and Audit & Supervisory Board Members

Position	Name	Responsibility	Significant concurrent positions outside the Company
Chairman of the Board	Yasutake Tango		The Ogaki Kyoritsu Bank, Ltd. Outside Director
President and Representative Director	Mitsuomi Koizumi		
Executive Vice President and Representative Director	Yasushi Shingai	Assistant to CEO in Compliance, Strategy, HR, General Administration, Legal and Operational Review & Business Assurance	Recruit Holdings Co., Ltd. Outside Director
Executive Vice President and Representative Director	Noriaki Okubo	Assistant to CEO in Pharmaceutical Business, Beverage Business and Processed Food Business	
Executive Vice President and Representative Director	Akira Saeki	President, Tobacco Business	JT International Group Holding B.V. Chairman
Executive Vice President and Member of the Board	Hideki Miyazaki	Assistant to CEO in CSR, Finance and Communications	
Member of the Board	Motoyuki Oka		NEC Corporation Outside Director
Member of the Board	Main Kohda		Novelist LIXIL Group Corporation Outside Director
Standing Audit & Supervisory Board Member	Futoshi Nakamura		
Standing Audit & Supervisory Board Member	Tomotaka Kojima		
Audit & Supervisory Board Member	Yoshinori Imai		
Audit & Supervisory Board Member*	Hiroshi Obayashi		Obayashi Law Office Attorney at Law Daiwa Securities Co., Ltd. Outside Audit & Supervisory Board Member Mitsubishi Electric Corporation Outside Director NIPPON STEEL & SUMITOMO METAL CORPORATION Outside Audit & Supervisory Board Member

(Notes) 1. Members of the Board Motoyuki Oka and Main Kohda are Outside Directors.

2. Audit & Supervisory Board Members Yoshinori Imai and Hiroshi Obayashi are Outside Audit & Supervisory Board Members.
3. Members of the Board, Motoyuki Oka and Main Kohda, and Audit & Supervisory Board Members, Yoshinori Imai and Hiroshi Obayashi, were designated as independent officers (directors and auditors) as prescribed by the Tokyo Stock Exchange, Inc.
4. Audit & Supervisory Board Member Futoshi Nakamura and Audit & Supervisory Board Member Tomotaka Kojima have relevant knowledge about financing and accounting as they were the Senior Manager of the Accounting Division of JT and Deputy Head of Finance Group of JT, respectively.
5. The Audit & Supervisory Board Member denoted with the asterisk \* has assumed his office on March 20, 2015.
6. Audit & Supervisory Board Member Koichi Ueda resigned on March 20, 2015.

Name	Positions and responsibilities in the Company, and significant concurrent positions outside the Company	
	As of December 31, 2015	As of January 1, 2016
Mitsuomi Koizumi	President and Representative Director	President, Chief Executive Officer and Representative Director
Yasushi Shingai	Executive Vice President and Representative Director Assistant to CEO in Compliance, Strategy, HR, General Administration, Legal and Operational Review & Business Assurance  Recruit Holdings Co., Ltd. Outside Director	Executive Vice President, Deputy Chief Executive Officer and Representative Director, Assistant to CEO in Compliance, General Administration, Legal, Strategy, IT, Business Development, HR and Operational Review & Business Assurance  Recruit Holdings Co., Ltd. Outside Director
Noriaki Okubo	Executive Vice President and Representative Director Assistant to CEO in Pharmaceutical Business, Beverage Business and Processed Food Business	Member of the Board
Akira Saeki	Executive Vice President and Representative Director President, Tobacco Business JT International Group Holding B.V. Chairman	Member of the Board

## 2. Remunerations for Members of the Board and Audit & Supervisory Board Members

### (1) Total remunerations for Members of the Board and Audit & Supervisory Board Members

Category	Members of the Board		Audit & Supervisory Board Members		Total	
	Number to be paid (Person)	Amount to be paid (Millions of yen)	Number to be paid (Person)	Amount to be paid (Millions of yen)	Number to be paid (Person)	Amount to be paid (Millions of yen)
Basic remuneration	8	357	5	96	13	453
Directors' bonus	5	189	-	-	5	189
Stock option grants	6	174	-	-	6	174
Total	-	720	-	96	-	816

(Notes) 1. For directors' bonuses, the amounts planned to be paid are shown.

2. For stock option grants, the total amounts granted during this fiscal year are shown.

### (2) Policy concerning the remuneration amount for Members of the Board and Audit &

## **Supervisory Board Members or the remuneration calculation method thereof and the method of determining the policy**

The Company has the Compensation Advisory Panel in place as a non-statutory advisory body to the Board of Directors in order to increase objectivity and transparency regarding the remuneration of Members of the Board and Audit & Supervisory Board Members. The Compensation Advisory Panel, which holds meetings several times a year, holds deliberations and makes reports in accordance with its advice on such matters as the Company's policy, system and calculation method regarding remuneration for its Members of the Board and Executive Officers (*sikkoyakuin*), and monitors the status of remuneration for Members of the Board and Audit & Supervisory Board Members at the Company. The Compensation Advisory Panel currently consists of five members: the Chairman of the Board, who has the role of the panel's chairman, and two Outside Directors and two Outside Audit & Supervisory Board Members.

### Outside members of Compensation Advisory Panel

Outside Director	Motoyuki Oka	
Outside Director	Main Kohda	
Outside Audit & Supervisory Board Member		Yoshinori Imai
Outside Audit & Supervisory Board Member		Hiroshi Obayashi

In light of reports by the Compensation Advisory Panel, JT's basic concept of remuneration for Members of the Board and Audit & Supervisory Board Members is as follows:

- Setting the remuneration at a level sufficient to secure personnel with superior capabilities
- Linking the remuneration to business performance so as to motivate Members of the Board and Audit & Supervisory Board Members to enhance performance
- Linking the remuneration to mid- and long-term corporate value
- Ensuring transparency based on an objective point of view and quantitative schemes

In accordance with the above concept, the remuneration for Members of the Board and Audit & Supervisory Board Members is made of three components. In addition to the monthly "basic remuneration," there is a "directors' bonus," which reflects the Company's business performance in the relevant fiscal year, and a "stock option," which is linked to the mid- and long-term corporate value of JT. The said "stock option" was introduced in 2007 as remuneration that is linked to the mid- and long-term corporate value, thereby providing an incentive towards increasing shareholder value.

The composition of the remuneration for Members of the Board is as follows:

For Members of the Board who also serve as Executive Officers (*sikkoyakuin*), remuneration consists of the "basic remuneration," the "directors' bonus," and the "stock option" because they are required to achieve results by executing their duties on a daily basis. If the "directors' bonus" is paid at the standard amount, the sum of this bonus and the "stock option" is set to be equivalent to slightly less than 80% of the "basic remuneration" for President and Executive Vice President, and approximately 70% for other Members of the Board.

Members of the Board (excluding Outside Directors) who do not serve as Executive Officers (*sikkoyakuin*) receive remuneration that consists of the "basic remuneration" and the "stock option" since they are required to make decisions on company-wide management strategies and fulfill supervisory functions to enhance corporate value.

Remuneration for Outside Directors, which is not linked to business performance with the purpose of maintaining their independence, is composed of "basic remuneration" only.

In the light of the role of Audit & Supervisory Board Members, which is primarily to conduct audits on legal compliance, their remuneration consists solely of the "basic remuneration."

The upper limit of remuneration for the Company's Members of the Board and Audit & Supervisory Board Members, which was approved at the 22nd Ordinary General Meeting of Shareholders (held in June 2007), is ¥870 million per year for all Directors and ¥190 million per year for all Audit & Supervisory Board Members. In addition, the upper limit of "stock option" that may be granted to Members of the Board separately to the remuneration mentioned above is 800 units and ¥200 million per

year. This was also approved at the 22nd Ordinary General Meeting of Shareholders. The number of units allocated for each term, including the number allocated to Executive Officers (*sikkoyakuin*) who are not also Members of the Board, is decided by resolution of the Board of Directors.

The amounts of remunerations for Directors and Audit & Supervisory Board Members are determined by resolution of the Board of Directors in the case of remuneration for Members of the Board, and through discussions among Audit & Supervisory Board Members in the case of remunerations for Audit & Supervisory Board Members, within the approved upper limits, in light of deliberations by the Compensation Advisory Panel. These processes are carried out after benchmarking of levels of remuneration at major Japanese manufacturers that operate globally, and whose size and profits are at similar levels to those of the Company, is undertaken based on third-party research into remuneration for corporate executives.

### 3. Matters concerning Outside Directors and Outside Audit & Supervisory Board Members

#### (1) Significant concurrent positions outside the Company

Category	Name	Organizations where concurrent positions are held	Position
Member of the Board	Motoyuki Oka	NEC Corporation	Outside Director
	Main Kohda	Novelist	
		LIXIL Group Corporation	Outside Director
Audit & Supervisory Board Member	Hiroshi Obayashi	Obayashi Law Office	Attorney at Law
		Daiwa Securities Co., Ltd.	Outside Audit & Supervisory Board Member
		Mitsubishi Electric Corporation	Outside Director
		NIPPON STEEL & SUMITOMO METAL CORPORATION	Outside Audit & Supervisory Board Member

(Note) There are no special relationships to be mentioned between the above organizations in which concurrent positions are held and JT.

#### (2) Major activities during this fiscal year

Category	Name	Status of main activities
Member of the Board	Motoyuki Oka	Attended 16 out of 18 meetings of the Board of Directors held during this fiscal year. Mr. Oka asked questions and made remarks where necessary at these meetings, as a Member of the Board.
	Main Kohda	Attended all 18 meetings of the Board of Directors held during this fiscal year. Ms. Kohda asked questions and made remarks where necessary at these meetings, as a Member of the Board.
Audit & Supervisory Board Member	Yoshinori Imai	Attended 17 out of 18 meetings of the Board of Directors, as well as all 16 meetings of the Audit & Supervisory Board held during this fiscal year. Mr. Imai asked questions and made remarks where necessary at these meetings, as an Audit & Supervisory Board Member.
	Hiroshi Obayashi	Attended 13 out of 14 meetings of the Board of Directors, as well as all 12 meetings of the Audit & Supervisory Board, held during this fiscal year since he assumed office on March 20, 2015. Mr. Obayashi asked questions and made remarks where necessary at these meetings, as an Audit & Supervisory Board Member.

**(3) Outline of limited liability agreements**

The Company has entered into agreements with each of its Outside Directors and Outside Audit & Supervisory Board Members with respect to the liability set forth in Article 423, paragraph 1 of the Companies Act, by which the liability for damages of each of them is limited to the minimum amount set forth in Article 425, paragraph 1 of the same Act, provided they perform their duties without knowledge of such damages and without gross negligence.

**(4) Total amount of remunerations**

Category	Outside Director		Outside Audit & Supervisory Board Member		Total	
	Number to be paid (Person)	Amount to be paid (Millions of yen)	Number to be paid (Person)	Amount to be paid (Millions of yen)	Number to be paid (Person)	Amount to be paid (Millions of yen)
Basic remuneration	2	30	3	24	5	54

## V. Matters Relating to Independent Auditor

1. **Name of Independent Auditor:** Deloitte Touche Tohmatsu LLC

2. **Fees for Independent Auditor relating to this fiscal year**

(1) **Fees for Independent Auditor relating to this fiscal year of JT**

- |  |              |
|--|--------------|
| i) Fees for audit attestation based on Article 2, paragraph 1 of the Certified Public Accountants Act:                   | ¥325 million |
| ii) Fees for tasks other than audit attestation based on Article 2, paragraph 1 of the Certified Public Accountants Act: | ¥4 million   |

(2) **Amount of cash and other financial benefits to be paid by JT and its subsidiaries:**

¥468 million

(3) **Reasons for approval of the Independent Auditor's remuneration by the Audit & Supervisory Board:**

When the Company concluded an audit contract with Independent Auditor, the Audit & Supervisory Board Members obtained necessary materials and received reports from the Members of the Board, relevant internal departments, and the Independent Auditor, and performed verification to confirm that the amount of remuneration to be paid to the Independent Auditor, the persons in charge of the audits, and other details of the audit contract were appropriate.

Based upon this verification, the Audit & Supervisory Board checked and examined matters including the content of the Independent Auditor's accounting plan, the status of the performance of the auditing duties, and the basis for calculation of the remuneration estimate, and, as a result, determined that approval was fair and reasonable.

- (Notes) 1. Fees paid under the terms of the audit contract concluded between Deloitte Touche Tohmatsu LLC and JT in relation to audit attestation based on the Companies Act and the Financial Instruments and Exchange Act are not clearly classified and, since they cannot be effectively classified, their total is indicated in the amount in "i)" above.
2. JT retain Deloitte Touche Tohmatsu LLC for tasks other than audit attestation based on Article 2, Paragraph 1 of the Certified Public Accountants Act, which consist of the preparation of comfort letters, and for which a consideration is paid to the same.
3. Among the important subsidiaries of JT, JT International S.A. and Gallaher Ltd. are audited by Deloitte & Touche LLP. None of these subsidiaries are audited by Deloitte Touche Tohmatsu LLC, the Independent Auditor of JT.

3. **Policy on dismissal or non-reappointment of Independent Auditor**

In the case that an Independent Auditor is adjudged to fall within any of the items listed in Article 340, paragraph 1 of the Companies Act, with the agreement of all of the Audit & Supervisory Board Members, the Company shall dismiss the Independent Auditor. Additionally, apart from the above, should an incident occur casting serious doubt on the ability of the Independent Auditor to continue to perform its duties, the Audit & Supervisory Board shall decide the content of proposal and submit such proposal to the General Meeting of Shareholders that the Independent Auditor should be dismissed or should not be reappointed.

\* In accordance with the enactment of the Act Partially Amending the Companies Act (Act No. 90 of 2014) on May 1, 2015, the Company has changed the body that makes decisions on proposals for dismissal or non-reappointment of Independent Auditor from the Board of Directors to the Audit & Supervisory Board.



## **VI. Overview of the Resolutions on the Development of Systems Necessary to Ensure the Properness of Operations and the Operating Status of the Systems**

The Board of Directors has resolved with regard to the development of systems necessary to ensure that the execution of the duties by the Members of the Board complies with the laws and regulations and the Articles of Incorporation, and other systems necessary to ensure the properness of operations of a stock company as follows:

Note that in accordance with the enactment of the Act Partially Amending the Companies Act (Act No. 90 of 2014) and the Ministerial Ordinance Partially Amending the Ordinance for Enforcement of the Companies Act, etc. (Ordinance of the Ministry of Justice No. 6 of 2015) on May 1, 2015 during the fiscal year, the Company partially amended the "Decision Concerning the Preparation of Basic Policies and Systems Concerning the Construction of Internal Control Systems" at the Board of Directors meeting held on April 30, 2015.

### **(1) Systems to ensure that the performance of duties by the Members of the Board and employees of the Company, as well as by Directors, etc. (meaning "Directors, etc." as provided for in Article 100, Paragraph 1, Item 5 (i) of the Ordinance for Enforcement of the Companies Act) and employees (with Directors, etc. and employees hereafter collectively referred to as "Directors and employees") of subsidiaries, conforms to laws, regulations, and the Articles of Incorporation**

#### **i) Compliance system**

The Company shall establish Code of Conduct based on regulations concerning the compliance system in order to ensure that officers and employees of the Company and its subsidiaries to comply with laws and regulations, Company's Articles of Incorporation, the social norms, etc., and set up a JT Group Compliance Committee as an organization responsible for ensuring thorough compliance. This committee, headed by Company's Chairman of the Board, includes outside experts among its members and reports directly to the Board of Directors.

The Company appoints an Executive Officer (*sikkoyakuin*) in charge of compliance with overseeing the Compliance Office in an effort to establish and promote a group-wide, cross-sectional system and shed light on issues.

The compliance promotion departments of the Company and its subsidiaries (meaning the Compliance Office within the Company, and corresponding departments within subsidiaries) distribute materials including the "JT Group Code of Conduct," which explains the Code of Conduct, etc., to Members of the Board and employees, and work to enhance the effectiveness of the compliance system by enlightening Directors and employees about compliance through training and other programs, etc.

(Internal reporting system)

In preparation for cases in which employees or other parties detect activities, etc. suspected of violating laws and regulations, the Company and its subsidiaries maintain consultation and reporting desks as internal whistleblower systems. Compliance promotion departments that receive a report or request for consultation investigate the details and take necessary action, while working to prevent recurrence of the issue.

The Company will bring matters of particular importance involving the JT Group to the JT Group Compliance Committee, and will request deliberation or will report on the issue.

(System for excluding anti-social elements)

The Company and its subsidiaries are resolved to fight against, not to comply with, an unreasonable demand and not to have any relations with anti-social elements.

The General Administration Division shall be the JT Group's headquarters assuming the responsibility for supervising efforts to exclude anti-social elements, the Company cooperates with police, lawyers and other relevant organizations and parties to gather and share information in order to deal with such elements in an organized way.

In addition, the Company and its subsidiaries shall prohibit involving with anti-social elements and fully communicated to all officers and employees of the Company and its subsidiaries. At the same time, an awareness raising program for excluding antisocial elements is to be consistently administered for all officers and employees, by providing relevant training, etc. as necessary.

**ii) System to ensure the reliability of financial reporting**

The Company has in place and operates an internal control system relating to financial reporting of JT Group in accordance with the Financial Instruments and Exchange Act. The Company strives to maintain and improve the reliability of its financial reporting by allocating a sufficient level of staff to the task of evaluating and reporting financial results.

**iii) Internal audit system**

The Operational Review and Business Assurance Division of the Company oversees the internal audit system and examines and evaluates systems for supervising and managing the overall operations and the status of business execution from the viewpoints of legality and rationality, in order to protect the Company's assets and improve management efficiency. In coordination with the internal audit functions of all subsidiaries, the Operational Review and Business Assurance Division also undertakes the planning and performance of the JT Group's internal audit systems and policies, and supplements the internal audit functions of subsidiaries.

**(2) Procedures and arrangements for storage and management of information on the performance of duties by the Members of the Board of the Company**

**i) Storage and management of minutes**

The Company makes sure to properly store and manage the minutes of General Meetings of Shareholders and meetings of the Board of Directors, in line with laws and regulations.

**ii) Storage and management of other information**

The Company makes sure that the information on important matters relating to business execution and decision-making are stored and managed by the relevant departments and divisions as specified by the "Responsibilities/Authorities Allocation Rules", in accordance with rules on the supervision of the processes of decision-making, procurement and accounting.

**(3) System for reporting matters concerning the performance of duties by Directors, etc. of subsidiaries to the Company**

The Company will require subsidiaries to regularly report important information to the Company departments and divisions that are in charge of the subsidiaries.

**(4) Rules on management of risk of loss of the Company and its subsidiaries, and procedures/arrangements for other matters**

**i) System to evaluate and manage risk of loss under normal circumstances**

The Company has established internal policies, rules and manuals relating to JT Group for the management of risk of loss relating to monetary and financial affairs, and ensures that relevant reports are made to the President and the Board of Directors on a quarterly basis via Chief Financial Officer.

With regard to the risk of loss relating to other affairs, in accordance with authority delegated to each department and division as per the Responsibilities/Authorities Allocation Rules, responsible departments and divisions take on a supervisory role creating all types of committees to conduct proper management and, depending on the level of importance, report risks to the President and obtain approval for countermeasures.

In cooperation with the internal audit functions of subsidiaries, the Operational Review and Business Assurance Division of the Company examines and evaluates the internal control systems, etc. of the JT Group companies in light of the level of importance and the risks involved, and from an objective standpoint that is independent of organizations responsible for business execution. It provides reports and counsel to the President and also reports to the Board of Directors.

**ii) Preparedness for possible emergencies**

The Company has produced a manual for crisis management and disaster response. In the event of an emergency or a disaster, JT is ready to establish an emergency project system, and make prompt and proper responses under the leadership of senior management and through close cooperation between the relevant departments and divisions. Events to which a response has been made and the details of such events shall be reported to the Board of Directors.

**(5) System to ensure that Members of the Board of the Company and Directors, etc. of its subsidiaries can perform their duties efficiently**

**i) Board of Directors of the Company**

The Board of Directors of the Company meets once a month in principle and on more occasions as necessary, in order to make decisions with regard to the matters specified by laws and regulations and other important matters and to supervise business execution.

The Board of Directors of the Company receives reports from Members of the Board of the Company on the status of business execution at least once every three months.

**ii) Proper delegation of authority and system of responsibilities of the Company**

For important management issues, particularly management policy and basic plans regarding overall business operations of the Company, in addition to matters to be referred to the Board of Directors of the Company, a clear decision-making process is stipulated in rules on the allocation of responsibilities and authorities to have a system that enables swift decision making.

Executive Officers (*sikkoyakuin*) appointed by the Board of Directors execute business properly by exercising the authority delegated to them in their respective areas in accordance with a company-wide business strategy decided by the Board.

In order to manage business operations in ways that contribute to the business efficiency and flexibility of the Company, basic matters concerning the Company's organization and allocation of duties are specified by internal rules on and the roles of each department are specified.

**iii) Formulation, etc. of rules and policies that apply to the JT Group**

The Company will construct an efficient system for business execution within the JT Group through the formulation, etc. of rules and policies that apply to the JT Group.

**(6) Systems necessary to ensure the properness of operations in the Company and the business group which consists of the Company and its subsidiaries**

**i) Mission of the JT Group**

The JT Group has set itself the mission of creating, developing and nurturing its unique brands to win consumer trust, while understanding and respecting the environment and the diversity of societies and individuals, and there is a group-wide consensus on the mission.

**ii) Group management**

The JT Group shall specify the functions and rules common for all group companies to effectuate group management that optimizes the operations of the entire JT Group as a whole.

The Company has put in place systems for compliance (including the internal reporting system), internal audits, financial affairs management, etc. in cooperation with its subsidiaries.

**(7) Matters for employees assisting Audit & Supervisory Board Members of the Company in their duties in the event such employees were requested by Audit & Supervisory Board Members**

**i) Establishment of Auditor's Office**

The Company has established an Auditor's Office as an organization to assist the duties of the Company's Audit & Supervisory Board Members (hereinafter simply "Audit & Supervisory Board Members," with the terms "Audit & Supervisory Board," "Auditor's Office," and "Manager of the Auditor's Office" also referring to those items within the Company).

**ii) Allocation of staff**

The Company has allocated sufficient staff to the Auditor's Office. In addition, the Company makes sure to review and reform the staffing structure as necessary based on consultations with the Audit & Supervisory Board.

**(8) Matters relating to the independence of employees belonging to the Auditor's Office from the Company's Members of the Board, and matters relating to the assurance of the effectiveness of instruction by Audit & Supervisory Board Members to those employees**

**i) Management of employees affiliated with the Auditor's Office**

The evaluation of the Manager of the Auditor's Office is made by the Audit & Supervisory Board and the evaluation of the other employees assigned to the Auditor's Office is made by the Manager of the Auditor's Office based on the advice of the Audit & Supervisory Board. The transfer and discipline of employees assigned to the Auditor's Office is to be deliberated in advance with the Audit & Supervisory Board.

**ii) Duties of employees belonging to the Auditor's Office**

Employees belonging to the Auditor's Office will follow the direction and orders of Audit & Supervisory Board Members in assisting the duties of the latter, and will not be assigned to other concurrent positions relating to the business execution of the Company.

**(9) System for reporting by directors and employees of the Company and its subsidiaries or persons reported by directors and employees of its subsidiaries to the Audit & Supervisory Board and Audit & Supervisory Board Members**

**i) Reporting to the Audit & Supervisory Board**

When directors and employees of the Company and its subsidiaries detect any evidence of malfeasance in financial documents or serious breaches of laws or regulations or the Company's Articles of Incorporation, they are due to report them to the Audit & Supervisory Board, along with other relevant matters that could affect the Company's management.

**ii) Appropriate reporting in response to requests by Audit & Supervisory Board Members**

Directors and employees of the Company and its subsidiaries shall respond in a prompt and appropriate manner when they are asked by Audit & Supervisory Board Members to compile important documents for their perusal, to accept field audits and to submit reports.

**iii) Reporting on the status of whistleblowing**

The Compliance Office will report regularly to Audit & Supervisory Board Members on the status of whistleblowing involving the JT Group, and will make non-regular reports as necessary.

**(10) System to ensure that persons reporting to Audit & Supervisory Board Members are not subject to disadvantageous treatment due to having reported**

The Company will thoroughly communicate within the JT Group that persons engaging in consultation or whistleblowing are not to be subject to any disadvantageous treatment for reason of those actions.

**(11) Matters concerning policies for the prepayment of expenses involving the performance of duties by Audit & Supervisory Board Members, procedures for reimbursement, and the handling of other expenses or debts involving the performance of those duties**

**i) Handling of expenses or debts in accordance with Article 388 of the Companies Act**

When an Audit & Supervisory Board Member has made claim to the Company for the prepayment

of expenses, etc. in accordance with Article 388 of the Companies Act, the Company will promptly handle the relevant expenses or debt, with the exception of cases in which the Company deems the claimed expenses or debt to be unnecessary to the performance of the duties of the Audit & Supervisory Board Member.

**ii) Setting of budgets, etc.**

With regard to miscellaneous expenses for audits by Audit & Supervisory Board Members, the Company will set a budget in order to secure the effectiveness of the audits. The Company will also bear the portion of miscellaneous expenses for audits by Audit & Supervisory Board Members that are in excess of budget, with the exception of cases in which the Company deems the expenses to be unnecessary to the performance of duties.

**(12) Other systems to ensure effective auditing by Audit & Supervisory Board Members**

**i) Attendance at important meetings**

Audit & Supervisory Board Members are allowed to attend not only meetings of the Board of Directors of the Company but also other important meetings of the Company.

**ii) Coordination between the Operational Review and Business Assurance Division and Compliance Office and the Audit & Supervisory Board Members**

The Operational Review and Business Assurance Division and the Compliance Office maintain cooperation with Audit & Supervisory Board Members by exchanging information.

The status of systems necessary to ensure the properness of operations

**i) Status of initiatives concerning compliance**

- The JT Group has set itself the mission of creating, developing, and nurturing its unique brands to win consumer trust, while understanding and respecting the environment and the diversity of societies and individuals. The Company communicates this mission throughout the JT Group by means including its inclusion in the "JT Group Code of Conduct" booklet, which is distributed to the directors and employees of the Company and its subsidiaries.
- In accordance with the JT Group Compliance Rules, the Company performs appropriate reporting to the Board of Directors on the performance of the annual Compliance Plan, the occurrence of serious compliance violations, actions taken in response to these, and other matters of importance.
- In order to improve awareness of compliance and prevent improper actions, the Company conducts regular training for the directors and employees of the Company and its subsidiaries.
- With regard to whistleblowing systems, the Company thoroughly communicates to employees of the Company and its subsidiaries that persons who engage in consultation or whistleblowing are not to be subject to any disadvantageous treatment for reason of those actions. In addition, the content of consultations and whistleblowing are regularly reported within the JT Group Compliance Committee.
- With regard to the handling of anti-social elements, the Company continues to collect related declarations and pledges from suppliers, and conducts regular training and other programs for the directors and employees of the Company and its subsidiaries.

**ii) Status of initiatives to manage the risk of loss**

- With regard to the monetary and financial risks, the Company makes quarterly reports to the President and the Board of Directors in accordance with the Basic Rules on Financial Work of the Group.
- With regard to the evaluation and examination of internal management systems, the Operational Review and Business Assurance Division provides reports and counsel to the President and also reports to the Board of Directors, in accordance with the Rules for Internal Audits.

- With regard to crises and disasters, the Company makes quarterly reports to the Board of Directors concerning events to which responses were made and the details of the events, in accordance with the "Decision Concerning the Preparation of Basic Policies and Systems Concerning the Construction of Internal Control Systems."

**iii) Status of initiatives concerning the properness and efficiency of the execution of duties**

- Meetings of the Board of Directors are held every month and as appropriate, in accordance with the Regulations of the Board of Directors. The Members of the Board in charge of businesses make quarterly reports to the Board of Directors on the status of work execution within each business, including within JT Group companies.
- With regard to decision-making, etc. on execution of important work, etc., the Company is converting resolution procedures to electronic methods and is constructing a fast and efficient management system. The Company also accurately records and creates minutes of meetings of the Board of Directors, and performs appropriate storage and management of the information.

**iv) Securing the effectiveness of audits by Audit & Supervisory Board Members**

- Audit & Supervisory Board Members receive reports as appropriate from directors and employees of the Company and its subsidiaries, regarding necessary information for audits. In addition to attending important conferences, Audit & Supervisory Board Members also perform appropriate checks of the content of electronic resolutions concerning decision-making on the execution of work. The Operational Review and Business Assurance Division and the Compliance Office also coordinate on conducting regular exchanges of information with Audit & Supervisory Board Members.
- In order to assist the duties of Audit & Supervisory Board Members, the Company has established an Auditor's Office that is independent of divisions responsible for execution, and has assigned necessary personnel to the Office. In addition, through consultation with Audit & Supervisory Board Members, the Company records a budget for expenses expected to be necessary for the duties of the Audit & Supervisory Board Members.

**【Reference】**

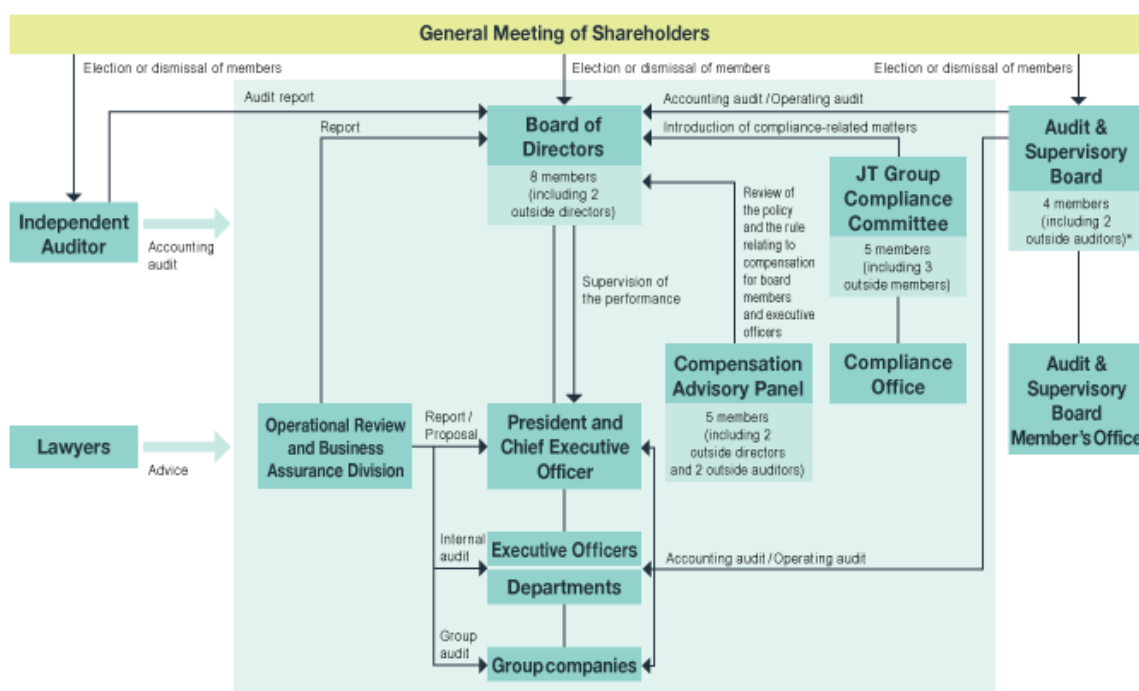
< Fundamental Policy Concerning Corporate Governance >

We have enhanced our corporate governance, based on our belief that it is the means for conducting transparent, fair, timely and decisive decision-making for pursuing JT's management principle, the "4S model". Specifically the 4S model aims "to balance the interests of consumers, shareholders, employees and the wider society, and fulfill our responsibilities towards them, aiming to exceed their expectations."

We have set out the "JT Corporate Governance Policies" on 4 February, 2016, and continuously strive to make enhancements based on our belief that it will enable us to achieve mid- to long-term sustainable profit growth and increase corporate value, which will contribute to the development of our group's stakeholders and eventually the economic society as a whole.

"JT Corporate Governance Policies" was published on our web-site (<https://www.jti.co.jp/>).

< JT's Corporate Governance System >



\* In preparation against a situation where the number of Outside Auditors falls below the statutory required number, one Substitute Audit & Supervisory Board member is elected.

\* All figures contained in this Business Report are rounded to the nearest unit.



## Consolidated Statement of Financial Position

(As of December 31, 2015)

(Millions of yen)

Account title	Amount	Account title	Amount
<b>Current assets</b>		<b>Current liabilities</b>	
Cash and cash equivalents	526,765	Trade and other payables	373,032
Trade and other receivables	406,387	Bonds and borrowings	30,980
Inventories	563,820	Income tax payables	106,391
Other financial assets	17,849	Other financial liabilities	6,459
Other current assets	280,493	Provisions	19,297
Subtotal	1,795,313	Other current liabilities	729,761
Non-current assets held-for-sale	2,904	Total current liabilities	1,265,920
Total current assets	1,798,217		
<b>Non-current assets</b>		<b>Non-current liabilities</b>	
Property, plant and equipment	681,865	Bonds and borrowings	215,938
Goodwill	1,429,287	Other financial liabilities	10,143
Intangible assets	332,478	Retirement benefit liabilities	333,562
Investment property	23,614	Provisions	9,210
Retirement benefit assets	38,954	Other non-current liabilities	113,958
Investments accounted for using the equity method	59,523	Deferred tax liabilities	87,979
Other financial assets	101,727	Total non-current liabilities	770,790
Deferred tax assets	92,570	<b>Total liabilities</b>	2,036,710
Total non-current assets	2,760,017	<b>Equity</b>	
		Share capital	100,000
		Capital surplus	736,400
		Treasury shares	(444,333)
		Other components of equity	(137,122)
		Retained earnings	2,196,651
		Equity attributable to owners of the parent company	2,451,596
		Non-controlling interests	69,929
		<b>Total equity</b>	2,521,524
<b>Total assets</b>	4,558,235	<b>Total liabilities and equity</b>	4,558,235

## Consolidated Statement of Income

(Year ended December 31, 2015)

(Millions of yen)

Account title	Amount
Continuing operations	
Revenue	2,252,884
Cost of sales	(920,056)
Gross profit	1,332,828
Other operating income	15,367
Share of profit in investments accounted for using the equity method	6,381
Selling, general and administrative expenses	(789,346)
Operating profit	565,229
Financial income	15,016
Financial costs	(15,132)
Profit before income taxes	565,113
Income taxes	(162,386)
Profit for the period from continuing operations	402,727
Discontinued operations	
Profit for the period from discontinued operations	87,515
Profit for the period	490,242
Attributable to:	
Owners of the parent company	485,691
Non-controlling interests	4,551

## Consolidated Statement of Changes in Equity

(Year ended December 31, 2015)

(Millions of yen)

	Equity attributable to owners of the parent company						
	Share capital	Capital surplus	Treasury shares	Other components of equity			
				Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income
As of January 1, 2015	100,000	736,400	(344,447)	1,631	116,421	1,215	23,156
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	(288,894)	233	10,500
Comprehensive income (loss) for the period	—	—	—	—	(288,894)	233	10,500
Acquisition of treasury shares	—	—	(100,000)	—	—	—	—
Disposal of treasury shares	—	—	114	(85)	—	—	—
Share-based payments	—	—	—	395	—	—	—
Dividends	—	—	—	—	—	—	—
Changes in the scope of consolidation	—	—	—	—	—	—	(140)
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—	(232)
Other increase (decrease)	—	—	—	—	—	(1,324)	—
Total transactions with the owners	—	—	(99,886)	310	—	(1,324)	(372)
As of December 31, 2015	100,000	736,400	(444,333)	1,941	(172,473)	125	33,284

(Millions of yen)

	Equity attributable to owners of the parent company				Non-controlling interests	Total equity
	Other components of equity		Retained earnings	Total		
	Remeasurements of defined benefit plans	Total				
As of January 1, 2015	—	142,425	1,902,460	2,536,838	85,665	2,622,503
Profit for the period	—	—	485,691	485,691	4,551	490,242
Other comprehensive income (loss)	(4,272)	(282,433)	—	(282,433)	(101)	(282,534)
Comprehensive income (loss) for the period	(4,272)	(282,433)	485,691	203,257	4,450	207,708
Acquisition of treasury shares	—	—	—	(100,000)	—	(100,000)
Disposal of treasury shares	—	(85)	(29)	0	—	0
Share-based payments	—	395	—	395	—	395
Dividends	—	—	(187,574)	(187,574)	(13,809)	(201,383)
Changes in the scope of consolidation	—	(140)	140	—	(6,044)	(6,044)
Changes in the ownership interest in a subsidiary without a loss of control	—	—	4	4	(321)	(318)
Transfer from other components of equity to retained earnings	4,272	4,040	(4,040)	—	—	—
Other increase (decrease)	—	(1,324)	—	(1,324)	(13)	(1,337)
Total transactions with the owners	4,272	2,886	(191,500)	(288,500)	(20,187)	(308,686)
As of December 31, 2015	—	(137,122)	2,196,651	2,451,596	69,929	2,521,524

## Nonconsolidated Balance Sheet

(As of December 31, 2015)

(Millions of yen)

Account title	Amount	Account title	Amount
<b>ASSETS</b>		<b>LIABILITIES</b>	
<b>Current assets</b>	527,980	<b>Current liabilities</b>	690,416
Cash and deposits	154,666	Accounts payable–trade	8,604
Accounts receivable–trade	52,269	Lease obligations	4,303
Securities	110,000	Accounts payable–other	82,212
Merchandise and finished goods	21,699	National tobacco excise taxes payable	94,095
Semi-finished goods	52,954	National tobacco special excise taxes payable	14,548
Work in process	3,205	Local tobacco excise taxes payable	108,856
Raw materials and supplies	42,318	Income taxes payable	82,169
Advance payments–trade	1,849	Accrued consumption taxes	32,212
Prepaid expenses	5,729	Cash management system deposits received	251,827
Deferred tax assets	24,020	Provision for bonuses	5,290
Short-term loans receivable from subsidiaries and affiliates	45,797	Other	6,298
Other	13,502	<b>Noncurrent liabilities</b>	353,301
Allowance for doubtful accounts	(26)	Bonds payable	211,604
<b>Noncurrent assets</b>	2,228,805	Lease obligations	7,681
<b>Property, plant and equipment</b>	259,374	Provision for retirement benefits	130,530
Buildings	89,584	Other	3,486
Structures	3,151	<b>Total liabilities</b>	1,043,717
Machinery and equipment	62,769		
Vehicles	1,746	<b>NET ASSETS</b>	
Tools, furniture and fixtures	21,300	<b>Shareholders' equity</b>	1,694,250
Land	78,383	<b>Capital stock</b>	100,000
Construction in progress	2,440	<b>Capital surplus</b>	736,400
<b>Intangible assets</b>	21,566	Legal capital surplus	736,400
Patent right	418	<b>Retained earnings</b>	1,302,183
Right of trademark	3,424	Legal retained earnings	18,776
Software	16,038	Other retained earnings	1,283,407
Other	1,687	Reserve for reduction entry	47,587
<b>Investments and other assets</b>	1,947,865	Special account for reduction entry	2,582
Investment securities	61,982	General reserve	955,300
Shares of subsidiaries and affiliates	1,854,137	Retained earnings brought forward	277,938
Investments in capital of subsidiaries and affiliates	782	<b>Treasury shares</b>	(444,333)
Long-term loans receivable from subsidiaries and affiliates	5,430	<b>Valuation and translation adjustments</b>	16,877
Long-term prepaid expenses	6,689	Valuation difference on available-for-sale securities	29,791
Deferred tax assets	8,821	Deferred gains or losses on hedges	(12,914)
Other	10,339	<b>Subscription rights to shares</b>	1,941
Allowance for doubtful accounts	(315)	<b>Total net assets</b>	1,713,068
<b>Total assets</b>	2,756,785	<b>Total liabilities and net assets</b>	2,756,785

## Nonconsolidated Statement of Income

(Year ended December 31, 2015)

(Millions of yen)

Account title	Amount	
Net sales		732,483
Cost of sales		229,551
<b>Gross profit</b>		<b>502,931</b>
Selling, general and administrative expenses		271,227
<b>Operating income</b>		<b>231,704</b>
<b>Non-operating income</b>		
Interest income	318	
Dividends income	139,238	
Other	5,142	144,697
<b>Non-operating expenses</b>		
Interest expenses	951	
Interest on bonds	1,703	
Other	1,759	4,413
<b>Ordinary income</b>		<b>371,989</b>
<b>Extraordinary income</b>		
Gain on sales of noncurrent assets	7,300	
Gain on sales of shares of subsidiaries	116,259	
Other	408	123,967
<b>Extraordinary losses</b>		
Loss on sales of noncurrent assets	158	
Loss on retirement of noncurrent assets	15,740	
Impairment loss	3,707	
Business restructuring costs	3,333	
Loss on liquidation of business	12,902	
Other	1,711	37,552
<b>Income before income taxes</b>		<b>458,404</b>
Income taxes—current	104,829	
Income taxes—deferred	8,566	113,395
<b>Net income</b>		<b>345,009</b>

## Nonconsolidated Statement of Changes in Net Assets

(Year ended December 31, 2015)

(Millions of yen)

	Shareholders' equity										
	Capital stock	Capital surplus		Legal retained earnings	Retained earnings					Treasury shares	Total shareholders' equity
		Legal capital surplus	Total capital surplus		Reserve for reduction entry	Other retained earnings			Total retained earnings		
						Special account for reduction entry	General reserve	Retained earnings brought forward			
As of January 1, 2015	100,000	736,400	736,400	18,776	44,531	17,043	955,300	109,126	1,144,777	(344,447)	1,636,730
Changes of items during the period											
Provision of reserve for reduction entry	—	—	—	—	10,169	—	—	(10,169)	—	—	—
Reversal of reserve for reduction entry	—	—	—	—	(9,493)	—	—	9,493	—	—	—
Adjustment to reserve due to change in tax rate	—	—	—	—	2,380	—	—	(2,380)	—	—	—
Provision of special account for reduction entry	—	—	—	—	—	2,453	—	(2,453)	—	—	—
Reversal of special account for reduction entry	—	—	—	—	—	(17,043)	—	17,043	—	—	—
Adjustment to special account due to change in tax rate	—	—	—	—	—	129	—	(129)	—	—	—
Dividends from surplus	—	—	—	—	—	—	—	(187,574)	(187,574)	—	(187,574)
Net income	—	—	—	—	—	—	—	345,009	345,009	—	345,009
Purchase of treasury shares	—	—	—	—	—	—	—	—	—	(100,000)	(100,000)
Disposal of treasury shares	—	—	—	—	—	—	—	(29)	(29)	114	85
Net changes of items other than shareholders' equity	—	—	—	—	—	—	—	—	—	—	—
Total changes of items during the period	—	—	—	—	3,056	(14,461)	—	168,811	157,406	(99,886)	57,520
As of December 31, 2015	100,000	736,400	736,400	18,776	47,587	2,582	955,300	277,938	1,302,183	(444,333)	1,694,250

(Millions of yen)

	Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
As of January 1, 2015	21,087	(10,298)	10,790	1,631	1,649,151
Changes of items during the period					
Provision of reserve for reduction entry	—	—	—	—	—
Reversal of reserve for reduction entry	—	—	—	—	—
Adjustment to reserve due to change in tax rate	—	—	—	—	—
Provision of special account for reduction entry	—	—	—	—	—
Reversal of special account for reduction entry	—	—	—	—	—
Adjustment to special account due to change in tax rate	—	—	—	—	—
Dividends from surplus	—	—	—	—	(187,574)
Net income	—	—	—	—	345,009
Purchase of treasury shares	—	—	—	—	(100,000)
Disposal of treasury shares	—	—	—	—	85
Net changes of items other than shareholders' equity	8,704	(2,617)	6,087	310	6,397
Total changes of items during the period	8,704	(2,617)	6,087	310	63,917
As of December 31, 2015	29,791	(12,914)	16,877	1,941	1,713,068



(TRANSLATION)

**INDEPENDENT AUDITOR'S REPORT**

February 5, 2016

To the Board of Directors of  
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,  
Engagement Partner,  
Certified Public Accountant:

Yasuyuki Miyasaka (Seal)

Designated Unlimited Liability Partner,  
Engagement Partner,  
Certified Public Accountant:

Koji Ishikawa (Seal)

Designated Unlimited Liability Partner,  
Engagement Partner,  
Certified Public Accountant:

Takenao Ohashi (Seal)

Pursuant to the fourth paragraph of Article 444 of the Companies Act, we have audited the consolidated financial statements, namely, the consolidated statement of financial position as of December 31, 2015 of Japan Tobacco Inc. (the "Company") and its consolidated subsidiaries, and the related consolidated statements of income and changes in equity for the fiscal year from January 1, 2015 to December 31, 2015, and the related notes of significant matters for preparing consolidated financial statements and other related notes to consolidated financial statements.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements pursuant to the provisions of the second sentence of the first paragraph of Article 120 of the Ordinance on Company Accounting which allows companies to prepare consolidated financial statements with the omission of a part of the disclosures required under International Financial Reporting Standards ("IFRS"), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Audit Opinion**

In our opinion, the consolidated financial statements referred to above, prepared with the omission of a part of the disclosures required under IFRS pursuant to the provisions of the second sentence of the first paragraph of Article 120 of the Ordinance on Company Accounting, present fairly, in all material respects, the financial position of Japan Tobacco Inc. and its consolidated subsidiaries as of December 31, 2015, and the results of their operations for the year then ended.

### **Interest**

Our firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

## INDEPENDENT AUDITOR'S REPORT

February 5, 2016

To the Board of Directors of  
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,  
Engagement Partner,  
Certified Public Accountant:

Yasuyuki Miyasaka (Seal)

Designated Unlimited Liability Partner,  
Engagement Partner,  
Certified Public Accountant:

Koji Ishikawa (Seal)

Designated Unlimited Liability Partner,  
Engagement Partner,  
Certified Public Accountant:

Takenao Ohashi (Seal)

Pursuant to the first item, second paragraph of Article 436 of the Companies Act, we have audited the nonconsolidated financial statements, namely, the nonconsolidated balance sheet as of December 31, 2015 of Japan Tobacco Inc. (the "Company"), and the related nonconsolidated statements of income and changes in net assets for the 31st fiscal year from January 1, 2015 to December 31, 2015, and the related notes of significant accounting policies and other related notes to nonconsolidated financial statements, and the accompanying supplemental schedules.

### **Management's Responsibility for the Nonconsolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these nonconsolidated financial statements and the accompanying supplemental schedules in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of nonconsolidated financial statements and the accompanying supplemental schedules that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these nonconsolidated financial statements and the accompanying supplemental schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the nonconsolidated financial statements and the accompanying supplemental schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the nonconsolidated financial statements and the accompanying supplemental schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the nonconsolidated financial statements and the accompanying supplemental schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the nonconsolidated financial statements and the accompanying supplemental schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the nonconsolidated financial statements and the accompanying supplemental schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Audit Opinion**

In our opinion, the nonconsolidated financial statements and the accompanying supplemental schedules referred to above present fairly, in all material respects, the nonconsolidated financial position of Japan Tobacco Inc. as of December 31, 2015, and the results of its operations for the year then ended in accordance with accounting principles generally accepted in Japan.

### **Interest**

Our firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

The above represents a translation, for convenience only, of the original report issued in the Japanese language and "the accompanying supplemental schedules" referred to in this report are not included in the attached financial documents.

[The following represents a translation, for convenience only, of the original report issued in the Japanese language.]

## **Audit Report of the Audit & Supervisory Board**

### **AUDIT REPORT**

Regarding the performance of duties by the Members of the Board for the 31st fiscal year from January 1, 2015 to December 31, 2015, the Audit & Supervisory Board hereby submits its audit report, which has been prepared through discussions based on the audit report prepared by each Audit & Supervisory Board Member.

#### **1. Auditing Methods Employed by Audit & Supervisory Board Members and the Audit & Supervisory Board and Details of Such Methods**

(1) The Audit & Supervisory Board established auditing policies, allocation of duties, and other relevant matters, and received reports from each Audit & Supervisory Board Member regarding his or her audits and results thereof, as well as received reports from the Members of the Board, other relevant personnel, and Independent Auditors regarding performance of their duties, and sought explanations as necessary.

(2) Each Audit & Supervisory Board Member complied with the auditing standards of Audit & Supervisory Board Members established by the Audit & Supervisory Board, followed the auditing policies, allocation of duties, and other relevant matters, communicated with the Members of the Board, and any other relevant personnel, and made efforts to optimize the environment for information collection and audit, and conducted his or her audits in the following methods:

i) We participated in the Board of Directors' meetings and other important meetings, received reports from the Members of the Board, and other relevant personnel regarding performance of their duties, sought explanations as necessary, examined important documents, and studied the operations and financial positions at the head office and principal offices. With respect to subsidiaries, we communicated and exchanged information with Members of the Board, Audit & Supervisory Board Members, and other relevant personnel of the subsidiaries, and received business reports from subsidiaries as necessary.

ii) We monitored and verified the details of the resolution of the Board of Directors related to the system that ensures Members of the Boards are carrying out their duties in compliance with laws and regulations and the Articles of Incorporation, and other systems that ensure the propriety of the operations of the corporate group comprised of a stock company and its subsidiaries, which are described in paragraphs 1 and 3 of Article 100 of the Ordinance for Enforcement of the Companies Act. We also monitored and verified the condition of the system (internal control system) put in place in accordance with the aforesaid resolution.

iii) We monitored and verified whether the Independent Auditors maintained their independence and implemented appropriate audits, and we received reports from the Independent Auditors regarding the performance of their duties and sought explanations as necessary. In addition, we received notice from the Independent Auditors that "the system for ensuring that duties are performed properly" (matters set forth in each item of Article 131 of the Ordinance on Accounting of Companies) is organized in accordance with the "Quality Management Standards Regarding Audits" (Business Accounting Council, October 28, 2005) and other relevant regulations, and sought explanations as necessary.

Based on the above methods, we examined the business report and the accompanying supplemental schedules, the non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of

income, and non-consolidated statement of changes in net assets) and the accompanying supplemental schedules, as well as consolidated financial statements (consolidated statement of financial position, consolidated statement of income, and consolidated statement of changes in equity, which omit some disclosure items required under International Financial Reporting Standards (IFRS) in accordance with the provision of the second sentence of Article 120, paragraph 1 of the Ordinance on Accounting of Companies) related to the relevant business year.

## 2. Audit Results

### (1) Results of Audit of Business Report and Other Relevant Documents

1. In our opinion, the business report and the accompanying supplemental schedules are in accordance with the related laws and regulations and Articles of Incorporation, and fairly represent JT's condition.
2. With regard to the performance of duties by the Members of the Board, we have found no evidence of wrongful action or material violation of related laws and regulations, nor of any violation with respect to the Articles of Incorporation.
3. In our opinion, the contents of the resolutions of the Board of Directors regarding the internal controls system are fair and reasonable, and, furthermore, the development, implementation and maintenance of the internal controls system are appropriate.

### (2) Results of Audit of Non-Consolidated Financial Statements and the accompanying supplemental schedules

In our opinion, the methods and results employed and rendered by the Accounting Auditors, Deloitte Touche Tohmatsu LLC, are fair and reasonable.

### (3) Results of Audit of Consolidated Financial Statements

In our opinion, the methods and results employed and rendered by the Independent Auditors, Deloitte Touche Tohmatsu LLC, are fair and reasonable.

February 10, 2016

The Audit & Supervisory Board, Japan Tobacco Inc.

Standing Audit & Supervisory Board Member	Futoshi Nakamura	(seal)
Standing Audit & Supervisory Board Member	Tomotaka Kojima	(seal)
Audit & Supervisory Board Member	Yoshinori Imai	(seal)
Audit & Supervisory Board Member	Hiroshi Obayashi	(seal)

(Note) Audit & Supervisory Board Members Yoshinori Imai and Hiroshi Obayashi are Outside Audit & Supervisory Board Members provided for by Article 2, item 16 and Article 335, paragraph 3 of the Companies Act.