

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

**Company Registration No. 03299793**

**Gallaher Group Limited**

**Annual Report and Financial Statements**

**Year ended 31 December 2015**

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# **Gallaher Group Limited**

## **Annual report and financial statements for the year ended 31 December 2015**

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# **Gallaher Group Limited**

## **Annual report and financial statements for the year ended 31 December 2015**

### **Officers and professional advisers**

#### **Directors**

Daniel Sciamma	<i>(appointed 1 February 2016)</i>
Daniel Torras	<i>(resigned 31 January 2016)</i>
John Colton	
Jeroen Rusbach	<i>(appointed 18 March 2016)</i>
Gregory Donovan	<i>(resigned 31 January 2016)</i>
Charlie Cunningham-Reid	<i>(appointed 1 April 2015)</i>
Paul Williams	<i>(resigned 31 March 2015)</i>

#### **Company secretary**

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

#### **Registered Office**

Members Hill  
Brooklands Road  
Weybridge  
Surrey  
KT13 0QU

#### **Solicitors**

Slaughter and May  
Freshfields Bruckhaus Deringer LLP

#### **Auditor**

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London  
United Kingdom

# Gallaher Group Limited

## Strategic report

### Principal activities and review of business

Gallaher Group Limited ("the Company") acts as an investment holding company within the Japan Tobacco Inc group of companies ("the Group"). The Company's principal source of income is dividends from its investments, namely shares in wholly-owned subsidiaries. The timing of such dividends is determined by the Boards of the subsidiaries, in conjunction with the Company. The Company received cash dividends in the year amounting to £395,000,000 (2014 £5,448,000). After accounting for impairment charges, administrative expenses, exchange losses and net financing costs, the Company reported a profit before tax of £67,406,000 for the year (2014 loss of £4,649,000).

The excess of dividend income received from subsidiaries over dividends paid out to the shareholder during the year has been used to repay a substantial portion of the Company's intercompany borrowings.

In future periods, there is expected to be no significant change to the Company's principal activity.

### Principal risks and uncertainties

The principal risks and uncertainties that affect the Company include interest rate risk, foreign currency risk, liquidity risk and credit risk. These risks are partly managed at the Group level and partly at an individual business unit level.

Cash flow risk The Company's activities expose it to the financial risks of changes in both foreign currency exchange rates and changes in interest rates. To the extent that the Company holds interest bearing assets and liabilities that carry variable rates of interest and are denominated in currencies other than British pounds, there is uncertainty of cash flows. The Company seeks to manage foreign currency risk in conjunction with the Group treasury function. The key exposure risk is in relation to the Company's Euro denominated investment in preference shares issued by Gallaher Limited. This investment is unhedged within the Company's financial statements, although the risk is fully mitigated within JT's UK group of entities.

Liquidity risk In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Company uses a mixture of long-term and short-term debt finance, primarily in the form of loans from Group companies.

Credit risk The Company's main financial assets are investments and receivables. The Company's credit risk is primarily attributable to its receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The Company's receivables are owed by related companies, Gallaher Limited and JT International Holding B V, and these are considered recoverable.

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



Jeroen Rusbach  
Director  
25 May 2016

# Gallaher Group Limited

## Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2015. Details of the Company's financial risk management is set out within the Strategic Report on page 2.

### Results and dividends

Profit after taxation is £67,900,000 (2014: loss of £4,063,000). Ordinary dividends amounting to £175,000,000 were declared and paid during the year (2014: £nil).

### Going Concern

The directors are of the opinion that the Company is a going concern and the financial statements have been prepared on that basis (see note 2).

### Directors

A list of the directors is given on page 1. No director held any interest in the shares of the Company during the year. No director had any interests during the year in any material contract with the Company. The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

### Auditor

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

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

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

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

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



Jeroen Rusbach  
Director  
25 May 2016

# **Gallaher Group Limited**

## **Directors' responsibilities statement**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 "Reduced Disclosure Framework". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

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

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

# **Gallaher Group Limited**

## **Independent auditor's report to the members of Gallaher Group Limited**

We have audited the financial statements of Gallaher Group Limited for the year ended 31 December 2015 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

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

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

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

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements, and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

## **Gallaher Group Limited**

### **Independent auditor's report to the members of Gallaher Group Limited (continued)**

#### **Matters on which we are required to report by exception**

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

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



Anthony Morris BSc FCA (Senior statutory auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, United Kingdom  
25 May 2016



# Gallaher Group Limited

## Income statement

Year ended 31 December 2015

	Note	2015 £000	2014 £000
Income from ordinary shares in subsidiary undertakings	5	395,000	5,448
Impairment of investments in subsidiary undertakings	8	(318,000)	(50)
Administrative expenses		(1)	(1)
Exchange losses		(9,009)	(9,859)
Investment income - preference shares in subsidiary undertaking		1,823	2,354
Finance costs - interest payable on loans from Group undertakings		(2,407)	(2,541)
<b>Profit/(loss) before taxation</b>		<b>67,406</b>	<b>(4,649)</b>
Tax	7	494	586
<b>Profit/(loss) for the financial year attributable to owners of the Company</b>	15	<b>67,900</b>	<b>(4,063)</b>

Revenue and profit/(loss) are all derived from continuing operations

## Statement of comprehensive income

Year ended 31 December 2015

	2015 £000	2014 £000
<b>Profit/(loss) for the year</b>	<b>67,900</b>	<b>(4,063)</b>
Other comprehensive income for the year	-	-
<b>Total comprehensive income/(expense) for the year attributable to owners of the Company</b>	<b>67,900</b>	<b>(4,063)</b>

# Gallaher Group Limited

## Statement of changes in equity Year ended 31 December 2015

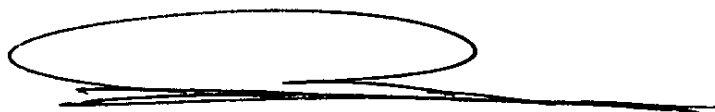
	Called up share capital £000	Capital contribution reserve £000	Capital redemption reserve £000	Retained earnings £000	Total £000
<b>Balance at 1 January 2014</b>	<b>65,714</b>	<b>7,504</b>	<b>7,872</b>	<b>1,882,362</b>	<b>1,963,452</b>
Loss for the year	-	-	-	(4,063)	(4,063)
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive expense for the year	-	-	-	(4,063)	(4,063)
Dividends paid	-	-	-	-	-
<b>Balance at 31 December 2014</b>	<b>65,714</b>	<b>7,504</b>	<b>7,872</b>	<b>1,878,299</b>	<b>1,959,389</b>
Profit for the year	-	-	-	67,900	67,900
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive income for the year	-	-	-	67,900	67,900
Dividends paid	-	-	-	(175,000)	(175,000)
<b>Balance at 31 December 2015</b>	<b>65,714</b>	<b>7,504</b>	<b>7,872</b>	<b>1,771,199</b>	<b>1,852,289</b>

# Gallaher Group Limited

## Balance sheet 31 December 2015

	Note	2015 £000	2014 £000
<b>Non-current assets</b>			
Investments in subsidiaries	8	1,899,779	2,226,788
		<u>1,899,779</u>	<u>2,226,788</u>
<b>Current assets</b>			
Trade and other receivables	9	1,337	1,493
Deferred tax assets	10	-	529
		<u>1,337</u>	<u>2,022</u>
<b>Total assets</b>		<u>1,901,116</u>	<u>2,228,810</u>
<b>Current liabilities</b>			
Trade and other payables	11	(48,827)	(269,421)
		<u>(48,827)</u>	<u>(269,421)</u>
<b>Net current liabilities</b>		<u>(47,490)</u>	<u>(267,399)</u>
<b>Total assets less current liabilities</b>		<u>1,852,289</u>	<u>1,959,389</u>
<b>Total liabilities</b>		<u>(48,827)</u>	<u>(269,421)</u>
<b>Net assets</b>		<u>1,852,289</u>	<u>1,959,389</u>
<b>Equity</b>			
Called up share capital	12	65,714	65,714
Capital contribution reserve	13	7,504	7,504
Capital redemption reserve	14	7,872	7,872
Retained earnings	15	1,771,199	1,878,299
<b>Equity attributable to owners of the Company</b>		<u>1,852,289</u>	<u>1,959,389</u>

The financial statements of Gallaher Group Limited (registered number 03299793) were approved by the Board of Directors and authorised for issue on 25 May 2016. They were signed on its behalf by



Jeroen Rusbach  
Director

# Gallaher Group Limited

## Notes to the financial statements Year ended 31 December 2015

### 1. General information

Gallaher Group Limited is a Company domiciled in the United Kingdom under the Companies Act

The Company is a private Company limited by shares and is registered in England and Wales. The address of the Company's registered office is shown on page 1. The nature of the Company's operations and its principal activities are set out in the strategic report on page 2.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates.

These financial statements are separate financial statements. The Company is exempt from the preparation and delivery of consolidated financial statements, because it is included in the group accounts of Japan Tobacco Inc. The group accounts of Japan Tobacco Inc. are available to the public and can be obtained from its registered office address set out in note 17.

The Company has applied FRS 101 'Reduced Disclosure Framework' incorporating the Amendments to FRS 101 issued by the FRC in July 2015 and the amendments to Company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 prior to their mandatory effective date of accounting periods beginning on or after 1 January 2016.

### Adoption of new and revised Standards

There have been a number of amendments to IFRSs and new interpretations that are mandatorily effective for the current year. However, their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

IFRIC 21 <i>Levies</i>	<p>The Company has adopted IFRIC 21 <i>Levies</i> for the first time in the current year. IFRIC 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.</p> <p>The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the Company's financial statements.</p>
Annual Improvements to IFRSs 2011-2013	<p>The Company has adopted the various amendments to a number of standards: IFRS 3 <i>Business Combinations</i>, IFRS 13 <i>Fair Value Measurement</i> and IAS 40 <i>Investment Property</i>. The majority of the amendments are in the nature of clarifications rather than substantive changes to existing requirements.</p>

# **Gallaher Group Limited**

## **Notes to the financial statements** **Year ended 31 December 2015**

### **2. Significant accounting policies**

#### **Basis of accounting**

The Company meets the definition of a qualifying entity under FRS 101 (Financial Reporting Standard 101) issued by the Financial Reporting Council. Accordingly, in the year ended 31 December 2015 the Company has changed its accounting framework from pre-2015 UK GAAP ("Old UK GAAP") to FRS 101 as issued by the Financial Reporting Council and has, in doing so, applied the requirements of IFRS 1 6-33 and related appendices. These financial statements were prepared in accordance with FRS 101 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

The prior year financial statements were restated for material adjustments on adoption of FRS 101 in the current year. For more information see note 19. The Company has also taken the exemption provided by FRS 101 from the requirement of IFRS 1 to present an opening balance sheet.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions.

Where relevant, equivalent disclosures have been given in the group accounts of Japan Tobacco Inc. The group accounts of Japan Tobacco Inc. are available to the public and can be obtained as set out in note 17.

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

The principal accounting policies adopted are set out below.

#### **Going concern**

The Company is a holding company and indirectly owns several subsidiaries which deliver both strong profits and positive cash flows, notably Gallaher Limited in the UK and JTI Kazakhstan LLC. The directors have considered the latest business plans of all key subsidiaries and this review, together with the expectation that the amounts due to the a related company will not be recalled within one year (as described in note 11), give the directors a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the annual report and accounts.

#### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable in respect of dividends and interest.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably).

Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

# **Gallaher Group Limited**

## **Notes to the financial statements** **Year ended 31 December 2015**

### **2. Significant accounting policies (continued)**

#### **Foreign currencies**

The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates (its functional currency)

Transactions in currencies other than the Company's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences are recognised in profit or loss in the period in which they arise.

#### **Investments in subsidiaries**

Investments in subsidiaries are accounted for at cost less, where appropriate, provisions for impairment.

#### **Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax.

#### **Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

#### **Deferred tax**

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

# Gallaher Group Limited

## Notes to the financial statements Year ended 31 December 2015

### 3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in these financial statements:

#### *Impairment of investments in subsidiaries*

Determining whether the Company's investments in subsidiaries have been impaired requires estimations of the investments' values in use. The value in use calculations require the entity to estimate the future cash flows expected to arise from the investments and suitable discount rates in order to calculate present values.

An investment impairment review is performed by the Directors at each balance sheet date. The valuation models used in the review incorporate the latest financial business plans approved by management and a weighted average cost of capital for each key operating subsidiary that reflects its location and operating environment.

Events that can indicate a potential reduction in the value of one of the Company's subsidiaries include the payment of a substantial dividend by an entity, a significant change in the regulatory environment, a key competitor initiative and a major business restructuring.

The carrying amount of investments in subsidiaries at 31 December 2015 was £1,899,779,000, with an impairment loss of £318,000,000 recognised in 2015.

### 4. Directors and employees

The remuneration of the directors of the Company during the year was borne by other companies within the Group and no specific allocation is made in respect of the services of the directors to the Company. Accordingly their emoluments have not been disclosed in these financial statements.

The Company has no employees (2014: none), other than the directors.

### 5. Revenue

An analysis of the Company's revenue, which relates to continuing operations, is as follows:

	<i>Geographical origin of revenue</i>	<b>2015 £000</b>	<b>2014 £000</b>
Dividends received and credited to income in the year			
Gallaher Overseas (Holdings) Limited	UK	<b>395,000</b>	-
JTI (UK) Finance Limited	UK	-	5,448
Income from ordinary shares in subsidiary undertakings		<b>395,000</b>	5,448
Investment income - preference shares in subsidiary undertaking	UK	<b>1,823</b>	2,354
<b>Total</b>		<b>396,823</b>	<b>7,802</b>

The Company is engaged in a single business, namely acting as an investment holding company.

# Gallaher Group Limited

## Notes to the financial statements Year ended 31 December 2015

### 6. Auditor's remuneration

The auditor's remuneration of £5,000 in respect of the statutory audit of the financial statements of the Company has been borne by Gallaher Limited, a related group company (2014 £5,000). The auditor has received no other remuneration during the year in respect of services provided to the Company (2014 £nil)

### 7. Tax

	2015 £000	2014 £000
UK Corporation tax		
Current tax on profits of the year	-	-
Current year group relief	(1,023)	(1,114)
	(1,023)	(1,114)
Deferred tax (note 10)		
Origination and reversal of timing differences	529	528
	529	528
Tax credit for the year	(494)	(586)

Corporation tax is calculated at 20.25% (2014 21.5%) of the estimated taxable profit for the year

The credit for the year can be reconciled to the profit/(loss) in the income statement as follows

	2015 £000	2014 £000
Profit/(loss) before tax	67,406	(4,649)
Tax at the UK corporation tax rate of 20.25% (2014 21.5%)	13,650	(999)
Tax effect of income not taxable in determining taxable profit	(80,356)	(1,677)
Tax effect of expenses that are not deductible in determining taxable profit	66,219	2,130
Impact of changes in tax rates	(7)	(40)
	(494)	(586)

The corporation tax rate will decrease to 19% from 1 April 2017 and then to 18% from 1 April 2020, as enacted in the Finance Act 2015. A further decrease has been announced to 17% from 1 April 2020, subject to enactment of the Finance Bill 2016.



# Gallaher Group Limited

## Notes to the financial statements Year ended 31 December 2015

### 8. Investments in subsidiaries

Investments in subsidiaries at 31 December 2015 amount to £1,899,779,000 (2014 £2,226,788,000), comprising investments in the ordinary shares of subsidiary undertakings of £1,756,050,000 (2014 £2,074,050,000) and an investment in the preference shares of a subsidiary undertaking of £143,729,000 (2014 £152,738,000)

#### Ordinary shares in subsidiary undertakings

	Cost £000	Provisions for impairment £000	Carrying value £000
At 1 January 2015	2,900,100	(826,050)	2,074,050
Liquidation	(50)	50	-
Impairment	-	(318,000)	(318,000)
At 31 December 2015	2,900,050	(1,144,000)	1,756,050

#### Liquidation

A subsidiary, JTI (UK) Finance Limited ("JTIUKF"), was liquidated in May 2015. No cash proceeds were received by the Company and no gain or loss arose as a result of the liquidation process.

#### Impairments - current year

In December 2015, the Company received a cash dividend of £395,000,000 from a subsidiary, Gallaher Overseas (Holdings) Limited ("GOHL"). The Directors performed an impairment review to assess whether there had been any impact on the carrying value of the Company's investment in GOHL. As a result of this valuation process, which involved reviewing latest management forecasts and net cash/debt balances in key entities under GOHL, the Company has booked an impairment charge amounting to £318,000,000 against the carrying value of its investment in GOHL in the income statement for the year ended 31 December 2015.

No other impairment has been identified as part of the Directors' review of the carrying value of the Company's investment in its subsidiaries at 31 December 2015.

#### Impairments - prior year

In November 2014, the Company received a cash dividend of £5,448,000 from a subsidiary, JTIUKF. The dividend was equivalent to the net assets of JTIUKF. Following receipt of the dividend, the Company's investment in JTIUKF was fully impaired, £50,000 being charged in the income statement for the year ended 31 December 2014. JTIUKF subsequently entered a liquidation process.

#### Preference shares in subsidiary undertaking

	Cost £000	Exchange adjustments £000	Carrying value £000
At 1 January 2015	122,121	30,617	152,738
Exchange adjustments	-	(9,009)	(9,009)
At 31 December 2015	122,121	21,608	143,729

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

# Gallaher Group Limited

## Notes to the financial statements Year ended 31 December 2015

### 9. Trade and other receivables

	2015 £000	2014 £000
<b>Amounts falling due within one year</b>		
Amounts owed by Group undertakings - group relief	1,009	1,114
Amounts owed by Group undertakings - other	328	379
	<u>1,337</u>	<u>1,493</u>

### 10. Deferred tax assets

Movements on deferred tax assets during the current and prior reporting period are as follows

	£000
At 1 January 2014	1,057
Charge to profit or loss	(528)
At 1 January 2015	<u>529</u>
Charge to profit or loss	(529)
At 31 December 2015	<u>-</u>

There was no unprovided deferred tax at 31 December 2015 (2014 £nil)

### 11. Trade and other payables

	2015 £000	2014 £000
<b>Amounts falling due within one year</b>		
Amounts owed to Group undertakings - loans	48,806	269,301
Amounts owed to Group undertakings - accrued interest	21	117
Amounts owed to Group undertakings - other	-	3
	<u>48,827</u>	<u>269,421</u>

At 31 December 2015, amounts owed to Group undertakings comprise intercompany borrowings that are due to a related company, JT International Holding B V. Whilst technically repayable on demand, the directors do not expect these borrowings to be repaid within one year.

# Gallaher Group Limited

## Notes to the financial statements Year ended 31 December 2015

### 12 Called up share capital

	£000
<b>Allotted, called up and fully paid</b>	
At 1 January 2015 657,142,748 ordinary shares of 10p each	65,714
Movements in the year	-
	<hr/>
At 31 December 2015 657,142,748 ordinary shares of 10p each	65,714
	<hr/>

The Company has unlimited authorised share capital

### 13. Capital contribution reserve

	£000
At 1 January 2015	7,504
Movements in the year	-
	<hr/>
At 31 December 2015	7,504
	<hr/>

Following the acquisition of the Company by Japan Tobacco Inc in April 2007, 1,444,926 share options held by eligible employees under the Savings related share option schemes were settled directly by JT at the acquisition share price of £11.40 per share. The cash amount received by the Company from the employees in respect of these share issues, being the appropriate share option price at the date of grant, has been credited to a capital contribution reserve

### 14. Capital redemption reserve

	£000
At 1 January 2015	7,872
Movements in the year	-
	<hr/>
At 31 December 2015	7,872
	<hr/>

Upon the buy back of its own shares by the Company, the nominal value of the shares cancelled is transferred to a capital redemption reserve in accordance with Section 170(1) of the Companies Act 1985

### 15. Retained earnings

	£000
At 1 January 2015	1,878,299
Profit for the year	67,900
Other comprehensive income	-
Dividends paid	(175,000)
	<hr/>
At 31 December 2015	1,771,199
	<hr/>

# Gallaher Group Limited

## Notes to the financial statements Year ended 31 December 2015

### 16. Related party transactions

The Company has taken advantage of the exemption provided by paragraph 8(j) of FRS 101 not to disclose transactions with JT Group companies

### 17. Controlling party

The Company is a wholly-owned subsidiary of JTI (UK) Management Ltd, a company incorporated in the UK and registered in England and Wales

In the opinion of the directors, the Company's ultimate parent company and ultimate controlling party is Japan Tobacco Inc , a company incorporated in Japan,

Japan Tobacco Inc is the parent undertaking of both the smallest and largest group in which the results of the Company are consolidated. Copies of the consolidated financial statements of Japan Tobacco Inc may be obtained from 2-2-1 Toranomon, Minato-ku, Tokyo, 105-8422, Japan

### 18. Direct and indirect subsidiary undertakings

Except where stated otherwise below, Gallaher Group Limited is the beneficial owner of all of the equity share capital of its subsidiaries. The subsidiaries at 31 December 2015, all of which are unlisted, are shown below

	Name	% Ordinary shares held	Country of incorporation	Principal activity
1	Gallaher Overseas (Holdings) Limited	100% <sup>1</sup>	UK	Investment holding company
2	Benson & Hedges Limited	100%	UK	Investment holding company
3	Gallaher Overseas Limited	100%	UK	Investment holding company
4	Gallaher Europe Finance	100%	UK	Investment holding company
5	Gallaher Limited	100%	UK	Manufacture, marketing and distribution of tobacco products in UK
6	JTI Kazakhstan LLC	100%	Kazakhstan	Manufacture, marketing and distribution of tobacco products in Kazakhstan
7	JTI Portugal Unipessoal Lda	100%	Portugal	Marketing of tobacco products in Portugal
8	Hergall Tobacco Limited	100%	Republic of Ireland	Finance company
9	Gallaher Asia Limited	100%	Hong Kong	Management services
10	Teofani Limited	100%	UK	Dormant
11	Gallaher International Limited	100%	UK	Dormant

<sup>1</sup> Held directly by Gallaher Group Limited

# Gallagher Group Limited

## Notes to the financial statements Year ended 31 December 2015

### 18. Direct and indirect subsidiary undertakings (continued)

Company number	Address of registered office
1, 2, 3, 4, 5, 10, 11	Members Hill, Brooklands Road, Weybridge, Surrey, KT13 0QU, England
6	Baiserke Village, Ilysky District, Almaty Oblast 040704, Kazakhstan
7	Edifício Escritórios do Tejo, Rua do Polo Sul, 2 B, Lote 1 01 1 1, Parque Expo, freguesia de Santa Maria dos Olivais, Lisbon, Portugal
8	1st Floor, 4-6 Riverwalk, Citywest Business Campus, Dublin 24, Ireland
9	42nd Floor, Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong

### 19. Transitioning from old UK GAAP to FRS 101

#### Explanation of transition to FRS 101

This is the first year that the Company has presented its financial statements under FRS 101 (Financial Reporting Standard 101) issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under a previous GAAP (pre-2015 UK GAAP ("Old UK GAAP")) were for the year ended 31 December 2014 and the date of transition to FRS 101 was therefore 1 January 2014. The Company has taken the exemption provided by FRS 101 from the requirement of IFRS 1 to present an opening balance sheet.

#### Reconciliation of equity

	1 January 2014 £000	31 December 2014 £000
Equity reported under previous UK GAAP	1,963,452	1,959,389
Adjustments to equity on transition to FRS 101	-	-
Equity reported under FRS 101	1,963,452	1,959,389

#### Reconciliation of total comprehensive income for the year ended 31 December 2014

	Income statement £000	Other comprehensive income £000	Total comprehensive income £000
Total for the financial year under previous UK GAAP	(4,063)	-	(4,063)
Adjustments to comprehensive income on transition to FRS 101	-	-	-
Total for the financial year under FRS 101	(4,063)	-	(4,063)

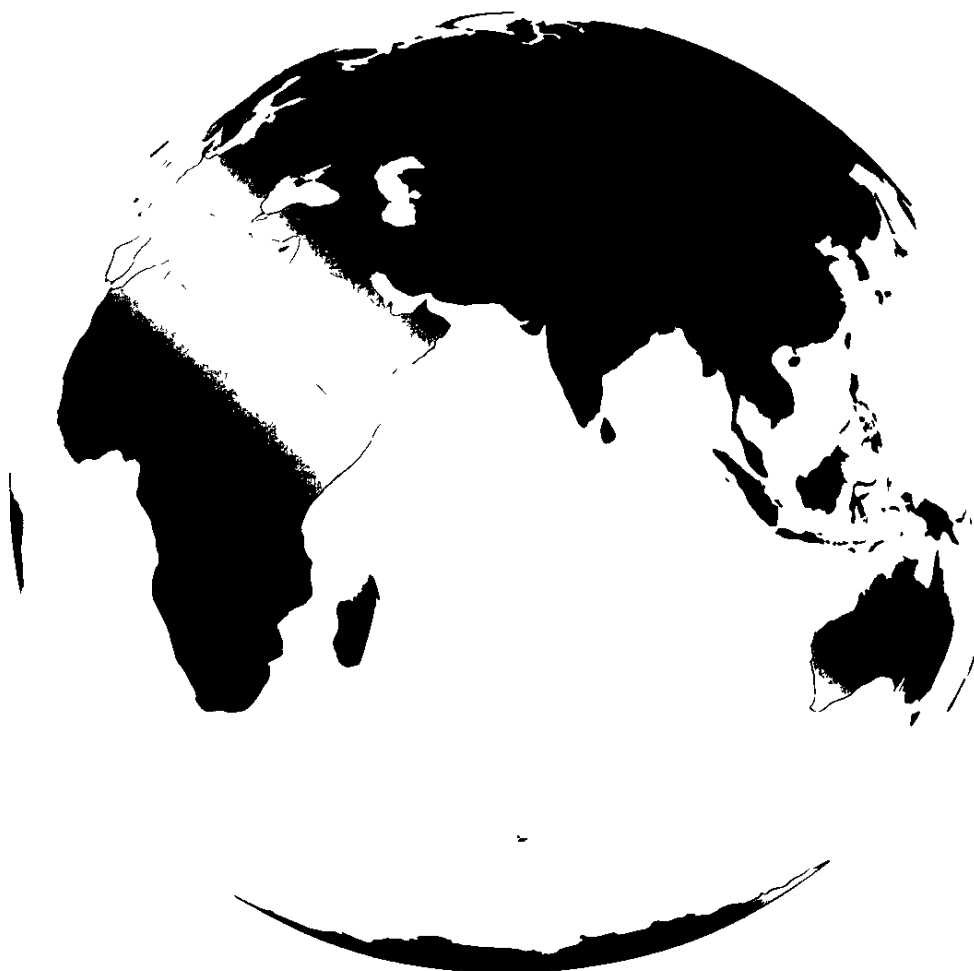


# Japan Tobacco Inc. Annual Report FY2015

Year ended December 31, 2015



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



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

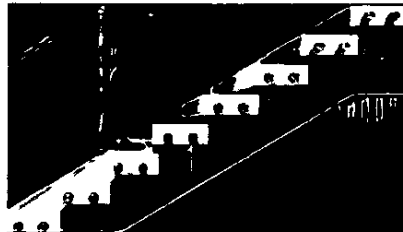
## Forward-looking statements

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

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

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

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



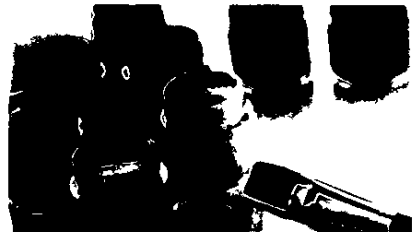
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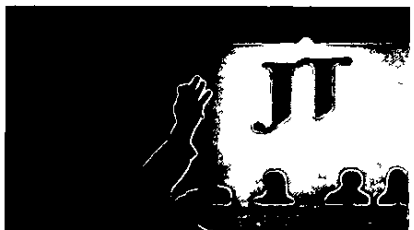
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# Financial Highlights

From the third quarter of FY2015, beverage business has been classified as discontinued operations in accordance with IFRS requirements. Consequently, profit (loss) and some items from continuing operations and discontinued operations are presented separately for the financial results of FY2015 and FY2014. To facilitate better understanding of our business performance in FY2015, we offer our analysis with a focus on continuing operations.

## Results for FY2015 and 2014

### Reported basis

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

In Financial Statements and Notes, FY2015 and FY2014 results are shown on a Reported basis.

In addition, FY2014 was a transitional period for the Company due to the unification of accounting period. Therefore, for the purpose of fair business performance comparison, we are providing figures for the twelve-month period from January 1, 2014 to December 31, 2014 (Like-for-Like basis) with regard to all business segments in continuing operations.

### Like-for-Like basis (comparison with Jan-Dec 2014)

	Jan	Apr	Jul	Oct	Jan	Apr	Jul	Oct
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
Domestic								
International								
	2014 Jan - Dec				FY2015			

Excluding Financial Statements and Notes, 2014 results are shown on a January to December (Like-for-Like) basis.

Revenue, operating profit, adjusted operating profit from continuing operations and profit attributed to owners of the parent company from continuing and discontinued operations combined for January to December, 2014 were disclosed in the Annual Securities Report, which was audited.

## FY2015

Results for the fiscal year ended December 31, 2015

### Continuing operations (Like-for-like basis)

#### Adjusted Operating Profit

626.7

(JPY BN)

-5.2%

Year-on-year change

+9.9%

Year-on-year change at constant exchange rates

#### Adjusted EPS (diluted)

234.35

(JPY)

-2.5%

Year-on-year change

+16.3%

Year-on-year change at constant exchange rates

#### Dividend Payout Ratio

53.2%

(vs. profit from continuing operations)



Factsheets available at:  
[www.jtb.com/investors/results/fact-sheet/index.html](http://www.jtb.com/investors/results/fact-sheet/index.html)

## At a Glance

### Our businesses





FY2015 Results for the fiscal year ended December 31, 2015

*The JT Group is a leading international tobacco company with operations in over 70 countries. Our products are sold in over 120 countries and our internationally recognized brands include Winston, Camel, MEVIUS and LD.*

*We are also active in pharmaceutical and processed food businesses and we expect them to establish a foundation for future profit contribution, as we strive for sustainable growth.*

## International Tobacco Business

**Global brand ranking**  
(excluding China National Tobacco Corp)

	#2
	#5
	#9
	#13

Source: JTI estimate as of 2015  
Note: The brand rankings of Winston and Camel include sales by Reynolds American Inc.

Today the international tobacco business continues to strengthen its role as the JT Group's profit growth engine, generating more than 60% of the consolidated profit<sup>1</sup>. In the years to come, we expect it will further increase its contribution, enabling the JT Group to continue delivering sustainable profit growth in the mid to long term.

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

### Results for FY2015

Achieved double-digit profit growth at constant exchange rates while delivering on committed investments.

### Key drivers.

- Global Flagship Brands volume growth
- Market share gains across our footprint
- Robust pricing
- Long-term commitment to investing into Brand equity, Emerging Markets and Emerging Products
- 26,000 dedicated employees



■ Markets where JTG's SOM<sup>2</sup> is 5% or higher as of 2015



<sup>1</sup> Consolidated profit: consolidated adjusted operating profit from continuing operations  
<sup>2</sup> SOM: Share of market

## Pharmaceutical Business



JT Group's pharmaceutical business focuses on the research and development, production, and sale of prescription pharmaceutical products. Its mission is to build world-class, unique research and development capabilities and reinforce its market presence through innovative drugs. In the pharmaceutical business, JT concentrates on research and development activities mainly on the fields of glucose and lipid metabolism, anti-virus, and immune disorders and

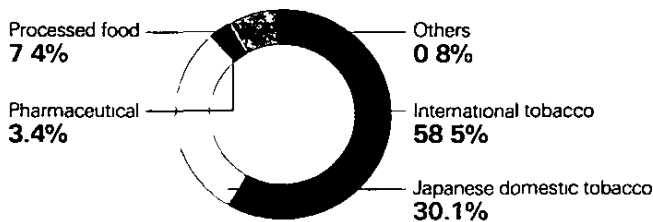
inflammation, while Torii Pharmaceutical Co., Ltd. is in charge of manufacturing as well as sales and promotion in the domestic market.

Our products include Remitch Capsules (anti-pruritus), Truvada Combination Tablets (anti-HIV) and Riona Tablets (hyperphosphatemia) etc. During 2015, 'MITICURE House Dust Mite Sublingual Tablets' was launched by Torii Pharmaceutical in Japan.

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### Revenue breakdown by business segment



## Japanese Domestic Tobacco Business

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

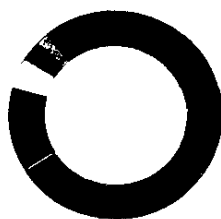
Our Japanese domestic tobacco business continues to be a significant profit contributor to the JT Group, generating about 40% of our consolidated profit<sup>1</sup>

During 2015, we have further enhanced our brand portfolio through the brand integration of Caster and Cabin into Winston and the acquisition of Natural American Spirit business outside the United States (completed in January 2016)

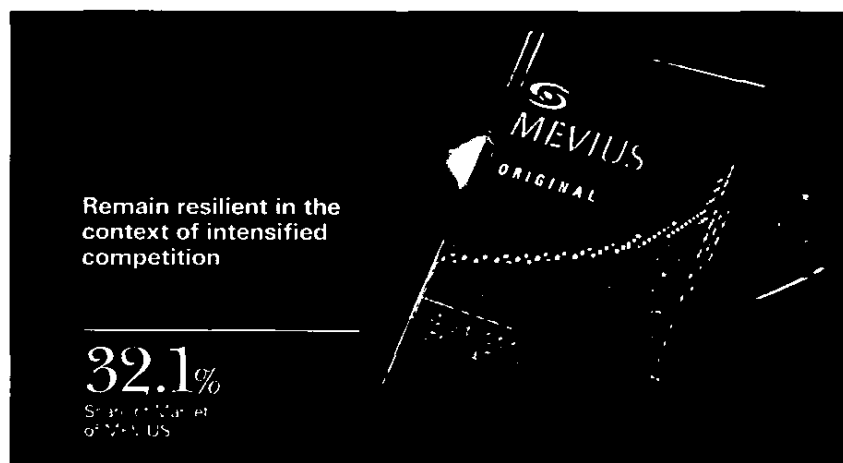
### Results for FY2015:

Achieved 6.4% year-on-year profit growth

### Composition of JT SOM<sup>2</sup> as of 2015



- MEVIUS
- Winston
- Seven Stars
- Planissimo
- Peace
- Hope
- Others



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

## Processed Food Business



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

We have solidified its No. 3 position in the frozen food industry with several top-selling products within respective categories, such as frozen Udon noodles and frozen Okonomiyaki



# Consolidated Five-Year Financial Summary

## Japan Tobacco Inc. and Consolidated Subsidiaries

FY2015 Results for the fiscal year ended December 31, 2015

In accordance with IFRS requirements, beverage business had been classified as discontinued operations from the third quarter of FY2015 due to the withdrawal from this business in 2015. Consequently, profit (loss) and some items from continuing operations and discontinued operations are presented separately for the financial results of FY2015 and FY2014.

In addition, due to the change in accounting period, FY2014 was a transitional period, covering nine months from April 1, 2014 to December 31, 2014 for Japanese domestic business. The same change in accounting period is applied to the Company's consolidated subsidiaries whose current closing date was other than December 31. For International tobacco business and its subsidiaries, accounting period remains unchanged from January 1 to December 31, 2014 (Reported basis).

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

	Billions of yen				
	FY2011 (IFRS)	FY2012 (IFRS)	FY2013 (IFRS)	2014 (Jan-Dec)	FY2015 (IFRS)
<b>For the year</b>	<b>Continuing Operations</b>				
<b>Revenue (Note 1)</b>	2,033.8	2,120.2	2,399.8	2,259.2	<b>2,252.9</b>
International Tobacco	966.3	1,010.7	1,270.0	1,328.0	<b>1,317.2</b>
Japanese Domestic Tobacco	646.2	687.1	710.3	687.4	<b>677.3</b>
Pharmaceutical	47.4	53.2	64.4	65.8	<b>75.6</b>
Food	359.4	—	—	—	—
Beverage	188.8	185.5	184.5	—	—
Processed Food	170.7	168.7	156.9	161.2	<b>165.8</b>
Others	14.6	15.0	13.6	16.9	<b>17.0</b>
<b>Core revenue (Note 2)</b>					
International Tobacco	894.6	943.1	1,200.7	1,258.2	<b>1,252.5</b>
Japanese Domestic Tobacco	611.9	654.0	676.2	649.8	<b>642.2</b>
<b>Operating profit (Note 3)</b>	459.2	532.2	648.3	572.6	<b>565.2</b>
International Tobacco	252.4	289.4	376.4	379.5	<b>346.9</b>
Japanese Domestic Tobacco	209.3	241.3	258.1	181.5	<b>249.2</b>
Pharmaceutical	(13.5)	(16.2)	(9.0)	(7.3)	<b>(2.3)</b>
Food	2.0	—	—	—	—
Beverage	4.5	2.3	(2.1)	—	—
Processed Food	(2.5)	(5.8)	(0.2)	(1.2)	<b>3.2</b>
Others	9.0	21.2	25.0	20.2	<b>(31.8)</b>
<b>Adjusted EBITDA/Adjusted Operating Profit (Note 3)</b>	577.1	622.0	641.8	661.0	<b>626.7</b>
International Tobacco	314.8	343.2	410.8	447.1	<b>394.4</b>
Japanese Domestic Tobacco	262.3	281.3	257.7	238.7	<b>254.1</b>
Pharmaceutical	(10.0)	(12.7)	(9.0)	(7.3)	<b>(2.3)</b>
Food	20.0	—	—	—	—
Beverage	14.6	12.4	(2.1)	—	—
Processed Food	5.4	7.4	0.6	1.4	<b>2.7</b>
Others	(9.8)	(9.6)	(16.2)	(18.9)	<b>(22.2)</b>
<b>Depreciation and amortization (Note 3)</b>	118.8	116.5	132.9	128.6	<b>133.1</b>
<b>Profit (attributable to owners of the parent company) (Note 4)</b>	320.9	343.6	428.0	391.4	<b>398.5</b>
<b>Free cash flow (FCF) (Note 5)</b>	451.3	316.0	212.6	455.4	<b>386.7*</b>

\* Results from continuing operations and discontinued operations combined for both FY2015 and Jan-Dec 2014

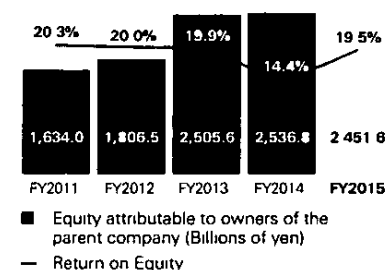
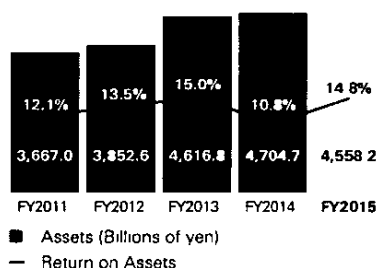
FY2015 Results for the fiscal year ended December 31, 2015

Billions of yen

**Consolidated  
(Continuing and discontinued operations combined)**

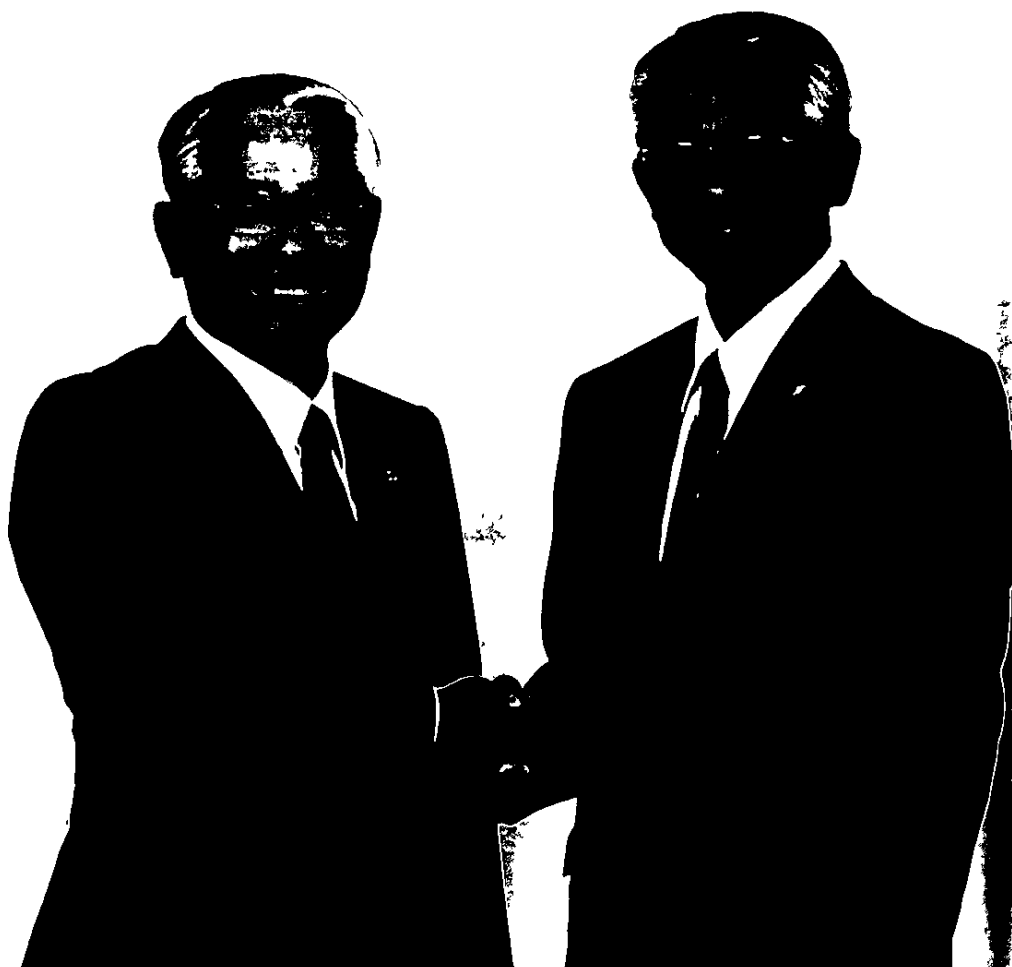
	FY2011 (IFRS)	FY2012 (IFRS)	FY2013 (IFRS)	FY2014 (IFRS)	FY2015 (IFRS)
<b>At year-end</b>					
<b>Assets</b>	3,667.0	3,852.6	4,616.8	4,704.7	<b>4,558.2</b>
<b>Interest-bearing debts (Note 6)</b>	502.4	327.2	375.9	228.2	<b>255.3</b>
<b>Liabilities</b>	1,952.4	1,960.1	2,020.7	2,082.2	<b>2,036.7</b>
<b>Equity</b>	1,714.6	1,892.4	2,596.1	2,622.5	<b>2,521.5</b>
<b>Amounts per share (in yen)</b>					
<b>Diluted EPS (Notes 7/8)</b>	168.44	180.98	235.35	199.56	<b>270.37</b>
<b>Book value per share (attributable to owners of the parent) (Note 8)</b>	858.09	993.98	1,378.57	1,395.74	<b>1,369.06</b>
<b>Dividend per share (Note 8)</b>	50	68	96	100	<b>118</b>
<b>Dividend payout ratio (Note 9)</b>	29.7%	37.6%	40.8%	50.1%	<b>53.2%**</b>

\*\* Payout ratio for FY2015 is based on basic EPS from continuing operations

**Major Financial Ratios (Consolidated)****Return on Equity (ROE) (%) (Note 10)****Return on Assets (ROA) (%) (Note 11)****Notes**

- Excluding tobacco excise taxes and revenue from agent transactions
- Excluding revenue from distribution business of imported tobacco among others in the Japanese domestic tobacco business, in addition to the distribution, private label, contract manufacturing, and other peripheral businesses in the International tobacco business
- (Before FY2012) Adjusted EBITDA = Operating profit + depreciation and amortization ± adjusted items (income and costs)\*  
\*adjusted items (income and costs) = impairment losses on goodwill ± restructuring income and costs ± others  
(Since FY2013) Adjusted operating profit = Operating profit + amortization cost of acquired intangibles + adjusted items (income and costs)\*  
\*adjusted items (income and costs) = impairment losses on goodwill ± restructuring income and costs ± others
- Under IFRS, profit is presented before deducting non-controlling interests. For comparison, we show the profit attributable to the owners of the parent company.

- FCF = (cash flows from operating activities + cash flows from investing activities) excluding the following items  
From "cash flows from operating activities": Interest and dividends received and their tax effect/interest paid and its tax effect  
From "cash flows from investing activities": Purchase of securities/proceeds from sale and redemption of securities/payments into time deposits/proceeds from withdrawal of time deposits/others (but not business-related investment securities which are included in the investment securities item)
- Including lease obligation
- Based on profit (attributable to owners of the parent company)
- A 200-for-one share split is done effective as of July 1, 2012  
Calculated on the assumption that this share split was conducted at the beginning of FY2011 (April 1, 2011)
- Based on profit (attributable to owners of the parent company)
- Return on equity (attributable to owners of the parent company)
- ROA = (Profit before income taxes) / Total assets [average of beginning and ending balance of the period]
- Financial data disclosed herein are basically rounded



*Y. Tango*

**Yasutake Tango**  
Chairman of the Board

*M. Koizumi*

**Mitsuomi Koizumi**  
President and CEO and  
Representative Director

# ● Message from the Chairman & CEO

## **Maintaining Strong Profit Growth**

We are very pleased to inform you that the JT Group had another successful year of strong business performance

With the prolonged economic stagnation, huge foreign exchange volatility and geopolitical risks, 2015 presented uncertain future prospects, not only for the tobacco industry, but also for the global economy. The business environment in 2015 was extremely difficult for the JT Group. In particular, as we operate our business on a global scale, the effect of foreign exchange volatility was substantial and required close attention.

2015 also marked a major turning point for JT Group. We restructured the sales and manufacturing operations of the Japanese domestic tobacco business. Moreover, we decided to withdraw from the beverage business, a business which we had operated for more than 20 years. The withdrawal from this business was completed as scheduled at the end of 2015. We are most grateful for many years of support extended to this business.

Meanwhile, our business fundamentals continued to be robust. Adjusted operating profit declined by approximately 5%, affected by the aforementioned foreign exchange effect. However, excluding the unfavorable foreign exchange impact, we successfully achieved profit growth of approximately 10%.

In the international tobacco business, our profit growth driver, we accelerated our investment in emerging products and expanded our geographical footprint. At the same time, we continued to invest in our brand equity. Importantly in 2015, we are proud to achieve increase in share of market in most of our key markets as well as double-digit profit growth at constant currency, including a significant increase in business investment.

Moreover, we acquired non-US business of Natural American Spirit (acquisition was completed in January 2016) as an initiative to achieve sustainable profit growth for the tobacco business in the mid- to long-term. In particular, this brand has been achieving outstanding growth in Japan, our home market. We believe this acquisition will consolidate our position in the prestige segment, as increasing our presence in this price segment had been an ongoing challenge. At the same time, it will allow us to further strengthen our brand portfolio.

#### **Shareholder Return – a New Phase**

In accordance with the robust business performance, we continued to enhance our shareholder return, raising dividend per share. As a result, our dividend payout ratio exceeded 50% based on profit from continuing operations. We trust therefore that we have achieved our goal of reaching a competitive level of payout ratio, comparable to our global peers in the FMCG sector. In 2015, we implemented a share repurchase program of 100 billion yen to ensure that we can meet our mid-term target rate of EPS growth at constant currency.

Our policy is to seek a balance between investment in our business for sustainable future profit growth and shareholder return. While maintaining a solid balance sheet that would allow us to respond to changes in our operating environment, we will strive to improve shareholder return based on mid- to long-term profit growth outlook.

Our aim is to deliver sustainable and stable increase of dividend per share. As for share buyback, we will consider the mid-term outlook for the Group's operating environment and financial position, in order to determine if buybacks should be implemented.

#### **Pursuit of the 4S Model**

Our management principle is based on the 4S model, under which we balance the interests of consumers, shareholders, employees and wider society. We strive to fulfill our responsibilities to them, and at the same time, we aim to exceed their expectations.

Corporate governance is a top priority for the management and a matter we have been striving to reinforce. Recently, we established our corporate governance policy in order to clarify our thoughts on the matter. Corporate governance has become increasingly important in recent years in building relationships of trust between the capital market and the corporate community. We will continue to strengthen our initiatives on corporate governance, while taking into account the opinions of our stakeholders.

#### **Toward Further Growth**

In 2015, we succeeded in achieving strong profit growth while making significant investments in terms of quantity and quality. This is precisely the result of investment in our business, something that we have pursued in the past based on the belief that there will be no growth without investment. We are confident that our most recent investment in our business and investment that we will be making in 2016 and beyond, will contribute to our profit growth in the mid- to long-term.

We are in times of uncertainty – it is difficult to make even a three- or five-year forecast. Nevertheless, we pledge not to merely pursue short-term results, and we will always look at mid- to long-term perspective and strive for sustainable profit growth.



# CEO Business Review

Mitsuo Kozumi  
President and CEO and  
Representative Director

“  
We achieved robust profit growth again  
in 2015. And we continue pursuing  
business investments in order to achieve  
future profit growth.”



### Maintaining mid to high single-digit profit growth

When we changed our business plan to an annual rolling plan over a three-year period, we set ourselves a goal to achieve mid to high single-digit adjusted operating profit growth at constant currency over the mid- to long-term. Since then, every year, we have exceeded this profit growth target.

In 2015, we achieved consolidated adjusted operating profit growth of approximately 10% excluding unfavorable foreign exchange effect. More importantly, both the domestic Japanese and international tobacco businesses achieved robust results.

### Business results by segment

In the international tobacco business, amid unstable macroeconomic conditions, industry size continued to decline due to tighter regulations and excise tax hikes. Nevertheless, JTI's shipment volume declined only 1%, driven by GFB, which grew strongly by 4.3%. Particularly in Europe where shipment volume had been soft, JTI enjoyed outstanding results. In Italy, France, and Spain, JTI grew market share as well as shipment volume, while in the UK, we achieved the long-desired leadership position in market share.

As pricing continued to act as the driver in 2015, adjusted operating profit excluding unfavorable foreign exchange effect grew 10.8% year-on-year.

As I communicated to our stakeholders at the beginning of 2015, I defined 2015 as a year of investment, mainly for the tobacco business. Accordingly, we made significant investment in our business in terms of both quantity and quality. We steadily made investments not only in brand equity enhancement but also in emerging products and expanded our geographical footprint.

While making investments for the future, we strengthened our cost competitiveness by preparing for the restructuring of European manufacturing operations and by optimizing production in Russia.

We are proud of the double-digit profit growth as we made significant investment in our business at the same time, in terms of both quantity and quality.

The Japanese domestic tobacco business produced strong results, amid intensifying competition with our competitors in a specific price segment. Industry volume decline was moderate in comparison to our initial forecast.

From 2015 and into 2016, we have taken several significant initiatives to enhance our brand portfolio for further growth in the future. For example, Cabin and Caster, both brands which have long-standing loyal consumers, were integrated into the Winston brand. Another initiative undertaken is the acquisition of non-US business of Natural American Spirit.

The brand enjoys a strong presence in the prestige segment, a segment which has been an ongoing challenge to JT. Price increase of MEVIUS, another initiative, was taken in order to enhance its brand equity further. Rather than pursuing short-term results, all of these initiatives aim to enhance profit generating ability of the Japanese domestic tobacco business in mid- to long-term, in order to achieve mid to high single-digit profit growth for our tobacco business, international and Japanese domestic taken together. We will strive to maximize the effect of these initiatives.

As for the pharmaceutical and processed food businesses, we are making steady progress. In the pharmaceutical business, royalty revenues from Stribild and Mekinist are growing favorably. In the processed food business, we achieved profit growth while coping with the structural problem of continuously high raw material prices caused by weak yen and delivered strong top-line performance.

### All businesses to contribute to profit growth

Economic recovery has been slow and the operating environment is unlikely to improve any time soon. In addition, foreign exchange rates are not moving in favor of our business. Despite these difficult circumstances, the JT Group's fundamentals continue to be strong. We believe this is a result of continued investment in our business – we do this from a mid- to long-term perspective and we do not merely pursue short-term results. For 2016, we expect to deliver growth of around 7% in consolidated adjusted operating profit at constant currency while continuing to enhance investments.

In addition, 2016 will be the first year when all of our businesses are forecast to post profits and contribute to the Group's profit growth. Importantly, we expect the pharmaceutical business to contribute to profit growth, not only in 2016 but also in 2017 and beyond. We have built a business foundation that enables R&D investments for future profit growth, as we forecast an increase in royalty revenue and top-line growth – an achievement from making continuous investment from mid- to long-term perspective.

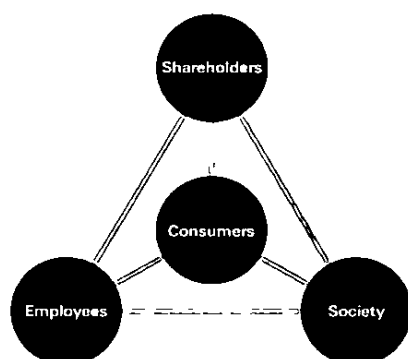
We expect that the surrounding environment will change constantly and at an increasing pace. Existing ways of doing business or treasuring past results may not lead to stability or sustainability, but could mean regression or taking step backwards. We need to react flexibly to changes and at times make bold decisions, in order to achieve sustainable profit growth in the mid- to long-term.

Being diverse, anticipate changes and proactively pursue results. All of these qualities are built into the JT Group's DNA. We are confident of achieving sustainable profit growth in the mid- to long-term by making the most of these qualities.

# Management Principle, Strategic Framework and Resource Allocation

## Management Principle

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



The “4S” model – we will balance the interests of consumers, shareholders, employees and wider society, and fulfill our responsibilities towards them, aiming to exceed their expectations

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

- For our consumers, we will offer superior products which meet or even go beyond their evolving needs. To achieve that, we will make the most of JT Group’s diversity to enhance our capacity in innovation.
- For our shareholders, we intend to strike an optimal balance between profit growth and shareholder returns. This means that we will enhance our shareholder returns based on our profit growth outlook in the mid- to long-term.
- For our employees, we will further evolve to become an attractive and respected company so that employees feel proud to be a part of it. For that, we will highly value the employees with a strong sense of commitment to deliverables and properly reward their accomplishments.
- The growth of the JT Group is dependent on sustainability of society. We will continue to contribute to society and in doing so enhance our company value.

## Strategic Framework

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

### Quality top-line growth

Among the strategic pillars, the JT Group places a particular emphasis on quality top-line growth, which is indispensable for sustainable growth. We aim to grow top-line by consistently offering innovative products.

### Competitive cost base

We continue to improve our cost base, while not compromising on investments for future sustainable growth.

### Robust business foundation

Business environment surrounding the JT Group has been changing fast. In order to respond to and even take advantage of the changes, we encourage each employee and organization to challenge the status quo for continuous improvement.

## Resource Allocation

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

### Business investment and capital policy

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

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

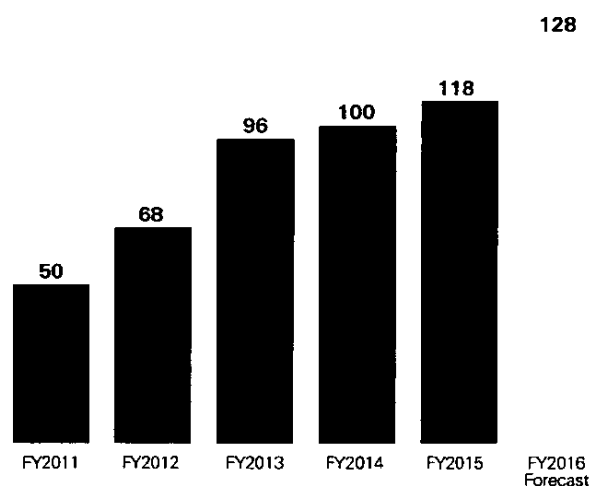
### Shareholder Return

We achieved our previous target for shareholder returns and our approach towards shareholder return moves on to a new phase.

We believe that maintaining a solid balance sheet is essential for the JT Group as it will provide us the ground to continue pursuing aggressively business investment opportunities and cope with any adversity arising out of the volatile environment. At the same time, as we already mentioned, we intend to strike an optimal balance between profit growth and shareholder returns. This means that we will enhance our shareholder returns based on our profit growth outlook in the mid-to long-term. In particular, we will deliver sustainable and steady increase of dividend per share. Dividend payout ratio will no longer be set as our management target although it will be taken into consideration when decide the dividend amounts. As for share buy-back, we will consider it after scrutinizing the mid- to long-term expectations on the Company's business environment as well as financial achievements and position, among other factors.

We will continue to monitor the trend amongst the global FMCG companies that have a stakeholder model similar to our 4S model and that have achieved strong business growth.

Dividend per share (JPY)



# Business Plan 2016

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

## Group profit target:

- Annual average growth rate of adjusted operating profit at constant currency over mid- to long-term
  - Mid to high single-digit

## Shareholder return policy:

- Aim to enhance shareholder returns considering the Company's mid- to long-term profit growth trend, while maintaining a solid balance sheet
  - Deliver consistent dividend per share growth
  - Consider implementing share buy-back, which takes into account the Company's mid-term operating environment and financial outlook
  - Continue to closely monitor shareholder returns of global FMCG companies\*

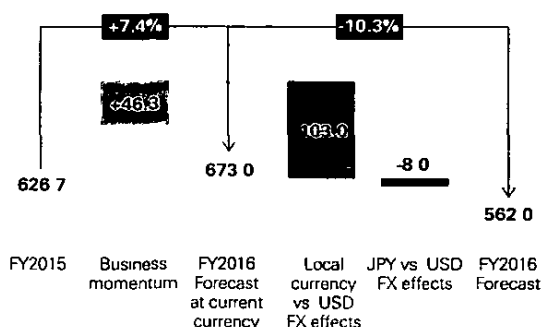
\* As its financial policy, the Company maintains strong financial base that secures stability in case of changes in business environment such as economic crises and flexibility enabling expeditious responses to business investment opportunities

\*\* The Company monitors global FMCG companies which have a stakeholder model similar to our 4S\*\*model and have realized strong business growth

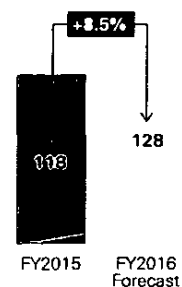
## Forecast for FY2016

- Adjusted operating profit is forecast to grow more than 7% at constant currency. International tobacco business, the profit growth engine, is expected to grow its currency neutral adjusted operating profit by 9% driven by top-line. Japanese domestic tobacco business is projected to increase adjusted operating profit at approximately 3% mainly through cost optimization
- On a reported basis, adjusted operating profit is forecast to decline 10.3%. As for the impact of local currencies' movements against the dollar, we expect another substantial negative impact in 2016. Russian ruble and all other major currencies are forecasted to be weaker against the dollar. Furthermore, the yen's appreciation will cause an unfavorable impact on our financial results
- Based on the shareholder return policy, we offer annual dividend per share of 128 yen, representing an 8.5% increase year-on-year

Adjusted Operating Profit (JPY BN)



Dividend per share (JPY)



## Role and Priority of Each Business

*In view of Business Plan 2016, the role and priority of each business in the mid- to long-term are as follows.*

### Tobacco Business

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

#### International Tobacco Business



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

p22

#### Japanese Domestic Tobacco Business



Maintain its highly competitive platform of profitability

p30

- **Prioritize quality top-line growth**

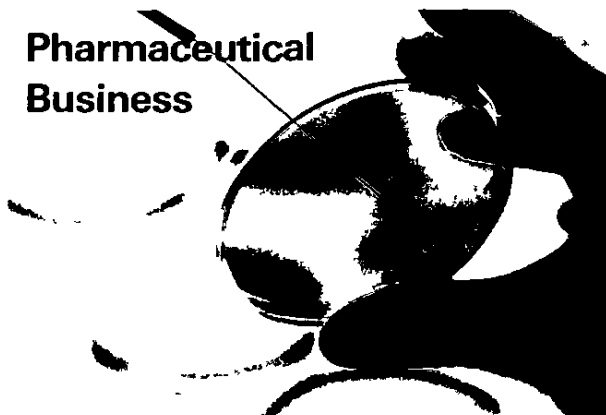
- Strengthen our brand equity with focus on core brands
- Grow or maintain market share in existing key markets

- **Strengthen business foundation**

- Broaden geographical earnings base
- Develop emerging products categories

- **Continue to improve cost base**

#### Pharmaceutical Business



Aim to make stable profit contribution to the JT Group through R&D promotion for the next generation of strategic compounds and value maximization of each product

p34

#### Processed Food Business



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

p38

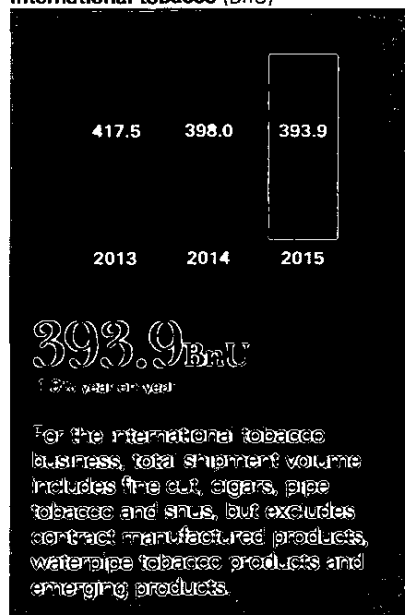
# Performance Measures

FY2015 Results for the fiscal year ended December 31, 2015

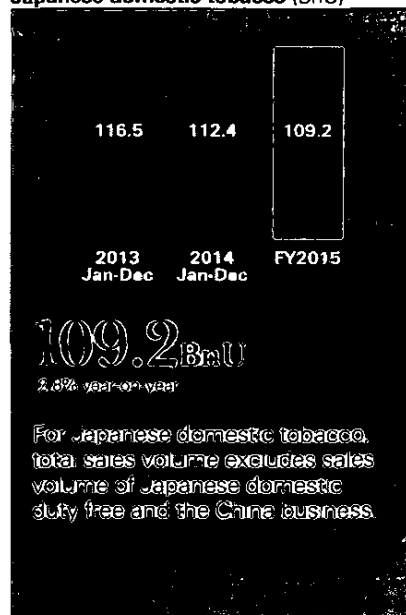
*In our Business Plan 2016, target is set for adjusted Operating Profit growth rate at constant exchange rates. While it is a mid- to long-term target, we also monitor the performance measures annually.*

## Tobacco sales volume

### International tobacco (BnU)

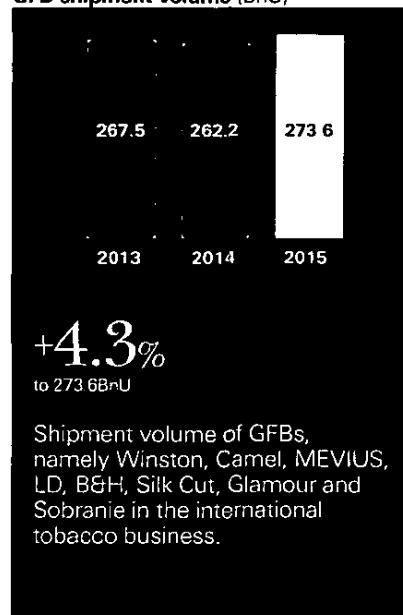


### Japanese domestic tobacco (BnU)



## GFB shipment volume

### GFB shipment volume (BnU)

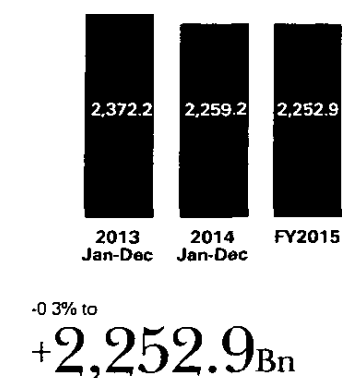


In our strategic framework to achieve adjusted Operating Profit growth, the JT Group places a particular emphasis on "quality top-line growth", while, at the same time, focusing on building a "competitive cost base" and "robust business foundation".

In line with our strategic emphasis, the measures to review our business performance are skewed towards top-line related indicators. As for shareholder return, we will deliver sustainable and steady increase of dividend per share.

## Revenue

### Revenue (JPY Bn)

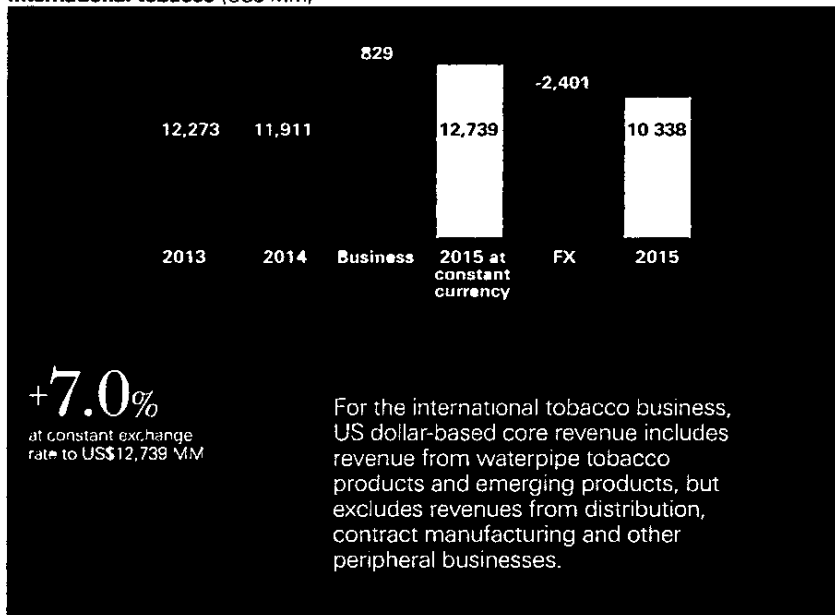


Revenue on a consolidated basis which, for the avoidance of doubt, excludes excise and other similar taxes, as well as sales from transactions in which the JT Group acts as an agent

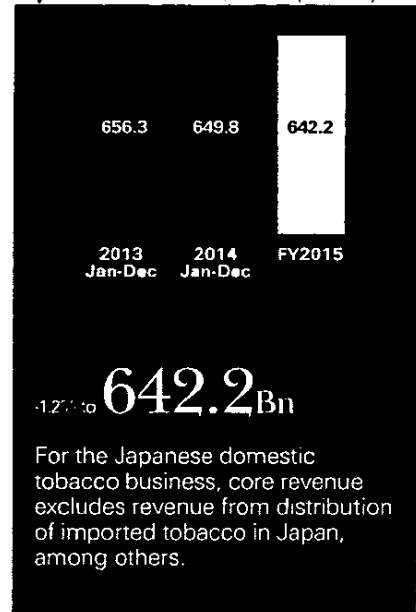
Note: For both Jan-Dec 2014 and FY2015, the figures were the results from continuing operations only

## Core revenue

## International tobacco (US\$ MM)

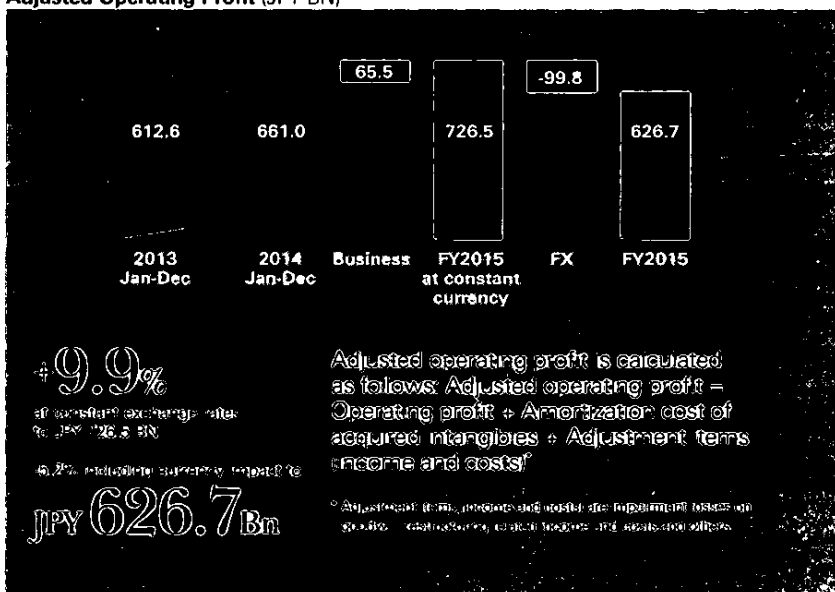


## Japanese domestic tobacco (JPY Bn)



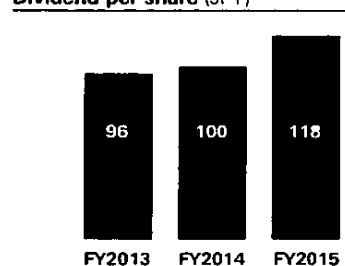
## Adjusted Operating Profit

## Adjusted Operating Profit (JPY Bn)



## Dividend per share

## Dividend per share (JPY)



+18 yen to **118 yen**

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

Note: For both Jan-Dec 2014 and FY2015, the figures were the results from continuing operations only



# Operations and Analysis

## 2015 Awards and recognition

We have been selected as a member of the Dow Jones Sustainability Asia/Pacific Index ([www.sustainability-indices.com](http://www.sustainability-indices.com)) for two consecutive years since 2014. And we are also a member of the Morningstar Socially Responsible Investment Index (MS-SRI) ([www.morningstar.co.jp/sri](http://www.morningstar.co.jp/sri), in Japanese)

For the information regarding our approach to sustainability, please refer to page 44 'JT Group and Sustainability'

MEMBER OF

**Dow Jones  
Sustainability Indices**

In Collaboration with RobecoSAM 



# Industry Overview

## Tobacco Business

### Tobacco industry

#### Market dynamics

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

In addition, the next generation of emerging products such as electronic cigarettes (e-cigarettes) has become widely popular. E-cigarettes use vaporized liquid solutions often containing nicotine, and vapor is inhaled to offer a different experience. Sales volume of e-cigarettes has been growing at a fast rate in markets such as the U.S. or Europe. As e-cigarettes do not use tobacco leaf, they are often not regulated or taxed as tobacco products. We would, however, expect regulation or taxation of e-cigarettes to be tightened over the coming years.

Another type of emerging products referred to as 'Tobacco-vapor' or 'Heat-not-Burn' products, have become available to consumers. Unlike e-cigarettes, Tobacco-vapor products often use tobacco leaf and are therefore taxed and regulated as cigarette products. Although market size for e-cigarettes or Tobacco-vapor is still small, further innovation and product offerings are anticipated, as market players take keen interest in this new growing category.

Approximately 5.7 trillion cigarettes are consumed around the world. China is by far the largest market, accounting for over 40% of global consumption, but it is almost exclusively operated by a state monopoly. Russia, the U.S., Indonesia and Japan are the next four largest markets, according to a survey conducted for 2014.

In general, the market dynamics are distinctively different between mature and emerging markets. In mature markets, industry volume tends to

decline reflecting various factors such as limited economic growth, tax increases, tightening regulations, and demographic changes, among others. In addition, down-trading is prevalent in these markets. Consumers are inclined to seek more value as they feel tobacco products become less affordable in the context of limited growth of disposable income. Recently, these trends have been observed in EU countries, resulting in industry contraction and down-trading in many markets.

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

Overall, when we exclude China, global industry volume has been slightly decreasing according to a survey conducted for 2014\*. However, more importantly, industry value continues to grow even in the current difficult operating environment, mainly driven by price increases. This is a sign of the resilience of the industry. These trends – decline in volume and increase in value – are expected to continue in the years ahead.

\* Source: JT estimate (2014 data as of July 2015)

Industry data will be updated on the JT website around July 2016.

### Top market players

	Share of market (%)				
	2010	2011	2012	2013	2014
Philip Morris International Inc.	24.6	25.1	25.7	25.7	26.2
British American Tobacco Plc	18.7	19.1	19.0	19.1	19.2
Japan Tobacco Inc.	16.3	15.6	16.0	16.3	16.0
Imperial Tobacco Group Plc *	8.7	8.6	8.5	8.5	8.5

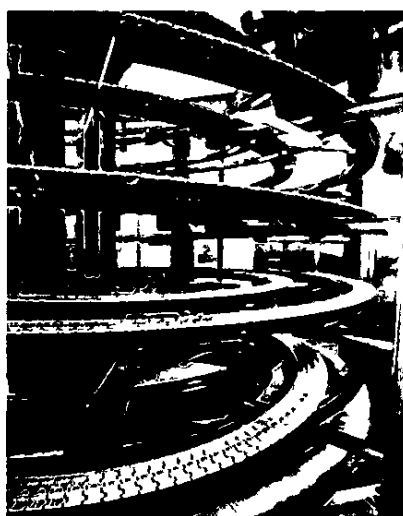
Source: JT estimate (2014 data as of July 2015). Excluding China National Tobacco Corp. (CNTC). \*\* Company name changed to Imperial Brands as of February 2016.

### Top 10 countries by volume

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

Source: JT estimate (2014 data as of July 2015). Excluding China National Tobacco Corp. (CNTC).

## Tobacco Business



### Regulations

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

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

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

### Competition

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

\* Source: JT estimate (2014 data as of July 2015). The company name of Imperial Tobacco Group Plc. was changed to Imperial Brands Plc. as of February 2016.

Industry data will be updated on the JT website around July 2016

### Top brands

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

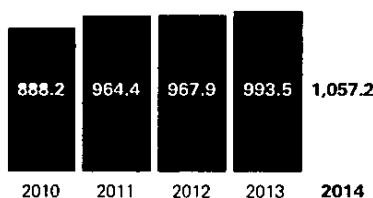
Source: JT estimate (2014 data as of July 2015)  
Excluding China National Tobacco Corp (CNTC)

## Pharmaceutical Business

### Market dynamics

The global pharmaceutical market continues to grow, reaching sales of approximately US\$1,057.2 billion in 2014 according to IMS Health. In emerging countries, demand for modern medicine is rapidly growing due to multiple factors including growing consciousness of health, increase in population, and development of public healthcare systems, among others. Mature markets also see a value increase, though the pace of growth is moderate.

Worldwide Pharmaceutical Market (USD BN)



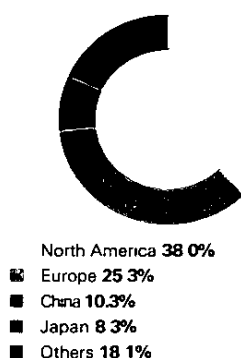
Source: 2015 IMS Health

Facing a rapidly aging society and a fiscal deficit, the governments in these markets try to contain healthcare costs through wider promotion of generic drugs.

In addition, patents of commercially successful drugs have been expiring during recent years, which accelerates the global trend of industry consolidation.

Mature markets hold majority of share in global pharmaceutical markets. North America is the largest market and accounts for 38% of the worldwide market, followed by Europe and Japan, representing 25% and 8%, respectively.

2014 Regional Composition



Source: 2015 IMS Health

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

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

### Competition

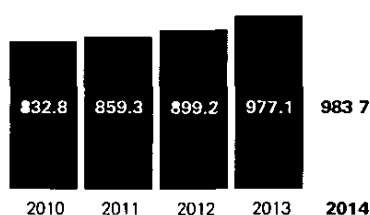
The pharmaceutical industry is highly competitive worldwide. Our pharmaceutical business focuses on building a R&D-led operational platform. Based on this platform, original compounds are developed and marketed as leading products in major global markets.

As such, we face competition with Japanese and multinational pharmaceutical companies. These companies are also focused on their research and development pipelines.

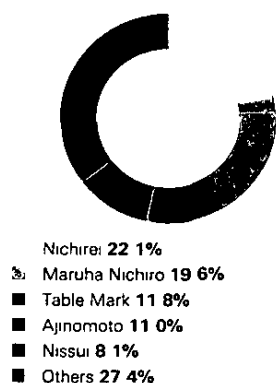
## Processed Food Business



Japanese Frozen Food Market (JPY BN)



2014 Share of Market by Frozen Food Manufacture



Source: The Nikkei Business Daily

### Market dynamics

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

The size of the Japanese frozen food market in 2014 on a consumption basis including imports was ¥983.7 billion, up 0.7% year-on-year (Source: Japan Frozen Food Association).

After a consumption tax hike, the domestic production of frozen food was decreased. This was due to declining consumption amount and consumption basis of Japanese domestic manufacture caused by stagnation of household consumption.

For the Japanese processed food industry, we expected to see additional price increases in imported raw materials and prices of raw materials remaining at high levels. The processed food business is also significantly impacted by developments in the wholesale and retail sales channels, particularly by their consolidation. We will continue to monitor the development of these channels, especially in the area of M&A.

### Competition

TableMark is competing against major players like Nichirei, Maruha Nichiro, Ajinomoto and Nissui as well as a multitude of mid- or small-scale producers.

We are seeing a polarization of retailers as well as reorganization and oligopolization of the wholesale sector led by sogo-shosha, the general trading companies, resulting in stronger price negotiation power against manufacturers. We are also seeing an increase in private label brands.

## Review of Operations

### Tobacco Business Value Chain



We focus on fundamental research and product technology development, taking advantage of our global research platform, in close collaboration with other functions. In particular, focus areas in our R&D activities are:

- Develop products and analytical capabilities in line with market needs and our anticipation of regulatory trends

#### Create value for the business through innovation and quality

- Maintain existing products to comply with regulatory changes
- Develop new technologies and improve production processes to maintain competitiveness and improve efficiency
- Drive product innovation to enhance equity from various aspects, including tobacco leaves, filters, tilters, printing techniques and packaging
- Develop emerging products



#### Procurement

Tobacco leaf is the most important material for our products, and we dedicate our efforts to strengthen our capability to ensure a stable supply of quality leaf in the long-term.

- Increase the proportion of leaf from our vertical integration bases in Africa, Brazil and the U.S.
- Enhance sustainability of tobacco farming by helping farmers to improve productivity

#### Ensure stable supply of quality tobacco leaf

as well as taking initiatives to support their communities

- Maintain good relationships with external suppliers to ensure sufficient supply at competitive prices.

With regard to non-tobacco materials, we aim to mitigate cost increases due to design enhancements and investment in innovative products by, among others, effectively managing procurement lot-size.



#### Manufacturing

Our emphasis on product quality is increasing to meet consumer expectations for innovative offerings. In addition, we consistently pursue an optimal manufacturing footprint which ensures efficient and timely product deliveries to markets

- Strengthen our ability for business continuity in times of emergency

#### Support top-line growth by delivering quality products

- Ensure high quality of products and enhance flexibility in the manufacturing process, overcoming complexity in manufacturing due to an increase in number of products
- At the same time, seek efficiency by containing cost increases through continuous improvement and reviewing manufacturing footprint for further optimization



#### Marketing

Our strategic focus is placed on our flagship brands and we strive to enhance their equity through effective communications with consumers.

#### Enhance equity of flagship brands

- Allocate appropriate resources to support GFB's equity building.
- Implement effective marketing programs, in compliance with applicable laws and regulations as well as our own marketing code.



#### Sales & Distribution

There are various sales channels for tobacco products such as supermarkets, convenience stores, street and train station kiosks, small independent retailers and vending machines. Key channels are different depending on the market and we develop win-win relationships with them to increase the availability of our products.

#### Expand product availability by leveraging our trade marketing excellence

- Strengthen relationship with key accounts, leveraging our trained sales forces.
- Develop trade marketing initiatives for each market, taking into account the channel development as well as consumer trends and competitors' actions.

## International Tobacco Business

FY2015 Results for the fiscal year ended December 31, 2015



**Thomas A. McCoy**  
President and Chief Executive Officer JTI

“

*JTI manufactures and sells  
over 90 brands in more  
than 120 countries.*”

“2015 was an excellent year for JTI. It is our fifth consecutive year of delivering double-digit profit growth at constant currency. We achieved our targets and strengthened our role as the profit growth engine of the JT Group.”

Last year, JTI committed to invest more to expand and accelerate our business growth into new geographies and emerging products. We delivered on that commitment and through those investments we are establishing solid foundations on which we continue to build our business into the mid and long term.

2015 was not without its challenges due to ongoing industry contraction and an acceleration in the growth of the value segment across many of our key markets.

In Russia, our largest market, we experienced a high single-digit industry volume decline and intensified competition in the lower price segments. In this difficult operating environment, we successfully grew Global Flagship Brands (GFB) market share driven by a resilient Winston holding market share and the strong performance of LD.

In Europe, we registered a very strong volume, core revenue and adjusted operating profit performance driven by our GFBs. We grew share across most markets and we reached the leading position in the UK driven by our continued investments since the Gallaher acquisition.

We continued to grow our presence internationally, both organically and through acquisitions. Seeding investments, to expand in markets where our presence is limited, are already delivering positive

results in terms of volume and market share growth.

In emerging products, we consolidated our global presence by entering the USA, the largest e-cigarette market worldwide, and expanded E-Lites and Logic in new geographies.

For 2016, we have a balanced plan that will support short-term profit delivery and long-term sustainable growth. We are targeting 9% adjusted operating profit growth at constant currency as we build on our 2015 momentum and continue investing for future growth.”

### Our strategies

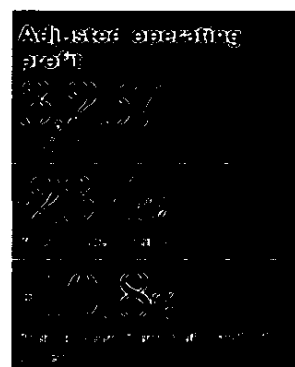
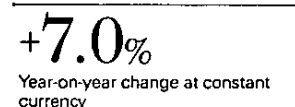
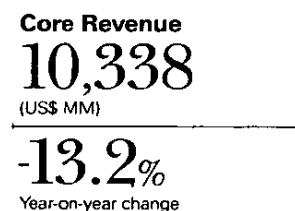
The core mission of JTI is to be the profit growth engine of the JT Group. Using the JT 4S model as our guiding principle, JTI has developed a clear and actionable strategic growth agenda.

Our key strategic drivers are:

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

JTI's strategic growth agenda sets out three key priorities:

- Organic growth in markets where JTI's presence is established
- Expansion of our geographic footprint in emerging markets for future growth
- Develop a leadership position in emerging products



We believe the combination of these strategic initiatives and continuous improvement provide the right balance between short-term profitability and sustainable long-term growth

## 2015 Performance Review

### Volume & Share

Total shipment volume was down 1.0% to 393.9 billion cigarette equivalent units, due to significant industry contraction and a volatile operating environment in the Middle East. Our fine cut volume was up 13.1%, partially offsetting the decline in total cigarette volume.

The performance in South & West Europe was particularly strong with growth across all key markets. North & Central Europe also grew volume, fully offsetting the impact of industry contraction in the UK. In the Rest-of-the-World cluster, total volume was up, mainly driven by Turkey and Iran. The significant industry contraction across the CIS+ cluster drove total volume to decline.

GFB shipment volume increased 4.3% to 273.6 billion cigarette equivalent units. This positive performance was driven by the strong equity of our portfolio, and most notably Winston, Camel, LD, Benson & Hedges and Sobranie. As a result, GFB mix in our total shipment volume grew to 69.5%, an increase of 3.6 percentage points versus prior year.

Looking into the clusters, GFB volume was very strong, increasing by high single-digit and even double-digit, except in CIS+ due to industry volume contraction.

	BnU				
	South & West Europe	North & Central Europe	CIS+	Rest of the World	Total JTJ
Total shipment volume	63.2	53.0	152.5	125.2	393.9
GFB shipment volume	55.8	30.5	113.3	74.0	273.6

Overall as a company we grew total and GFB share of market as well as total and GFB share of value. Across our seven key markets, JTJ's market share grew to 21.3%, a 0.1 percentage point increase versus prior year driven

by France, Italy, Spain, Taiwan, Turkey and the UK. In these markets, our GFB market share was up 1.2 percentage points to 17.8% driven by all seven markets, demonstrating the strength of our GFB portfolio and the value of continued equity building investments. We also grew market share in fine cut, notably driven by strong growth in the key markets of France, Italy, Spain and the UK.

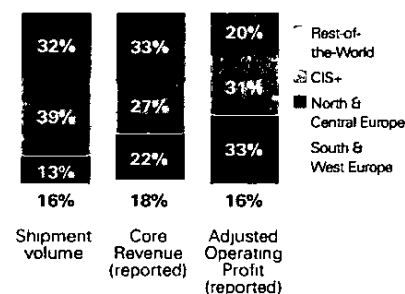
Importantly, we grew total and GFB share of value to 21.4% and 16.2%, respectively, in all our key markets except Russia, due to the large volume decline across the industry.

### Financials

Core revenue grew 7.0% at constant currency driven by robust price/mix and GFB shipment volume growth. Price/mix contribution increased by almost US\$1 billion, fully offsetting the volume decline impact. All clusters contributed to the price/mix increase, notably driven by Russia and the UK. The South & West Europe cluster generated US\$55 million in price/mix, combined with US\$178 million from North & Central Europe, US\$628 million from CIS+ and US\$136 million from Rest-of-the-World.

Pricing was the key driver of our 10.8% increase in adjusted operating profit at constant currency. While South & West Europe delivered high single-digit adjusted operating profit growth at constant currency, North & Central Europe and CIS+ both delivered double-digit adjusted operating profit growth at constant currency. In the Rest-of-the-World cluster, adjusted operating profit was flat at constant

### Cluster breakdown



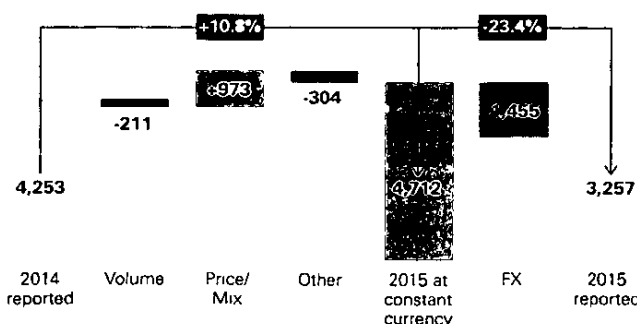
currency as we increased investments and redeployed our profit growth to further build our business for mid to long term profitability.

### 2015 key highlights

Investing for future sustainable growth. 2015 was an investment year for JTJ. Investments were directed at three main areas: equity building, seeding initiatives and emerging products.

Global Flagship Brands were the main focus of our equity building investments. As a result, our GFBs registered strong performance. Despite the challenging environment, Winston held its market share in Russia. It became the number two brand in France and Spain, and the number three brand in Taiwan. Camel became the number one brand in Turkey. The brand reached record market share in Italy and Turkey. LD achieved record market share in Russia and returned to the number three position in this market. In the UK, two brands were key contributors to our growth since 2007: Amber Leaf, the number one tobacco brand, and Sterling, the number one cigarette brand.

### Adjusted operating profit (US\$ MM)



## International Tobacco Business

FY2015 Results for the fiscal year ended December 31, 2015



Furthermore, we have accelerated our investment plans in geographies where our presence is limited. These seeding initiatives included expanding our distribution in Brazil, Myanmar and Thailand. We also strengthened our portfolio and marketing and sales organization in several markets, including Hungary, Korea and the Philippines.

In addition to the Logic acquisition, we invested in emerging products by developing our product pipeline, expanding our geographic reach and strengthening our R&D capabilities.

**People, cornerstone of our growth**  
Our 26,000 employees worldwide are a major enabler of our strategy. To ensure sustainable future growth, we continuously invest in our people by setting high standards and fostering a diverse work environment in which our employees can excel. This allows JTI to recruit the best candidates and develop their skills and competencies across the organization. These efforts were recognized by the Top Employer Global certification in 2015 and 2016, awarding 35 countries across Europe, Asia Pacific and the Middle East for their exceptional employee environment. The Top Employer organization also ranked JTI as number one in Asia Pacific and number two in Europe for 2016.

**Strengthening our leadership**  
During the course of 2015, JTI achieved a number of important milestones, most notably reaching the number one position in the highly competitive UK market. With this achievement, JTI is now leading in three of its seven key markets,

namely Russia, Taiwan and the UK. Furthermore, JTI reached record market share in many markets, including France, Spain and Turkey as well as being the fastest growing tobacco company in Italy.

**Broadening the base**  
To complement our robust organic growth, we conducted a number of acquisitions during the year. Two of them related to our investments in emerging products with the transactions on Ploom Inc.'s patents and trademarks and the acquisition of Logic Inc.

A significant deal was the acquisition of Arian Tobacco Industry (ATI) by JTI PARS in Iran. This acquisition consolidated our presence in this market where we have been operating since 2002. ATI complements the JTI PARS set up, bringing strong value brands to an already robust premium and mid-price portfolio.

In addition, ATI strengthens our competitiveness in Iran by adding a state-of-the-art production facility to our existing set up and distribution capabilities.

Lastly, we acquired the Natural American Spirit business outside the United States. This brand offers a unique positioning as the only global exclusively "additive-free" premium cigarette. Positioned in ready-made cigarettes and fine cut, Natural American Spirit is available in 13 European and Asian countries. We are currently planning the future of this brand and will consider adding it to our Global Flagship Brands portfolio.

### 2016 Outlook

We are entering 2016 with confidence in our business outlook, strong fundamentals, positive momentum and the continuation of significant investments.

We expect the operating environment to remain challenging due to increasing regulation in Europe, continued recession in the CIS+, and volatility in the Middle East. Currencies are expected to negatively impact our reported financials in 2016.

Our total volume is expected to remain flat year-on-year despite the continued industry contraction, supported by market share progression and 2015 acquisitions. GFBs will grow volume and share as we continue to enhance brand equity and geographic reach, as well as benefiting from the opportunity to add Natural American Spirit.

Continued pricing gains combined with our GFB momentum will drive core revenue growth at constant currency. We will continue to increase investments to strengthen our leading positions across key markets, grow our presence where we are under-represented, and broaden our emerging products portfolio and its geographic footprint.

Our balanced approach between short-term profit delivery and investing to secure long-term sustainable growth is forecast to generate another strong year of earnings delivery at constant currency. JTI will remain the profit growth engine of the JT Group.

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



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## Global Flagship Brands (GFB) Portfolio

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

Global sales

132.1BnU



First introduced in 1954, Winston is one of our key growth drivers. The second largest cigarette brand worldwide since 2007, Winston is currently sold in more than 120 markets.

The brand is articulated around a two-pillar portfolio architecture, Winston Core and Winston XS.

Our Core pillar delivers an authentic, high quality, premium smoking experience. It continues to grow steadily and we started introducing rejuvenated packaging with firm tech filter technology in several markets. Our XS pillar offers a more style-focused

product, created specifically to open up new segments and territories to Winston. XS is the number one King Size Super Slim offering globally.

In 2015, we continued to invest in the equity, innovation and global expansion of Winston. As a result, the volume performance of Winston was strong, up 1.9% and growing double-digit in 40 markets, reaching over 2 billion units in 13 markets or over 1 billion units in 26 markets. Fine cut shipment volume momentum continued with an increase of 39.4%.

Winston consolidated its global ranking, growing its market share 0.3ppt to 9.1% in JTI's top-40 markets. Winston achieved record market share in 23 markets, including Jordan and Malaysia where it became the number two brand. We continued expanding the reach of Winston, launching in Bangladesh, parts of Indonesia and Myanmar. In fine cut, Winston's market share was up across Europe.

Global sales

50.9BnU



**CAMEL**

Launched in 1913 and originator of the American blend, Camel has stood the test of time and is now the benchmark of creativity amongst adult consumers. It is sold today in 88 markets and is

one of the top five premium brands in many of our key markets. Camel continues to successfully reinvent itself, building on its strong heritage and genuine taste.

In 2015, Camel exceeded 50 billion units for the first time in its history, increasing by 9.7% versus prior year.

This strong performance was mainly driven by Turkey as well as strong growth in many European markets, including France, Italy and Spain. Fine cut also supported this growth with volume up 23.0%. Camel grew market share 0.5ppt to 3.2% across JTI's top-40 markets, setting new records in the Czech Republic, Italy, the Netherlands, Spain and Turkey.

Among the key Camel developments in 2015 was the introduction of a new and enhanced Camel Curve proposition in 35 markets. We also rolled out Camel Activate Double, our dual capsule offering which was first-to-market in 15 markets, including Brazil, Italy, the Netherlands and Switzerland.

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## Global Flagship Brands (GFB) Portfolio continued

Global sales  
**17.1BnU**

Launched as Mild Seven in 1977 and rebranded in 2013, Mevius is the top-selling brand in Japan with over 30% market share. Internationally, Mevius continued to expand geographically, entering Kazakhstan, Georgia, Poland, Romania and Tajikistan.

In 2015, Mevius international volume was flat at 17.1 billion cigarette equivalent units with volume growth in key Asian markets offsetting the decline in Korea following the significant industry contraction. Market share increased 0.1ppt to 0.7% in JTI's top-40 markets. In addition, Mevius continued to grow its share of the premium segment in its top Asian markets. Mevius remained the number one brand in Taiwan with a share of market of 22.3%, enhancing its leadership in Premium reaching a 60% share of segment.

**LD**

Global sales  
**49.5BnU**

LD was launched in 1999 as a mid-price brand in the Russian market. The brand achieved immediate success and is now recognized as a compelling international brand, ranked number two in the Value segment. Since 2007, LD has grown continuously in all clusters, adding eight new markets in 2015 to reach 46 countries overall. LD has constantly expanded its portfolio to meet consumer aspirations, including in fine cut.

In 2015, LD volume grew at an impressive double-digit rate to 49.5 billion cigarette equivalent units. This was mainly driven by the strong performance of LD Club Compact in the CIS+ cluster. The brand achieved record market share in 12 markets, including Canada, the Czech Republic, Kazakhstan, Poland, Russia, Taiwan and Ukraine. Overall, the brand grew its share of market by 0.4ppt to reach 3.3% in JTI's top-40 markets.

**BENSON  
& HEDGES**

Global sales  
**12.1BnU**

Originally established in 1873, Benson & Hedges has a proud British heritage. In 2015, B&H volume increased 10.9% to 12.1 billion cigarette equivalent units with growth in both ready-made cigarettes and fine cut. B&H increased its market share 0.1ppt to 0.7% in JTI's top-40 markets.

Global sales  
**6.4BnU**

Glamour is JTI's leading super slims brand introduced in 2005. In 2015, mainly due to industry contraction in Russia, its volume declined 10.3% to 6.4 billion cigarette equivalent units.

**SILK  
CUT**

Global sales  
**2.7BnU**

Launched in 1964, Silk Cut established its premium credentials as one of the first low tar brands in the 1970s, long before it became the norm of other manufacturers. In 2015, Silk Cut volume declined 7.0% to 2.7 billion cigarette equivalent units due to industry volume contraction in Ireland and the UK.

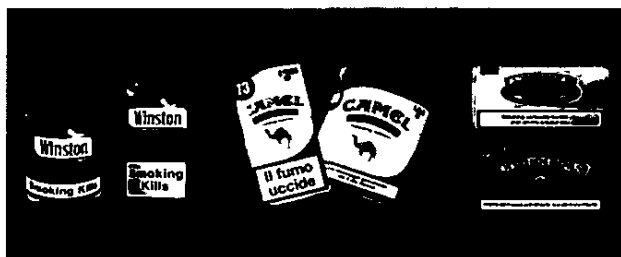
**SOBRANIE**

Global sales  
**2.7BnU**

Audacity, uncompromised excellence and noble characters define Sobranie, one of the oldest luxury cigarettes since 1879. In 2015, despite the downtrading environment, Sobranie grew volume by 4.5% to 2.7 billion cigarette equivalent units.

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## Other Tobacco Products Portfolio



### Fine Cut

JTI's fine cut share continued to grow in Europe. This category encompasses roll-your-own and make-your-own products. With a 13.1% increase, our fine cut volume growth has continued to accelerate in 2015, driven by the strong performance of our GFB fine cut volume growing 30.8%. This growth came mainly from Winston and Camel and, to a lesser extent, from Benson & Hedges and LD.

In 2015, our fine cut share of market in Europe reached 20.8%, an increase of 2.0ppt versus prior year, following gains in Austria, Belgium, France, Germany, Hungary, Italy, Ireland, Luxembourg, the Netherlands, Spain, Switzerland and the UK.

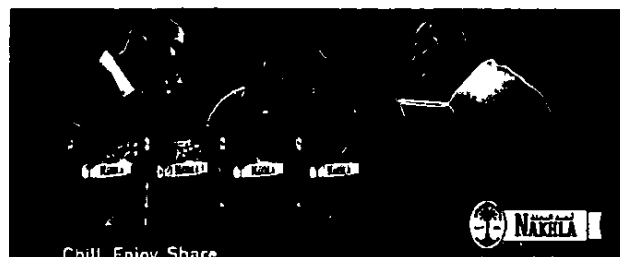
In the UK, market share of Amber Leaf, Sterling and Old Holborn continued to increase. Amber Leaf also performed well in Ireland and Spain while Fleur du Pays continued to gain share in France.

JTI maintained its number one or two market share position in Austria, Belgium, France, Greece, Ireland, Italy, Spain, Switzerland and the UK.

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

Volume growth

**13.1%**



### Shisha

After entering the shisha tobacco business in 2013, we have continuously improved the quality of the products, rationalized the portfolio, rejuvenated the offering and further expanded our presence in this category.

In 2015, while we consolidated our position in existing markets as one of the leading shisha tobacco manufacturer in the world, the on-going geopolitical tensions in the Middle East impacted negatively our volume, declining to 18,300 tons.

Tobacco volume

**18,300 tons**

# Emerging products

*2015 was an exciting year for emerging products, in which we acquired Logic and more than doubled our investments. We now have a broader scale, richer product pipeline and stronger R&D capabilities in line with JT Group's vision to build leadership in this category.*

## LOGIC. THE SMART WAY OF VAPING



# logic.

## Nº 1 IN NEW YORK

## E-Vapor

Building on the assets of Zandera, acquired in 2014, we have further invested to develop our portfolio as well as our geographic reach. We launched the new E-Lites Curv in the UK, Ireland and Germany. The feedback received by Curv from the trade and consumers is very positive across all three markets.

Following the Logic acquisition, we became the number three e-cigarette company in the USA, the world's largest market for this category. We increased investments to focus on strengthening our footprint in the USA and expanding the presence of Logic in France and in the UK. In both markets, we introduced Logic Pro, our closed tank offering. We were the first company to propose a closed tank offering in France and the initial trade and consumer response is far exceeding our expectations.



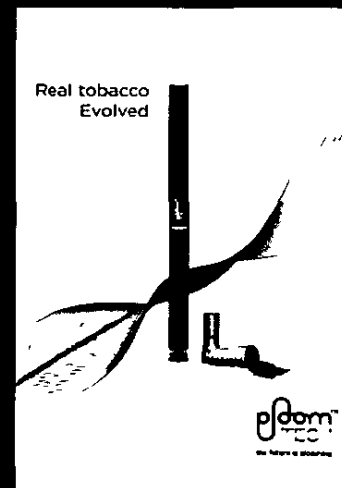
**Number 3**  
e-cigarette company in the USA

## Tobacco-Vapor

In February 2015, we acquired a number of patents and trademarks from Ploom Inc. relating to the tobacco vaporization business. Since then, we have been investing to grow the pipeline of tobacco-vapor products.

Ploom Tech, our latest innovative and proprietary tobacco vaporizer being launched in Japan first, is the most recent addition to our portfolio. This new device vaporizes a nicotine-free liquid through a tobacco pod without any combustion. Initial feedback from adult consumers is very positive, driven by the clear tobacco taste provided by our unique technology. In 2016, we plan to expand the geographic reach of Ploom Tech in selected markets and gain a better understanding of consumers' reaction.

We will continue investing in this growing category to strengthen our portfolio and pursue more geographical expansion.



**A new  
journey  
begins**

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

## Japanese Domestic Tobacco Business

FY2015 Results for the fiscal year ended December 31, 2015



**Mutsuo Iwai**  
President Tobacco Business



*Profit grew by solid  
top-line and cost decrease.*



Japanese domestic tobacco business is a highly competitive platform of profitability. In the year ended December 2015, industry volume was 182.3 billion units in Japan, which is one of the largest markets in the world. We own 9 of the top 10 selling products in this large market. We are the undisputed market leader in Japan with around 60% market share.

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

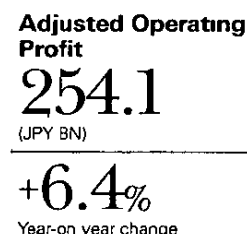
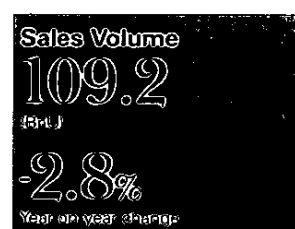
The industry volume in Japan, however, has been declining over the past years. In this challenging environment, we prioritized quality top-line growth by investing in brand equity enhancement and launching new products to meet consumers' needs.

In 2015, we integrated Caster and Cabin into Winston and launched new products, MEVIUS and Seven Stars, in the growing menthol segment.

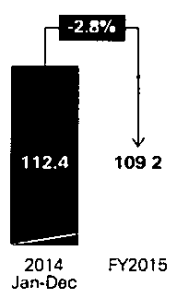
We continue to be a significant profit contributor to the JT Group by further quality top-line growth and continuous cost improvement.

### Business results (vol./financial performance)

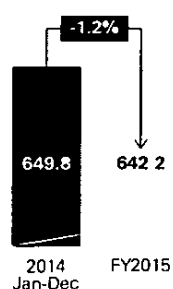
- Enhanced brand equity enabled price/mix improvement
  - JT sales volumes decreased 2.8% from the previous year in line with our forecast in 2015.
  - Core revenue decreased 1.2% year-on-year to ¥642.2 billion as our average unit price improved, supported by additional marketing investments in brands with higher price increase as well as the strong duty-free sales.
  - Adjusted operating profit grew 6.4% year-on-year to ¥254.1 billion driven by price/mix improvement and effective cost management.



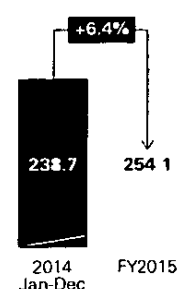
**Sales volume (BnU)**



**Core Revenue (JPY Bn)**

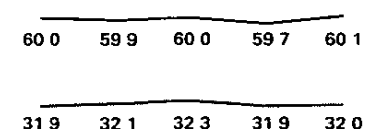


**Adjusted Operating Profit (JPY Bn)**



**Business results****(market share performance)**

- MEVIUS performance led to resilient market share in the context of intensified competition
  - In FY2015, JT market share decreased 0.4 percentage points to 59.9%

**Share evolution of JT and MEVIUS (%)**

Oct-Dec 2014 Jan-Mar 2015 Apr-Jun 2015 Jul-Sep 2015 Oct-Dec 2015

● JT  
● MEVIUS

Amid the intensifying competition, we continued to make investments in sales promotion and brand equity enhancement for MEVIUS, which is our core brand, and for other brands.

In particular, we actively launched new extensions for Winston, which two other brands were integrated into in August 2015.

As a result, despite the intense competitive environment, sales volume proved to be almost in line with our forecast, falling 2.8% year-on-year. As for the market share, JT total share and share of MEVIUS both remained stable.

**Our strategies**

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

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

- Priority on quality top-line growth
  - Continue to strengthen our brand equity, with a particular focus on MEVIUS and other core brands
  - Grow or maintain market share in Japanese domestic market
  - Develop emerging product category
- Continuous cost improvement

**Outlook**

The acquisition of Natural American Spirit was completed January 2016. We are still working on its business plan, however, the performance of Natural American Spirit is reflected in the forecasts based on certain assumptions.

In addition, the expected impact of the amendment of retail prices for certain brands, of which we received approval from the Minister of Finance in February 2016, is also included in the forecasts.

We expect our market share to be somewhat affected by the retail price revision, but we intend to minimize the impact by executing marketing strategy focusing on key brands in each of price segments, particularly MEVIUS and Winston.

In 2016, in order to build momentum for top-line growth over mid- to long-term, we will further enhance equity of our key brands, launch of Ploom TECH and support these initiatives with focused promotion activities.

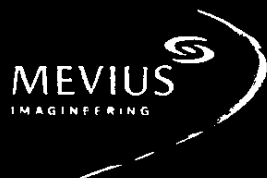
Japanese domestic tobacco business is committed to fulfilling its role as a highly competitive platform of profitability. This will be achieved by quality top-line growth as well as further pursuit of a competitive cost base.



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

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

## Our core brands



### MEVIUS



- Our leading brand in Japan is MEVIUS, evolved from Mild Seven in February 2013. MEVIUS inherits Mild Seven's strong consumer base which has commanded the No.1 share in the Japanese domestic market for more than 30 years since 1978\*.
- The MEVIUS family comprises a line-up of 35 products (as of February 29, 2016 cigarette products in domestic market), reflecting the evolution that it has undergone in step with the changing times and brand expansion.



### Winston



- First introduced in 1954 in the United States, and today Winston is the second largest cigarette brand in the world.
- In 2015, CABIN and CASTER were migrated into Winston in Japan.
- Winston has three types of taste, "Bitter", "Straight" and "Sweet", in both Regular and Menthol segments.
- The Winston family comprises a line-up of 26 products (as of February 29, 2016).



### Seven Stars



- Launched in 1969, Seven Stars featured Japan's first domestically produced charcoal filter in pursuit of better taste.
- Since its launch, Seven Stars has consistently offered unique value in terms of taste, aroma, and product design.
- The Seven Stars family comprises a line-up of 19 products (as of February 29, 2016 including regional products).

### Natural American Spirit



- The Natural American Spirit brand was born in the U.S. in 1982, with the idea to provide the most premium, additive-free, all natural tobacco products. The Natural American Spirit brand vision is unchanged even after its phenomenal growth globally. The brand has also been the leader in environmental stewardship and sustainability while creating mutually beneficial relationships with everyone it touches.
- The brand was introduced to Europe and Japan in 1996 with exactly the same vision, environmental leadership and relationship-based brand building. The brand has grown in every market it reached, particularly in Japan.
- The Natural American Spirit family comprises a line-up of 8 cigarette products (as of February 29, 2016 cigarette products in domestic market).

\* Source: TIOJ



No smell of smoke,  
no ash. Real tobacco.  
Evolved.

## Ploom-TECH

### Tobacco-vapor with a newly developed concept

Ploom TECH is different from existing tobacco-vapor products. It offers a smoother, clearer taste and aroma provided by unique technology with no combustion and no direct heating of tobacco.

The emerging products category will contribute to the Group's profit growth in the mid- to long-term, not immediately. Furthermore, it provides an additional growth opportunity for the entire tobacco business in the long-run.

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



**ploom™**  
**TECH**

the future is plooming

## Pharmaceutical Business

FY2015 Results for the fiscal year ended December 31, 2015



**Muneaki Fujimoto**  
President, Pharmaceutical Division



*We aim to build a unique, world-class pharmaceutical business driven by R&D, and to increase our market presence through original and innovative drugs.*

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

### Strategy

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

### Performance Overview

[Development in Japan]

- "Allergen Scratch Extract Positive control (Torii) Histamine Dihydrochloride" Approved (Sep 2015)
- "MITICURE House Dust Mite Sublingual Tablets", an Allergen Immunotherapy Tablet for House Dust Mite Allergy Launched by Torii Pharmaceutical (Dec 2015)
- TO-206, an Allergen Immunotherapy Tablet for Japanese Cedar Pollinosis – Regulatory application filed by Torii Pharmaceutical (Dec 2015)

[Licensed compounds]

- Elvitegravir (Anti-HIV)
  - E/C/F/TAF (single-tablet regimen "Genvoya") Approved in the U.S. and EU
- Trametinib (Melanoma)
  - Regulatory application filed by partner in Japan
  - For use in combination with dabrafenib Approved in EU

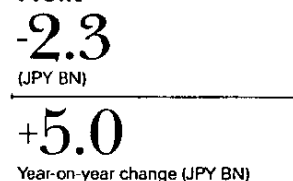
### Business results

#### (financial performance):

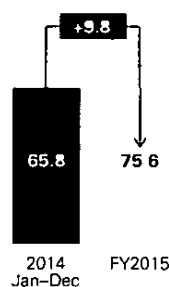
- Revenue grew ¥9.8 billion driven by an increased royalty from our license partners, most notably related to Stribild. Torii Pharmaceutical's top-line growth related to Riona and Stribild also contributed
- Operating loss improved by ¥5.0 billion due to revenue increase



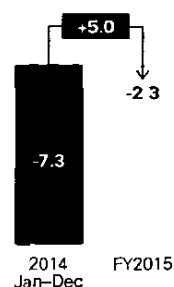
### Adjusted Operating Profit



Revenue (JPY BN)



Adjusted Operating Profit (JPY BN)



## Value chain

### R&D

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

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

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

### Manufacturing

Ensure a reliable supply of quality products

- Sustainable supply chain to deliver high quality products to our patients has established. We also pursue efficiency in our manufacturing arrangements, products marketed in Japan are mainly produced by Torii Pharmaceutical to maximize intra-group synergies, while outsourcing to contract manufacturers where appropriate
- Remain focused on quality assurance and safety control
- Maintain optimal manufacturing arrangements
- Continuously strive to reduce environmental impacts, as evidenced by operation and maintenance of the ISO 14001 certificate by our Sakura plant

#### Manufacturing

Support top-line growth by delivering quality products

### Sales & Promotion

Build marketing competence on our MRs

In the pharmaceutical industry, medical representatives (MRs) play a crucial role in successful sales and promotion by providing medical and scientific knowledge with clients. At the same time, they collect valuable information from the medical front which could be reflected in the ongoing or future R&D activities. Torii Pharmaceutical is marketing our products in Japan through 512 highly-trained MRs. Outside Japan, we do not have a sales function. As such, instead of directly marketing our products, we receive royalties based on sales performance from our license partners for the compounds for which we out-license the right to develop and market.

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

#### Sales & Promotion

Expand product availability by leveraging our trade marketing excellence

## Pharmaceutical Business

### Japan Tobacco Inc Clinical Development (as of February 4, 2016)

#### In-house development

Code (Generic name)	Potential Indication/ Dosage form	Mechanism	Description
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
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
JTT-851	Type 2 diabetes mellitus /Oral	G protein-coupled receptor 40 agonist	Decreases blood glucose by stimulation of glucose-dependent insulin secretion
JTZ-951	Anemia associated with chronic kidney disease /Oral	HIF-PHD inhibitor	Increases red blood cells by stimulating production of erythropoietin, an erythropoiesis-stimulating hormone, via inhibition of HIF-PHD
JTE-052	Autoimmune/allergic diseases /Oral Topical	JAK inhibitor	Suppresses overactive immune response via inhibition of Janus kinase (JAK) related to immune signal
JTE-051	Autoimmune/allergic diseases /Oral	Interleukin-2 inducible T cell kinase inhibitor	Suppresses overactive immune response via inhibition of the signal to activate T cells related to immune response
JTE-151	Autoimmune/allergic diseases /Oral	RORγ antagonist	Suppresses overactive immune response via inhibition of RORγ related to Th 17 activation
JTT-251	Type 2 diabetes mellitus /Oral	PDHK inhibitor	Decreases blood glucose by activation of pyruvate dehydrogenase (PDH) related to carbohydrate metabolism
JTK-351	HIV infection /Oral	HIV integrase inhibitor	Suppresses blood HIV levels by inhibiting the activity of integrase, an enzyme involved in the replication of HIV

Clinical trial phase presented above is based on the first dose

#### 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) Melanoma 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

Location	Phase 1	Phase 2	Phase 3	Preparing to file	Filed	Origin
Japan	●		●	●	○	JTK-303(elvitegravir), In-house Cobicistat, Emtricitabine, Tenofovir Alafenamide, In-license (Gilead Sciences)
Japan	●	○	●	●	○	In-license (Gilead Sciences)
Japan	●	○	○	○	○	In-house
Overseas	●	○	○	○	○	In-house
Japan	●	○	○	○	○	In-house
Overseas	●	○	○	○	○	In-house
Japan	●	○	○	○	○	In-house
Overseas	●	○	○	○	○	In-house
Overseas	●	○	○	○	○	In-house
Overseas	●	○	○	○	○	In-house
Japan	●	○	○	○	○	In-house

## Processed Food Business

FY2015 Year ended December 31 2015



**Atsuhiko Kawamata**  
President and CEO TableMark

“

*If we are going to prepare food for those who matter to us most, we wish to do so cordially and with care. This is our desire when running our business at TableMark.* ”

From 2010 onwards, TableMark began its operation as a food manufacturer with frozen and ambient processed food, bakery items and seasoning as our business pillars. In particular, we strive to provide high value-added products by focusing on staple food such as frozen noodles, frozen rice, packed cooked rice and frozen baked bread.

### Strategy

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

### Performance Overview

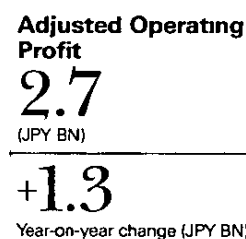
- The processed food business is primarily engaged in business concerning frozen and ambient processed food, mainly staple food products such as frozen noodles, frozen rice, packed rice and frozen

baked bread, bakery chain outlets in the Tokyo metropolitan area, and seasonings including yeast extracts and oyster sauce

- We increased revenue in all of our business areas, namely frozen and ambient processed food, bakery and seasoning

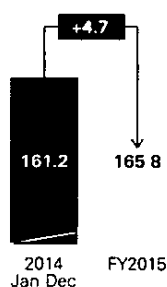
### Business results (financial performance)

- Revenue increased 4.7 billion yen driven by growth of staple products and frozen food for bento box use
- Adjusted operating profit increased 1.3 billion yen. Revenue growth more than offset the effect of higher material cost and weak yen

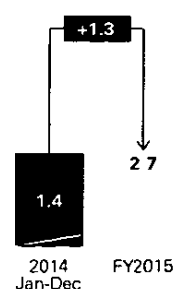


\* Staple food products: frozen noodles, frozen rice, packed cooked rice and frozen baked bread

### Revenue (JPN BN)



### Adjusted Operating Profit (JPN BN)



## Value chain



### Food Safety Control

Ensure safety control at all levels of the value chain

### R&D

Strive to develop innovative products to meet consumers' needs

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

### Procurement

Ensure procurement of safe and quality raw materials

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

### Production

Prioritize safety and follow established quality control procedures

- JT Group is pursuing the adoption of the HACCP system, ISO22000 and FSSC22000 in our and business partners' factories. Under the ISO22000 and FSSC22000 standard, continuous improvements are made following effective rules to control sanitation and other key issues. These rules are based on the HACCP concept, and their effectiveness is tested using scientific evidence
- All of JT Group's 31 factories in and outside Japan and contract manufacturers have achieved the ISO22000 certification

### Marketing

Strive for effective marketing to improve product awareness

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

### Sales & Distribution

Increase penetration to retail outlets

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

### Food Safety Control

Ensure safety control at all levels of the value chain

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

## Risk Factors

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

Considering such circumstances, we have put in place a risk management framework. Under the framework, relevant divisions are assigned to carefully monitor the development of events that may adversely impact the JT Group and prevent their materialization where possible.

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

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

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

### 1. Disruptive tax increases

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

#### Risk description and potential impact

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

#### Measures to address the risk

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

### 2. Pressure from illicit trade

Illicit trade is a major concern not only for the tobacco industry, but for wider society. For the tobacco industry, it undermines legitimate tobacco business. For society, illicit trade reduces excise revenue for the government, often fuels organized crime, and may increase health concerns due to poor manufacturing standards and improper product handling. The tobacco industry has been fighting against illicit trade, which takes the forms of contraband, counterfeit and illicit whites.



Illegally traded products in a market tend to increase after a steep tax increase. Regulatory actions seeking to commoditize packages and products could also trigger the acceleration of illicit trade because such commoditization could make counterfeit manufacturing easier and detection of illicit products more difficult. We take a zero tolerance approach towards all these criminal activities with an emphasis on eliminating contraband products.

#### Risk description and potential impact

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

#### Measures to address the risk

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

#### Working together with authorities

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

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

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

### 3. Tightening tobacco regulations

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

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

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

As a responsible organization, the JT Group abides by applicable laws and regulations wherever we operate. That said, we believe that laws and regulations should differ country by country, reflecting legal, social and cultural background. We endeavor to hold constructive dialogues with governments and regulators for a reasonable and balanced approach towards tobacco regulation.

#### Risk description and potential impact

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

#### Measures to address the risk

- Identify ongoing regulatory initiatives as early as possible by promptly collecting accurate information
- Endeavor to hold constructive dialogues with governments and regulators for reasonable and balanced regulations that meet their objectives

For further details, please refer to 'Regulation and Other Relevant Laws' contained in this annual report on page 62.

#### 4. Country risks

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

##### Risk description and potential impact

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

##### Measures to address the risk

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

#### 5. Instability in the procurement of key materials

Across its businesses, the JT Group procures raw and processed materials for product manufacturing. In particular, we strive to procure key materials in the required quantity and at reasonable costs. Our key materials include agricultural products, most notably, tobacco leaf for the tobacco business, and grains for the processed food business. Availability of agricultural products is often affected by natural phenomena including climate. In addition, there is a growing concern that agricultural production costs may increase, due to the high demand in energy resources, global population increases, and economic growth in emerging countries.

##### Risk description and potential impact

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

##### Measures to address the risk

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

#### 6. Unfavorable development in litigation

JT and some of its subsidiaries are defendants in lawsuits filed by plaintiffs seeking damages for harm allegedly caused by smoking. As of December 31, 2015, 20 smoking and health-related cases were pending in which one or more members of the JT Group were named as defendant or for which JT may have certain indemnity obligations pursuant to the agreement for JT's acquisition of RJR

Nabisco Inc.'s overseas (non-U.S.) tobacco operations. JT and its subsidiaries, who are defendants in such lawsuits, believe that we have valid grounds to defend the claims in such lawsuits, however, we cannot predict the outcome of any pending or future litigation.

##### Risk description and potential impact

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

##### Measures to address the risk

- Continue to build well-organized teams coordinating with external legal counsel to defend ourselves against these lawsuits.
- Continue legitimate and appropriate business operations. For further details, see section regarding 'Litigation' on page 65.

#### 7. Natural disasters

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

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

##### Risk description and potential impact

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

##### Measures to address the risk

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

## 8. Currency fluctuations

As the JT Group is operating globally, we are exposed to the risks associated with currency fluctuations. The reporting currency of the JT Group consolidated financial statements is Japanese yen, while the financial statements of our international subsidiaries are reported in other currencies such as Russian ruble, Euro, British pound, Taiwanese dollar, U.S. dollar, and Swiss franc.

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

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

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

### Risk description and potential impact

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

### Measures to address the risk

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

## 9. Competition

The JT Group is competing fiercely in both domestic and international tobacco business with our competitors.

In the overseas tobacco markets, the JT Group expanded its business organically as well as through M&A, by acquiring the non-U.S. tobacco operations of RJR Nabisco Inc. and thereafter acquiring Gallaher Ltd. As a result, we are in competition with global players in the international tobacco business or with local competitors with strength in specific markets.

In the Japanese domestic tobacco market, import of tobacco products was deregulated in 1985, followed by the provisional suspension of custom duties on imported tobacco in 1987. Since then, competition has intensified each year, as smokers' preferences diversify and as our competitors pursue aggressive promotional activities.

Market share can fluctuate due to a number of factors, including change in smokers' preferences or changes to economic conditions of each market. It can also fluctuate from competitors' pricing strategies or strength of brand equity. Moreover, market share can fluctuate in the short term due to new product launches by each market player and the accompanying promotional activities.

### Risk description and potential impact

Fluctuation of our market share may affect the JT Group business performance. In addition, price competition (price reductions or brand repositioning, among others) aimed at increasing market share, may negatively affect our profit margins.

### Measures to address the risk

- Optimize our product portfolio by
  - developing and providing products that can capture changing consumer preferences and needs
  - placing brands with strong brand equity in each price category
- Provide product support by enhancing trade marketing capability and effective promotional initiatives
- Further improve efficiency to protect revenue and earnings
- Avoid overdependence on a small number of markets as sources of profits by expanding the pool of highly profitable markets

# JT Group and Sustainability

Our approach to sustainability is underpinned by our management principles known as the “4S” model. This provides us with a framework to balance the concerns and expectations of consumers, shareholders, employees and wider society, always with a view to fulfilling our responsibilities towards these stakeholders. We believe that pursuing this model enhances corporate value and helps us to meet and exceed stakeholders’ interest in the most balanced way possible.

Summarized below is an overview and topics for 2015. If you wish to learn more about our approach and commitment to sustainability or specific programs, ‘JT Group Sustainability Report FY2014’ is currently available on JT Group website. The FY2015 report will be available on our website in June 2016. This report will be compiled in accordance with the Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines ‘Core’ level.

JT Group Sustainability Report and GRI G4 index [www.jt.com/csr/report/index.html](http://www.jt.com/csr/report/index.html)

## Contents

<b>Our sustainability journey</b> 1. Introduction 2. Our approach to sustainability 3. Our tobacco business 4. Our people 5. Our planet 6. Our contribution to society	<b>Our tobacco business</b> ○ Supply chain management ○ Tobacco supply chain strategy and approach ○ Smoking and health ○ Political and regulatory landscape ○ Responsible marketing ○ Illegal trade In focus: emerging products	<b>Our people</b> ○ Workplace health and safety ○ Diversity and inclusion ○ Employee development and talent management ○ Anti-bribery and corruption ○ Labor practices	<b>Our planet</b> ○ Environmental impacts of products ○ Climate change ○ Resource efficiency ○ Pollution and waste management	<b>Our contribution to society</b> ○ Social and community development ○ Human rights ○ Philanthropy
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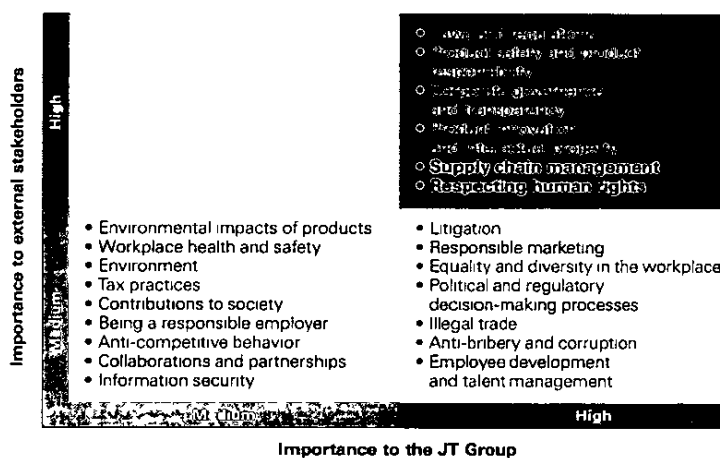
## Overview and topics for 2015

**JT Group Materiality Assessment**  
 In 2015, we carried out our first materiality assessment covering the entire JT Group, building on the work done by our international tobacco business last year. The process began by conducting a media and peer review, which generated 31 sustainability topics of relevance. These were then calibrated through discussions with operational managers in the business.

We then held interviews with 15 JT Group top management, followed by talks with 17 external stakeholders who included suppliers, shareholders, trade unions, NGOs, and industry organizations. Finally we held a workshop with aforementioned 15 JT Group top management including our CEO to validate the materiality assessment results.

This process allowed us to arrive at a final list of 22 material issues ranked by level of importance to the JT Group and our external stakeholders – see matrix on the right.

In the future we will regularly carry out a materiality assessment with stakeholders. This will help us to monitor any changes in materiality and to update the list if necessary.



### Supply chain management

In 2015 our international tobacco business began work on developing an IT-based supplier life cycle management system that will enable assessment of all our non-leaf suppliers for the first time, with different levels of certification based on supplier risk profiles.

### Agricultural labor practices (ALP)

Our ALP defines minimum requirements for directly contracted farmers on preventing and eliminating child labor, respecting workers’ rights, and applying health and safety measures at the workplace. ALP plans to cover 100% of our directly contracted farmers by 2018. From 2016 we will extend the scope of ALP to cover all third party tobacco leaf suppliers by 2019.

### Respecting human rights

In 2015 we began work on drafting a JT Group Human Rights Policy that will align with the UN Guiding Principles on Business and Human Rights. The Policy, which is being developed in consultation with stakeholders, will formalize and detail our commitment to respect human rights in our value chain and will be launched in 2016.

### Child labor prevention

We have the ARISE program, which aims to address roots causes of child labor in tobacco growing. The program, which covers Brazil, Malawi, Zambia, and, from 2015, Tanzania, tackles social and economic factors that tempt farmers to employ children.



# Corporate Information

## **Diversity and Inclusion**

JT Group believes that respecting diversity not only in terms of people's gender, age and nationality but also in terms of their backgrounds and values, including personality, experience and expertise, and finding value in differences will lead to our sustainable growth

### **Accepting and respecting diversity**

To enhance our business competitiveness and capability to respond to changes, we place emphasis on being an organization that creates value by taking advantage of diversity. To create an organization that takes advantage of diversity, we provide opportunities for employees to share and discuss diverse values and implement training programs for managers to learn about leadership that utilizes diverse personnel and changes in working style and lifestyle values

### **Gender Diversity**

In Japan, as part of the effort to promote diversity and inclusion, we are engaged in taking positive actions for female employees. We provide growth opportunities by introducing role models or networking opportunities. We also organize training programs and seminars as well as a better framework for balancing one's career and personal life. Moreover, we facilitate various training programs for managers in understanding ways of communication or, understanding different programs and schemes available in conjunction with one's life event. These initiatives are aimed at supporting a diverse range of career options, suitable to the individual female employees

# Corporate Governance

## Decision-Making, Business Execution, Supervision

### Corporate Governance at JT

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" 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.

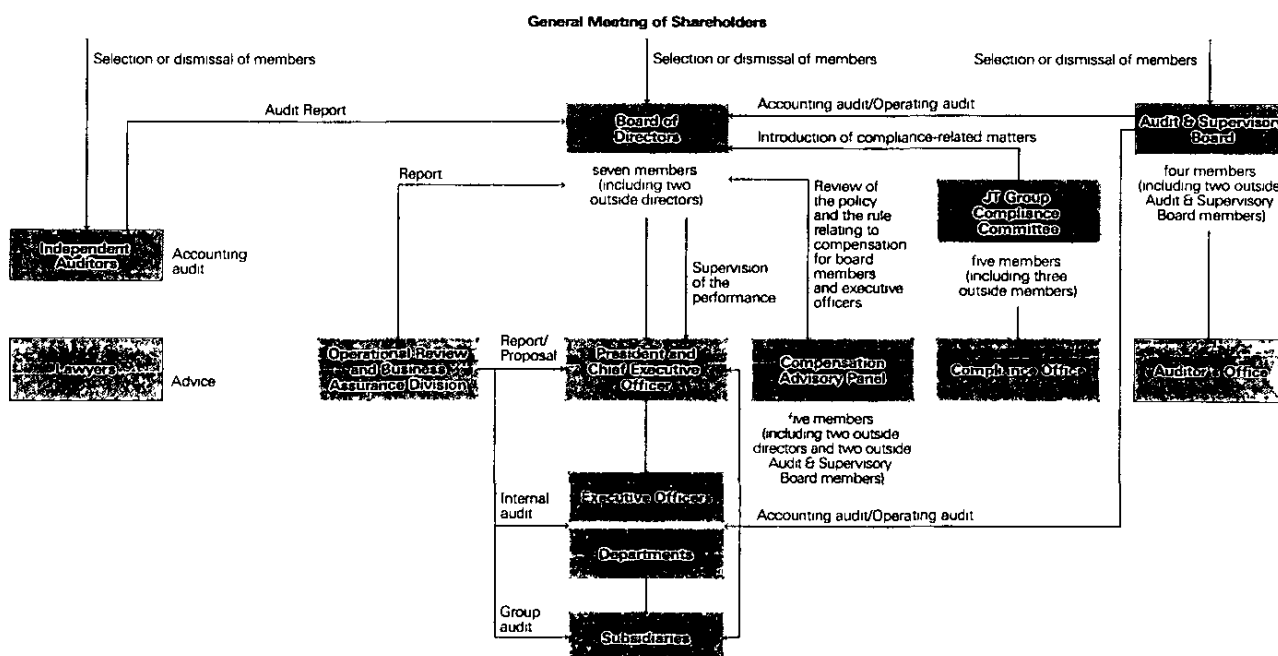
The "JT Corporate Governance Policies" is available at [https://www.jt.com/investors/at\\_a\\_glance/governance01/index.html](https://www.jt.com/investors/at_a_glance/governance01/index.html)

### Initiatives to enhance corporate governance

Rigorous supervisory and advisory function	Quality and prompt decision-making	Efficient business execution
Set up the Compliance Committee FY2000	Reduced number of directors FY2000	Introduced executive officer system FY2001
Set up the Advisory Committee FY2001	Promote the delegation of business execution to the executive officers FY2000, FY2008 and FY2011	
Set up the Compensation Advisory Panel FY2006	Invited outside directors FY2012	

\* Abolition of the Advisory Committee on June 30, 2014

### Our corporate governance system



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### General Meeting of Shareholders

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

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

### The Japan Tobacco Inc. Act

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

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

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

## Decision-Making, Business Execution, Supervision *continued*

### The Board of Directors

The Board of Directors assumes responsibility in making decisions for important issues including the Group strategy as well as supervising all the activities of the Group. In view of the point that the Board of Directors determines Company-wide management strategy and important matters and effectively assumes roles and responsibilities as the body exercising supervision over all business activities, the concept concerning the composition of the Board of Directors shall be set forth as follows

- The number of Members of the Board in the Board of Directors shall be fifteen (15) or less, within necessary and appropriate scope, composed of diverse people with a high-integrity sense of ethics as professionals, knowledge, experience and skills
- JT shall appoint two (2) or more independent outside Members of the Board with qualities that will contribute to its sustainable profit growth and increase of corporate value in the mid- to long-term from the viewpoint of strengthening supervisory functions and transparency of business

A board meeting, in principle, is held every month and a special board meeting may be called, as necessary. The Board of Directors decides those matters required to be resolved by the Board of Directors under the Companies Act, such as important business plans, disposal or acquisition of important assets, significant amount of borrowings, conclusion of important agreements. For the purpose of supervising the Company's activities, the Board of Directors requires directors to deliver a report on the progress of operations at least on a quarterly basis. In year ended December 2015, we had 18 board meetings to discuss important issues including the management plan.

**Members** – 7 (including two independent outside directors)

The directors marked with \* are also the executive officers



**Yasutake Tango**  
Chairman of the Board

Date of birth March 21, 1951

Term of office 2 years since March 2016

Number of shares held 1,700

**April 1974**

Entered Ministry of Finance

**October 2006**

Director General of the Financial Bureau

**July 2007**

Deputy Vice Minister

**July 2008**

Director General of the Budget Bureau

**July 2009**

Administrative Vice Minister

**July 2010**

Retired from the office of Administrative Vice Minister

**December 2010**

Corporate Auditor, The Yomiuri Shimbun Holdings

**December 2012**

Special Advisor to the Cabinet

**April 2014**

Retired from Special Advisor to the Cabinet

**June 2014**

Chairman of the Board (Current Position)

**Significant Concurrent Positions outside the Company**

Outside Director, The Ogaki Kyoritsu Bank, Ltd.





**Mitsuomi Koizumi\***  
President, Chief Executive Officer  
and Representative Director

Date of birth April 15, 1957  
Term of office 2 years since  
March 2016  
Number of shares held 26,900

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

**June 2001**  
Vice President of Corporate Planning Division

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

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

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

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

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

**June 2009**  
Representative Director and Executive  
Deputy President

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



**Yasushi Shingai\***  
Executive Vice President  
and Representative Director

Date of birth January 11, 1956  
Term of office 2 years since  
March 2016  
Number of shares held 25,300

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

**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 and Representative  
Director (Current Position)

**Significant Concurrent Positions outside  
the Company**  
Outside Director Recruit Holdings Co., Ltd.



**Mutsuo Iwai\***  
Executive Vice President  
and Representative Director

Date of birth October 29, 1960  
Term of office 2 years since  
March 2016  
Number of share held 19,800

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

**June 2003**  
Vice President of Corporate Planning Division

**July 2004**  
Vice President of Corporate Strategy Division

**June 2005**  
Senior Vice President and Vice President of Food  
Business Division Food Business

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

**June 2008**  
Executive Vice President and Chief Strategy Officer

**June 2010**  
Member of the Board Senior Vice President  
and Chief Strategy Officer and Assistant to CEO  
in Food Business

**June 2011**  
Member of the Board  
Executive Vice President JT International S A

**June 2013**  
Senior Executive Vice President and Chief  
Strategy Officer

**January 2016**  
Senior Executive Vice President, and President  
Tobacco Business Headquarters

**March 2016**  
Executive Vice President and Representative  
Director (Current Position)

**Significant Concurrent Positions outside  
the Company**  
Chairman JT International Group Holding B.V.

## Decision-Making, Business Execution, Supervision *continued*



**Hideki Miyazaki\***  
Executive Vice President, Member  
of the Board

Date of birth January 22 1958  
Term of office 2 years since  
March 2016  
Number of shares held 14,300

**April 1980**  
Joined Nomura Securities Co., Ltd.

**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  
(Current Position)



**Motoyuki Oka**  
Member of the Board (Outside director)

Date of birth September 15 1943  
Term of office 2 years since  
March 2016  
Number of shares held 0

**April 1966**  
Joined Sumitomo Corporation

**June 1994**  
Director, Sumitomo Corporation

**April 1998**  
Managing Director, Sumitomo Corporation

**April 2001**  
Senior Managing Director, Sumitomo Corporation

**June 2001**  
President and CEO, Sumitomo Corporation

**June 2007**  
Chairman of the Board of Directors, Sumitomo  
Corporation

**June 2012**  
Advisor, Sumitomo Corporation (Current Position)  
Outside Director of the Company (Current Position)

**Significant Concurrent Positions outside  
the Company**  
Outside Director, NEC Corporation



**Main Kohda**  
Member of the Board (Outside director)

Date of birth April 25 1951  
Term of office 2 years since  
March 2016  
Number of shares held 0

**September 1995**  
Started independently as Novelist (Current Position)

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

**April 2004**  
Visiting professor, Faculty of Economics  
Shiga University

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

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

**June 2010**  
Member of the Board of Governors, Japan  
Broadcasting Corporation

**June 2012**  
Outside Director of the Company (Current Position)

**Significant Concurrent Positions outside  
the Company**  
Novelist  
Outside Director, LIXIL Group Corporation

The directors marked with \* are also the  
executive officers

### The Audit & Supervisory Board

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

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

### Members

- 4 (including two independent outside audit & supervisory board members)



**Futoshi Nakamura**  
Standing Audit & Supervisory Board Members

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

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

**July 2004**  
Head of Procurement Planning Division

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

**July 2009**  
Senior Manager of Accounting Division

**July 2010**  
Head of Operational Review and Business Assurance Division

**June 2012**  
Standing Audit & Supervisory Board Members the Company (Current Position)

## Decision-Making, Business Execution, Supervision *continued*



**Tomotaka Kojima**  
**Standing Audit & Supervisory Board Members**

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

**April 1976**  
Entered Ministry of Finance

**July 2000**  
Director General of the Fukuoka Local Finance Branch Bureau

**July 2002**  
Deputy Head of Finance Group of the Company

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

**April 2007**  
Deputy Director-General of General Secretariat, National Personnel Authority

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

**August 2009**  
Commissioner National Hospital Organization

**November 2010**  
Executive Secretary Japan Association of Corporate Directors

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



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

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

**April 1968**  
Joined Japan Broadcasting Corporation

**June 1995**  
Bureau Chief of General Bureau for Europe Japan Broadcasting Corporation

**May 2000**  
Director General Planning & Broadcasting Department Japan Broadcasting Corporation

**June 2003**  
Executive Editor and Programme Host Japan Broadcasting Corporation

**January 2008**  
Executive Vice President Japan Broadcasting Corporation

**January 2011**  
Retired from Executive Vice President Japan Broadcasting Corporation

**April 2011**  
Visiting Professor Ritsumeikan University (Current Position)

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



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

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

**April 1970**  
Judicial Apprentice

**April 1972**  
Appointed as Public Prosecutor

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

**January 2002**  
Deputy Vice-Minister of Justice Ministry of Justice

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

**June 2006**  
Vice-Minister of Justice Ministry of Justice

**July 2007**  
Superintending Prosecutor Sapporo High Public Prosecutors' Office

**July 2008**  
Superintending Prosecutor Tokyo High Public Prosecutors' Office

**June 2010**  
Prosecutor-General

**December 2010**  
Retired from the office of Prosecutor-General

**March 2011**  
Registered as Attorney at Law

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

**Significant Concurrent Positions outside the Company**  
Attorney at Law Obayashi Law Office  
Outside Audit & Supervisory Board Member Daiwa Securities Co., Ltd.  
Outside Director Mitsubishi Electric Corporation  
Outside Audit & Supervisory Board Member NIPPON STEEL & SUMITOMO METAL CORPORATION

### Independence of Outside Directors and Outside Audit & Supervisory Board Members

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

#### Criteria list for independence of an executive

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

- 1 A person who belongs or belonged to JT or an associate or sister company of JT
- 2 A person who belongs to a company or any other form of organization of which JT is a major shareholder
- 3 A person who is a major shareholder of JT or who belongs to a company or any other form of organization which is a major shareholder of JT
- 4 A person who is a major supplier or customer of JT (if the supplier or customer is a company or any other form of organization, a person who belongs thereto)
- 5 A major creditor of JT including a major loan lender (if the creditor is a company or any other form of organization, a person who belongs thereto)
- 6 A certified public accountant who serves as an accounting auditor or an audit advisor of JT, or a person who belongs to an auditing firm which serves as an accounting auditor or an audit advisor of JT
- 7 A person who receives a large amount of fees from JT in exchange for providing professional services for legal, financial and tax affairs or business consulting services (if the recipient of such fee is a company or any other form of organization, a person who belongs thereto)
- 8 A person who receives a large amount of donation from JT (if the recipient of such donation is a company or any other form of organization, a person who belongs thereto)
- 9 A person who has fit any of the descriptions in 2 to 8 above in the recent past

- 10 A close relative of a person who fits any of the following descriptions

- (a) A person who fits any of the descriptions in 2 to 8 above (if such descriptions apply to a company or any other form of organization, a person who performs important duties thereof)
- (b) A director, audit & supervisory board member, audit advisor, executive officer or employee of JT or an associate or sister company of JT
- (c) A person who has fit the descriptions in (a) or (b) in the recent past

### Support for Outside Directors and Outside Audit & Supervisory Board Members

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

### Executive Officer System

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

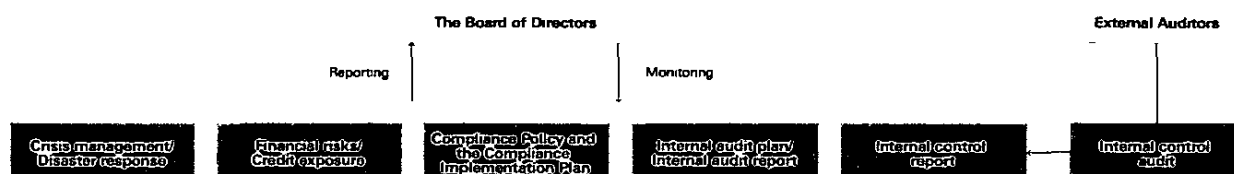
Please refer to page 66 for the list of Executive Officers.

## Internal Control System & Risk Management System

### Overview

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

### Internal control framework



### Compliance

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

- Set up the JT Group Compliance Committee, which reviews and discusses compliance related matters, then directly reports to the Board of Directors
- Assign responsibility for compliance to a Director
- Assign responsibility for compliance to an Executive Officer without directorship
- Assess and approve the Compliance Policy as well as the Compliance Implementation Plan
- Review the implemented compliance initiatives

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

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

The JT Group Compliance Committee is headed by the Chairman, and external members comprise the majority. The JT Group Compliance Committee met three times in the year ended December 31, 2015, and discussed initiatives to strengthen compliance throughout the Group among other matters.

**Reliable financial reporting**

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

**Risk management****Financial risk management**

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

**Crisis management and disaster control**

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

**Management of other risks**

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

Please refer to page 40 for our risk factors.

**Internal audit system**

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

## Executive Remuneration

### Overview

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

### The Compensation Advisory Panel

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

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

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

### Structure of executive remuneration

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

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

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

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

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

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



The remuneration payments to the directors and audit & supervisory board members for the year ended December 2015 are as follows

Category	Total remuneration and other payments (million yen)	Total amount of remuneration and other payments by type (million yen)				Number to be paid (people)
		Basic remuneration	Director's bonus <sup>1</sup>	Stock option grants <sup>2</sup>		
Directors (excluding Outside Directors)	690	327	189	174		6
Audit & Supervisory Board member (excluding Outside Audit & Supervisory Board members)	72	72	–	–		2
Outside Directors and Outside Audit & Supervisory Board members	54	54	–	–		5
Total	816	453	189	174		13

<sup>1</sup> Amounts to be paid

<sup>2</sup> Total amounts granted for the year ended December 2015

The remuneration payments to the directors and the audit & supervisory board members whose total remuneration exceeds ¥100 million for the year ended December 2015 are as follows

Name	Category	Company	Amount of consolidated remuneration and other payments by type (million yen)			Total (million yen)
			Basic remuneration	Director's bonus	Stock option grants	
Mitsuomi Koizumi	Representative Director	JT	81	65	43	190
Yasushi Shingai	Representative Director	JT	48	37	26	110
Noriaki Okubo	Representative Director	JT	45	31	24	101

The stock options granted for the year ended December 2015 are as follows

Resolution date	July 17, 2015
Positions and number of people grants	Directors (excluding outside Directors) six persons Executive officers (excluding persons serving as Directors) 18 persons
Number of shares	49,000 shares to Directors (excluding outside Directors) 66,200 shares to Executive officers (excluding persons serving as Directors) Total 115,200 shares (200 shares per stock acquisition right)

## History of the JT Group Before 1985

*JT's history in Japan dates back to 1898, when the Government formed a monopoly bureau to operate the exclusive sale of domestic tobacco leaf*

The JT Group's overseas history began with the founding of Austria Tabak in 1784. Roughly 70 years later, Tom Gallaher started out in business in Northern Ireland, laying the foundations for the Gallaher Group. Meanwhile, R J Reynolds Tobacco Co. (RJR), which would subsequently create the Camel and Winston brands, was established in 1874 in the U.S. In this manner, the current JT Group can trace its origins to many different countries and regions such as Austria, Northern Ireland, the U.S. and Japan. The JT Group has a long history and extensive experience in the tobacco business.

### **History in Japan from the early 20th century to 1984, when the Japan Tobacco Inc. Act was enacted.**

Our history in Japan dates back to 1898, when the Government formed a monopoly bureau to undertake the exclusive sale of domestic leaf tobacco. In the early 1900s, the Japanese government extended this monopoly to all tobacco products in Japan and to the domestic salt business. On June 1, 1949, the bureau was established and duly named the Japan Tobacco and Salt Public Corporation, or JTS. This corporation helped to ensure the stable supply of tobacco and secure fiscal revenues for the Government.

The growth in demand for cigarettes in Japan began to slow in the mid-1970s as a result of demographic trends and growing concern about health risks associated with smoking. This trend continued, such that growth in industry sales essentially stopped. In addition to the structural change, the domestic tobacco market opened up substantially to foreign suppliers, triggering competition between domestic and foreign tobacco products in Japan.

Foreign countries stepped up pressure on Japan to take further measures to open the market that were difficult to implement within the framework of the monopoly tobacco sales system. Amid such pressure as well as moves toward the reform of Government-run public corporations, a Government panel was established in March 1981 to conduct research into the public corporation system. In its third report (July 30, 1982), the panel proposed drastic reform of the monopoly and public corporation systems. In response to this proposal, the Government conducted a comprehensive review of these systems and drafted bills to

- Abolish the tobacco monopoly law to liberalize tobacco imports and establish a tobacco business law to make necessary adjustments related to the tobacco business
- Abolish the JTS law, reorganize JTS as a joint stock corporation so as to enable it to pursue rational corporate management as much as possible and establish the Japan Tobacco Inc. Act, which provides for a necessary minimum level of regulation in light of the corporation's need to compete with foreign tobacco companies on an equal footing in the domestic market following the liberalization of tobacco imports

These bills were enacted on August 3, 1984 in the 101st session of the Diet and promulgated on August 10 of the same year. In April 1985, JT was founded as an entity that took over the whole of the business operations and assets of JTS.

*JT is a joint stock corporation that was incorporated in April 1985 under the Commercial Code of Japan, pursuant to the Japan Tobacco Inc. Act, or the JT Act.*

1784

Austria Tabac is founded by Emperor Joseph II

1857

Tom Gallaher sets up his business in Londonderry, Northern Ireland

1874

RJR is founded by Richard Joshua Reynolds in Winston, North Carolina

1879

Sobranie is registered in London, to become one of the oldest cigarette brands in the world

1891

The Moscow-based Ducat factory is founded

1898

The Japanese Monopoly Bureau is established for the sale of domestic leaf tobacco

1918

Camel is launched

1931

Cellophane is introduced by RJR in order to preserve the freshness of tobacco

1949

The Monopoly Bureau becomes the Japan Tobacco and Salt Public Corporation

1954

Winston is launched

1955

Benson & Hedges is acquired by Gallaher

1965

Salem is launched

1967

HOPE (10) is launched as Japan's first domestically produced filter cigarettes

1967

Soft Cut is launched

1968

Gallaher is acquired by the American Tobacco Company

1969

Seven Stars is launched, featuring Japan's first domestically produced charcoal filter

1977

World Seven is launched (Japan)

1981

World Seven is launched internationally

1984

Japan Tobacco Inc. Act is enacted

## History of the JT Group *continued*

### In and after 1985

The corporate history of JT is summarized in the table to the right. For the international tobacco business, the history before JT's acquisitions of RJR Nabisco's non-US tobacco operations and Gallaher is included.

The operating environment for JT changed drastically in just two years after the foundation of the Company, with the yen's strong appreciation following the Plaza Accord in 1985, a tobacco tax hike in 1986 and the abolition of tariffs on imported cigarettes in 1987. Amid the yen's upsurge, a price increase for JT products due to the tobacco tax hike, coupled with price cuts for imported cigarettes attributable to the tariff abolition, eliminated the price advantage of JT products over imported products, which had stood at around ¥60 to ¥80 when JT was founded in 1985. As a result, competition between JT and foreign tobacco makers intensified in the Japanese market, leading to a decline in JT's market share from 97.6% in fiscal 1985 to 90.2% in fiscal 1987.

To cope with the rapid deterioration of the operating environment, JT implemented rationalization measures to enhance its cost-competitiveness and pursued diversification while taking measures to strengthen its marketing capability. In the 1990s, JT's competition with foreign rivals in the Japanese market intensified further. Furthermore, overall cigarette demand in Japan peaked in the latter half of the 1990s due to a contraction of the adult population and growing concerns with health problems associated with smoking. Amid the increasingly difficult operating environment for the Japanese domestic tobacco business, JT took additional rationalization steps, pursued consolidation of operations in its areas of business diversification and expanded the international tobacco business, thereby strengthening its business foundation.

JT significantly strengthened the international tobacco business by acquiring RJR Nabisco's non-U.S. tobacco operations in 1999 and Gallaher in 2007. With its international sales volume exceeding its domestic sales volume, the JT Group continues to grow as a global tobacco company. The international tobacco business is the engine of the JT Group's profit growth through its comprehensive brand portfolio which includes Winston, Camel, Mild Seven – MEVIUS and LD as well as Benson & Hedges, Silk Cut, Sobranie and Glamour.

\* Topics of RJR Nabisco's non-US operations before participating in the JT Group

\*\* Topics of Gallaher before participating in the JT Group

## 1985

**April**  
Japan Tobacco Inc. is established.  
Japanese tobacco market opened to foreign tobacco manufacturers.

**The Business Development Division** is established to promote new businesses.

**The Business Development Division** is later reorganized into operational divisions engaged in the food and pharmaceutical businesses, finishing in July 1990.

## 1987

**April**  
Import tariffs on imported cigarettes are abolished.

## 1988

**October**  
JT communication name is introduced.

## 1992

Acquisition of Manchester Tobacco Company, Ltd.  
Acquisition of AS-Petro (Russia)\*

## 1993

**September**  
The Central Pharmaceutical Research Institute is established to enhance in-house research capabilities.

## 1994

**October**  
Government releases first tranche of outstanding JT shares for initial public offering (394,276 shares offered at ¥1,438,000 apiece).

JT stock is listed on the first sections of stock exchanges in Tokyo, Osaka and Nagoya.

**November**  
JT stock is listed on the stock exchanges in Kyoto, Hiroshima, Fukuoka, Niigata and Sapporo.  
Acquisition of Yeleis (Russia)\*

## 1995

**May**  
Head office moved back to Minato-ku from Shinagawa-ku.  
Peter 1 is launched (Russia)\*

## 1996

**June**  
Government releases second tranche of outstanding JT shares (272,390 shares offered at ¥815,000 apiece).

Acquisition of Tanzanian tobacco production facility\*\*

## 1997

**April**  
JT ends its salt monopoly business in line with abolition of the salt monopoly system.

The Tobacco Mutual Aid Pension scheme is integrated into the Employees' Pension scheme.

American Brands spins off Gallaher which becomes Gallaher Group Plc, and is listed on the London and New York stock exchanges.\*\*

## 1998

**April**  
JT signs an agreement with Unimat Corporation (currently, Japan Beverage Holdings Inc.) on a tie-up regarding beverage business. JT later acquires a majority stake in Unimat.

**December**  
JT acquires a majority stake in Torii Pharmaceutical Co., Ltd. through a tender offer.

## 1999

**May**  
JT acquires the non-U.S. tobacco business of RJR Nabisco Inc.

**July**  
JT acquires the food business of Asahi Kasei Corporation, including Asahi Foods and seven other subsidiaries.

**October**  
Under a business tie-up between JT and Torii Pharmaceutical Co., Ltd., the two companies' R&D operations related to medical pharmaceuticals are concentrated at JT, while their promotion operations are combined at Torii Pharmaceutical.  
LD launched (Russia)\*\*

## 2000

Acquisition of Liggett-Ducat (Russia)."

## 2001

Acquisition of Austria Tabak."

## 2003

**October**  
JT repurchases 45,800 of its own shares to increase its management options.

## 2004

**June**  
Government releases third tranche of outstanding JT shares (289,334 shares offered at ¥843,000 apiece), reducing its stake in JT to the minimum level allowed under law.

**November-March 2005**  
JT repurchases 38,184 of its own shares to increase its management options.

## 2005

**April**  
JT terminates a licensing contract under which it had exclusive rights to produce and sell Marlboro brand products in Japan and use the Marlboro trademark in the country.

**June**  
Acquisition of CRES Neva Ltd (Russia). Glamour is launched (Russia, Ukraine, Kazakhstan)."

## 2006

**April**  
JT implements a 5 for 1 stock split in order to expand the investor base, effective April 1, 2006.

**May**  
Acquisition of AD Duvanska Industrija Senta in Serbia.

## 2007

**April**  
JT acquires all outstanding shares of Gallaher Group Plc.

## 2008

**January**  
JT acquires a majority stake in Katokuchi Co., Ltd. through a tender offer.

**April**  
JT acquires a majority stake in Fuji Foods Corporation.

**July**  
JT concentrates its processed food operations, including frozen food and seasonings operations, at the Katokuchi Group.

## 2009

**May**  
JT celebrates its 10th anniversary.

**June**  
JT Global Services (U.S.) LLC is established.

**October**  
Acquisition of leaf suppliers Kannenberg & Co. Ltda. (Brazil) and Kannenberg, Barker, Hall & Cotton Tabacos Ltda. (Brazil).

**November**  
Acquisition of leaf suppliers Tripac Leaf Limited (UK).

## 2010

**January**  
Katokuchi Co., Ltd. is renamed Table Mark Co., Ltd.

**May**  
Smokeless tobacco product Zerostyle Mint is launched.

## 2011

**March**  
JT repurchases 58,630 of its own shares, as part of its shareholder return measures.

**November**  
Acquisition of Haggat Cigarette & Tobacco Factory Ltd. (North Sudan) and Haggat Cigarette & Tobacco Factory Ltd. (South Sudan).

## 2012

**July**  
For the purpose of enlarging Company's investor base, a 200 for 1 stock split is conducted. At the same time, JT adopts the share unit system, setting a share trading unit at 100 shares.

**August**  
Acquisition of Gryson NV, a Belgium Fine Cut maker.

## 2013

**February**  
The name change of Mid Seven to MEV US in Japan.

Government releases fourth tranche of outstanding JT shares (333,333,700 shares offered).

On February 27, JT repurchases 86,805,600 shares through ToSTNet-3, including 80,071,400 shares from the Government.

Excluding the share repurchased by JT, 253,261,800 shares are offered by the Government in March.

**March**  
Acquisition of Al Nakhla Tobacco Company S.A.E. and Al Nakhla Tobacco Company - Free Zone S.A.E., a leading Egyptian water-pipe company.

**May**  
Launch of a novel anti-HIV drug "Stribd Combination Tablets" in Japan, containing our original compound (elvitegravir).

**December**  
JT acquires a minority interest in Megapolis, the leading Russian distribution company.

## 2014

**April**  
TableMark establishes a holding company.

**October**  
Launch of "Cedatorea sublingua drop Japanese Cedar Pollen," a sublingual immunotherapy drug for Japanese Cedar Pollenosis.

**November**  
Acquisition of a cigarette company Zandera Ltd. (UK).

## 2015

**February-March**  
JT repurchases 26,896,200 shares as part of its shareholder return measures.

**July**  
Acquisition of leading US cigarette company Logic.

Transfer shares of JT's subsidiaries conducting vending machine operation business and JT beverage brands "Roots" and "Momono Tennensui." Afterwards, JT withdrew from the manufacture and sale of JT beverage products in September and JT's beverage business division was abolished in December 2015.

**August**  
Integration of "Cabin" and "Caster" with "Winston."

**September**  
JT announced the acquisition of Natural American Spirit Business units in the United States and completed this acquisition in January 2016.

# Regulation and Other Relevant Laws

## Tobacco business

### Regulation in the international markets

In international markets where JT Group's tobacco products are sold, World Health Organization (WHO) adopted the Framework Convention on Tobacco Control ("FCTC") at its 56th World Health Assembly held in May 2003. It came into force in February 2005 (Government of Japan accepted it in June 2004).

Since then, there has been a rising trend in regulations regarding sales promotions, packages and outer wrappers, marketing of tobacco products and smoking.

The purpose of the FCTC is to continuously and substantively control the proliferation of smoking. Its provisions include, among others, price and tax measures to reduce tobacco demand, non-price measures to reduce the demand for tobacco (such as protection from exposure to tobacco smoke, regulation of contents and emissions of tobacco products, regulation of disclosure of tobacco products, regulations on packaging and labeling of tobacco products, regulations on tobacco advertising, promotion and sponsorship, among others), and measures relating to the reduction of the supply of tobacco (such as prevention of illicit trade, prohibition of sale of tobacco products to minors, among others). In addition, descriptive expressions such as "mild" and "light" are stipulated by some provisions as numerous steps are being taken. Moreover, in November 2012, the protocol to eliminate illicit trade in tobacco products was adopted at the fifth session of the Conference of the Parties. As general obligation, signatories to the protocol are to formulate, adopt, periodically update and review strategies, plans and programs for tobacco regulation. However, the content, scope and method of specific controls undertaken in these nations are ultimately legislated by each respective nation.

### Regulation by country or region

In May 2014, the 'EU Tobacco Product Directive (EU TPD)' revised from the earlier Directive promulgated in July 2001, entered into force. This revised Directive includes, among others, strengthening of packaging and labeling regulations, restrictions on the use of additives including menthol for cigarettes and fine cut, and regulations related to electronic cigarettes. All EU member states are required to establish their domestic laws, regulations and ordinances to conform to the revised directive. This revised Directive will be

implemented (except some measures such as prohibiting menthol products) through legislation of each EU member state by May 2016. Manufacturing of products which do not comply with the revised directive will be prohibited from May 2016, and sale of such products prohibited from May 2017.

One of the most notable regulations adopted recently is the plain packaging legislation. In Australia, the very first plain packaging legislation was approved in 2011 and adopted in December 2012. Since then, plain packaging legislation has been passed in Ireland, and also in the UK, one of our key markets. In both countries, manufacturing of non-compliant products will be prohibited from May 2016 and sale of such products prohibited from May 2017. Furthermore, plain packaging legislation was approved in France in January 2016 and several other countries are considering similar legislation. In the UK, laws including "Restrictions on the in-store display of tobacco products" and "Ban on sale of tobacco products through vending machines" are already enforced.

In Russia, another of our key markets, legislation was passed in February 2013, which includes protection from exposure to tobacco smoke and other matters related to tobacco consumption. The legislation came into effect, starting from June 2013 and is being implemented in steps through up to 2017. It contains a number of provisions including display ban, restrictions on sales of tobacco products in certain retail stores, ban on advertising, sponsorship and promotions, introduction of minimal pricing and ban on smoking in public places.

Although it is impossible to predict the content of future laws, regulations and industry guidelines relating to sales activities, marketing and smoking, the JT Group expects regulations like the above and new regulations (including those of local governments) to spread across Japan and other countries where the group sells its products.

### Regulation in Japan

The Tobacco Business Act, related acts and statutes and voluntary standards set forth the regulations for the sale and promotion activities of tobacco products in Japan that include the indication of warning labels on tobacco product advertisements and packages that urge caution over the relationship between the consumption of tobacco products and health.

In November 2003, the Ordinance for Enforcement of the Tobacco Business Act was revised including the wording of the cautions over the relationship between the consumption of tobacco products and health indicated on tobacco product packages and, starting July 2005, all tobacco products sold in Japan have been in conformity to the revised regulations. In addition, the Japanese Minister of Finance has indicated a "Guideline for Advertising of Tobacco Products" based on the Tobacco Business Act which, in March 2004, was revised with tougher language. The Tobacco Institute of Japan has established voluntary standards regarding the advertising and sales promotion activities for tobacco products. All member companies, including JT, comply with these standards.

Recently in Japan from the perspective of passive smoking prevention, cases where smoking in public areas including restaurants and office buildings has been restricted by laws and regulations and the like are on the rise. We expect this trend to continue in the future.

#### **Tobacco Business Act**

Importers and wholesalers of tobacco products must register with the Minister of Finance and, retailers of tobacco products must obtain the license of the Minister of Finance. The retailers of tobacco products are required to sell the tobacco products manufactured by JT and imported tobacco products at the fixed retail price which is approved by the Minister of Finance. The Minister of Finance must approve the filed retail sales prices unless otherwise considered unfairly prejudicial to consumers. The Tobacco Business Act requires JT to annually enter into purchase contracts with tobacco growers regarding the aggregate cultivation area for specific varieties of leaf tobacco and the prices for leaf tobacco by variety and grade. JT must purchase all leaf tobacco produced pursuant to such contracts, except for any not suited for the manufacture of tobacco products. When JT decides the aggregate cultivation area and the prices of leaf tobacco for its contracts with tobacco growers, it is required to respect the opinion of the Leaf Tobacco Deliberative Council (hatabako shingi kai), which consists of members appointed by JT with the approval of the Minister of Finance from among the representatives of domestic leaf tobacco growers and academic appointees. Much like many other agricultural products in Japan, production costs for domestically-grown leaf tobacco is higher than those of foreign-grown leaf tobacco to the extent that the purchasing price for the former (before re-drying) is approximately three times that of the latter (after re-drying).

In November 2003, the Ordinance for Enforcement of the Tobacco Business Act was revised and the wording of warnings concerning tobacco consumption and health indicated on the tobacco product package was changed. In addition, the Ordinance stipulated that when wording like "mild" and "light" is used on the package, they must be accompanied by a warning that clarifies that such words do not mean that the risk to their health is lower than other tobacco products so as to prevent consumers from misunderstanding the relationship between the consumption of tobacco products and health. JT has been adhering to this rule since July 1, 2005.

**The following self-regulation is as of March 23, 2016. We will update details of self-regulation in Japan and in the international markets on our website as necessary.**

#### **Self-regulation on marketing**

##### **Prevention of youth smoking**

Youth smoking prevention is an issue which must be addressed by society as a whole. The JT Group has a voluntary code, 'Global Tobacco Products Marketing Standard', to govern its business and marketing activities in support of youth smoking prevention. We are working with government and other relevant organizations to take steps towards preventing youth smoking in the countries in which we operate. For further details, please refer to JT and JTI websites.

##### **Global Tobacco Products Marketing Standards**

The JT Group complies with all the national regulation and has implemented a 'Global Tobacco Products Marketing Standard', a self-regulatory code, which governs the marketing of its tobacco products in every country. The key provisions include 'Strict minimum guidelines applicable to advertise tobacco products', 'Indication of health warnings in ads and other media', 'Restrictions on sponsorships', among others. For further details, please refer to our website.

### Pharmaceutical Business

The pharmaceutical industry operates in a highly regulated environment. In many countries, R&D, manufacturing and sales activities are strictly regulated. Moreover, in recent years, the approval process for new drugs has been tightening due to the increased requirements to promote public health and safety. Today, compared to the past, pharmaceutical companies are required to spend more time to examine pharmaceutical safety issues and conduct a greater number of clinical trials on subjects to collect more data on the efficacy of new pharmaceuticals. Consequently, clinical trials are growing in scale, cost and time.

In Japan, the marketing of pharmaceutical products is subject to the supervision of the Ministry of Health, Labor and Welfare, or MHLW, primarily under the Act on Securing Quality, Efficacy and Safety of Pharmaceuticals, Medical Devices, Regenerative and Cellular Therapy Products, Gene Therapy Products, and Cosmetics, while part of its supervisory authority is undertaken by the relevant prefectural governor. Under the act, in order to conduct the marketing business of pharmaceuticals, a person is required to obtain from the relevant prefectural governor a renewable, generally five-year marketing business license. In addition, under the act, in order to market pharmaceuticals, it is necessary to obtain marketing approval from the MHLW for each kind of product.

The national health insurance system covers virtually the entire Japanese population. To sell a pharmaceutical product in Japan, a marketing business license holder of pharmaceutical products must first have a new pharmaceutical product listed on the National Health Insurance Pharmaceutical Price List for coverage under the national health insurance system. Generally, prices on the price list are subject to revision once every two years as part of the government's policy to control healthcare spending.

### Processed Food Business

As a producer and seller of food products, the JT Group's processed food business is subject to regulations mainly under the Food Safety Basic Act, the Food Sanitation Act and the Food Labeling Act.

The Food Safety Basic Act requires food-related companies to take necessary measures to ensure food safety in each process of the supply chain, as well as to make efforts to provide accurate information about foods and food-related goods in an appropriate manner. The Food Sanitation Act concentrates on prevention of sanitary problems arising from consumption of foods and beverages. This Act requires food companies to take necessary measures under their own responsibility to ensure the safety of foods, additives, appliances and packages. The measures discussed in the Act include the acquisition of knowledge and skills, assurance of the safety of raw materials and voluntary inspection. The Food Labeling Act sets the standards for labeling of food that is intended for sales which define the labeling requirements such as allergen and expiration date, materials, or origin. Persons Engaged in Food-related Business and others must comply with the standards in preparing their product labels.

The JT Group is striving to establish a high level of food safety control from the above-mentioned four perspectives – "food safety", "food defense", "food quality" and "food communication" – in addition to complying with these laws and regulations and ensuring thorough awareness about them.



## Litigation

Some of our subsidiaries are defendants in lawsuits filed by plaintiffs seeking damages for harm allegedly caused by smoking, the marketing of tobacco products, or exposure to tobacco smoke. As of the fiscal year-end date, there were a total of 20 smoking and health-related cases pending in which one or more members of the JT Group were named as a defendant or for which JT may have certain indemnity obligations pursuant to the agreement for JT's acquisition of RJR Nabisco Inc.'s overseas (non-U.S.) tobacco operations. We believe it is possible that other similar smoking and health-related lawsuits may be filed in the future.

In addition, JT and some of its subsidiaries are also defendants in lawsuits other than the smoking and health-related cases. Please refer to "Note 40" to the consolidated financial statements (Contingencies-Contingent Liabilities) for major lawsuits to which JT and some of its subsidiaries are named as defendants. Similar lawsuits involving us may be filed and contested in courts in the future.

To date, we have never lost a case or paid any settlement award in connection with smoking and health-related litigation. However, we are unable to predict the outcome of currently pending or future lawsuits. If a court ruling is unfavorable for us, in such cases whether lawsuits are smoking and health related or not, our financial results, production, sales and imports/exports of tobacco products may be adversely affected.

As of the fiscal year-end date, there are 10 ongoing healthcare cost recovery cases in Canada pending against JTI-Macdonald Corp. and JT's indemnities (RJR Nabisco Inc.'s affiliate), brought by Canadian provinces. In addition, there are eight pending class actions in Canada, of which five are currently dormant, where plaintiffs are seeking damages for harm allegedly caused by smoking of cigarettes. Damages claimed in some of these cases reach sums in the multi-billion dollar range. We will continue to take all appropriate actions to defend such claims vigorously, and believe there are a number of valid defenses.

In recent decades, numerous, large-scale, smoking and health-related cases have been brought against tobacco product manufacturers in the US, and some of the cases resulted in verdicts with massive damage awards. JT and its subsidiaries are not defendants in any of these lawsuits, nor are they subject to any indemnity claims. The tobacco business which JT acquired from RJR Nabisco Inc. in 1999 and the Natural American Spirit business which JT acquired from the Reynolds American Inc. group of companies in January 2016 did not include brands in the US, and even now, our historic and current tobacco business scale in the US remains very small. Accordingly, we consider potential exposure to smoking and health-related litigation in the US to be low, and we thus believe that litigation in the US will not materially affect our businesses in the near future.

Following the July 2015 acquisition of Logic Technology Development LLC, JT Group operates an e-cigarette business in the US. We are not aware of any related ongoing litigation alleging chronic effects on health associated with e-cigarette use. However, cases were filed against e-cigarette manufacturers in the US alleging harm caused to consumers by misleading representations and advertising for which plaintiffs are seeking damages and/or demanding health warnings. As of 31st December 2015, neither JT nor any of its subsidiaries are a party to these cases.

As a tobacco product manufacturer, we continue to monitor closely the developments and trends of litigation involving tobacco companies in the US, Canada, and elsewhere, with particular interest and attention.

# Members of the Board, Audit & Supervisory Board Members, and Executive Officers

(As of March 23, 2016)

## Members of the Board

**Chairman of the Board**  
**Yasutake Tango**

### Representative Directors

**Mitsuomi Koizumi**  
**Yasushi Shingai**  
**Mutsuo Iwai**

### Members of the Board

**Hideki Miyazaki**  
**Motoyuki Oka\***  
**Main Kohda\***

\* Outside Directors under the Companies Act of Japan

## Audit and Supervisory Board Members

### Standing Audit and Supervisory Board Members

**Futoshi Nakamura**  
**Tomotaka Kojima**

### Audit & Supervisory Board Members

**Yoshinori Imai\***  
**Hiroshi Obayashi\***

\* Outside Audit & Supervisory Board Members under the Companies Act of Japan

## Executive Officers

### President

**Mitsuomi Koizumi**  
Chief Executive Officer

### Executive Vice Presidents

**Yasushi Shingai**  
Deputy Chief Executive Officer,  
Compliance General Affairs, Legal,  
Corporate Strategy, IT, Business  
Development, HR and Operation  
Review & Business Assurance

### Mutsuo Iwai

President Tobacco Business

### Hideki Miyazaki

Finance, CSR and Communications

### Senior Vice Presidents

**Ryoji Chijiriwa**  
Compliance and General Affairs

### Kazuhito Yamashita

Head of China Division,  
Tobacco Business

### Chito Sasaki

Chief Marketing & Sales Officer  
Tobacco Business

### Senior Vice Presidents

**Kiyohide Hirowatan**  
Head of Tobacco Business Planning  
Division, Tobacco Business

### Junichi Fukuchi

Corporate Scientific & Regulatory Affairs  
Division Tobacco Business

### Yasushi Hasegawa

Head of Leaf Procurement Group,  
Tobacco Business

### Takehisa Shibayama

Chief R&D Officer, Tobacco Business

### Hirakazu Otomo

Manufacturing Group, Tobacco Business

### Muneaki Fujimoto

President, Pharmaceutical Business

### Goichi Matsuda

Deputy President, Pharmaceutical Business

### Shigenori Ohkawa

Head of Central Pharmaceutical Research  
Institute, Pharmaceutical Business

### Naohiro Minami

Chief Financial Officer

### Ryoko Nagata

CSR

### Haruhiko Yamada

Legal

### Yuki Maeda

Corporate Strategy and IT

### Takehiko Tsutsui

Business Development

### Koji Shimayoshi

Human Resources

### Kei Nakano

Communications

# Members of the JTI Executive Committee

(As of February 1, 2016)

**Thomas A. McCoy**  
President and Chief Executive Officer

**Masamichi Terabatake**  
Deputy CEO, Executive Vice President  
Emerging Products & Corporate Strategy

**Eddy Pirard**  
Executive Vice President  
Business Development, Corporate Affairs  
and Corporate Communications

**Bilgehan Anlas**  
Senior Vice President Global Supply Chain

**Bruno Duguay**  
Senior Vice President Compliance and  
Corporate Social Responsibility

**Antoine Ernst**  
Senior Vice President Marketing & Sales

**Stefan Fitz**  
Regional President, Asia Pacific

**Roland Kostantos**  
Senior Vice President  
Finance, IT and Chief Financial Officer

**Marchant Kuys**  
Regional President, Americas

**Hiroyuki Miki**  
Senior Vice President Research  
& Development

**Jorge da Motta**  
Regional President, Middle East, Near East,  
Africa, Turkey and World Wide Duty Free

**Paul Neumann**  
Senior Vice President Global Leaf

**Howard Parks**  
Senior Vice President Human Resources

**Kevin Tomlinson**  
Regional President, CIS+

**Daniel Torras**  
Regional President Central Europe

**Vassilis Vovos**  
Regional President, Western Europe

**Wade Wright**  
Senior Vice President Legal and  
Regulatory Affairs

## Corporate Information

## Corporate Data

### Head Office

2-1, Toranomon 2-chome,  
Minato-ku, Tokyo 105-8422, Japan  
Tel: 81-3-3582-3111  
Fax: 81-3-5572-1441  
URL: <https://www.jti.com/>

### Date of Establishment

April 1, 1985

### Paid-in Capital

¥100 billion

### JT International S.A.

8, rue Kazem Radjavi  
1202 Geneva  
Switzerland  
Tel: +41 (0)22-703-0777  
Fax: +41 (0)22-703-0789  
URL: <http://www.jti.com/>

# Shareholder Information



Investors' meeting held in London in September 2015

(As of December 31, 2015)

## Common Stock

Note: A 200 for 1 stock split was completed on July 1, 2012.

Authorized	8,000,000,000
Issued	2,000,000,000
Number of shareholders	121,931

## Administration of the Registry of Shareholders

The Mitsubishi UFJ Trust and Banking Corporation  
4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo

## Stock Exchange Listings

First Sections of Tokyo Stock Exchange

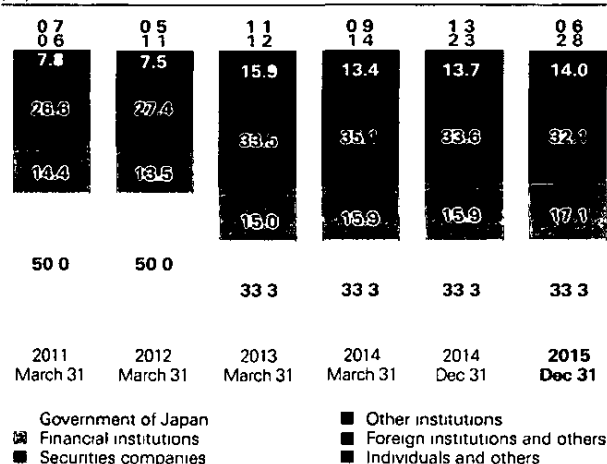
# Shareholder Information

(As of December 31, 2015)

## Principal Shareholders

Name	Shares held
The Minister of Finance	666,927,200
Japan Trustee Services Bank, Ltd. (Trust Account)	54,120,200
The Master Trust Bank of Japan, Ltd. (Trust Account)	51,189,400
State Street Bank and Trust Company 505223 (Standing proxy: Mizuho Bank, Ltd., Settlement Sales Department)	44,329,643
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	33,800,000
State Street Bank and Trust Company (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	33,153,315
JPMorgan Chase Bank 380055 (Standing proxy: Mizuho Bank, Ltd., Settlement Sales Department)	29,990,439
GIC Private Limited (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	27,439,663
State Street Bank and Trust Company 505001 (Standing proxy: Mizuho Bank, Ltd., Settlement Sales Department)	26,504,296
Mitsubishi UFJ Morgan Stanley	20,390,143

## Composition of shareholders (%)



## Shareholder Information *continued*

### Offering JT Shares by Government

#### 1st Offering

Method	Offering by Bids	Offering by non-Bids
Offer Price (Pricing Date)	Bid Price From ¥1,362,000 to ¥2,110,000 Weighted Average Price ¥1,438,000 (August 29, 1994)	¥1,438,000 (August 31, 1994)
Number of Offering shares	229,920 shares	164,356 shares
Offering Term	From August 15 to 18, 1994	From September 2 to 8, 1994

#### Note

The Listing date

October 27, 1994 First Sections of Tokyo Stock Exchange

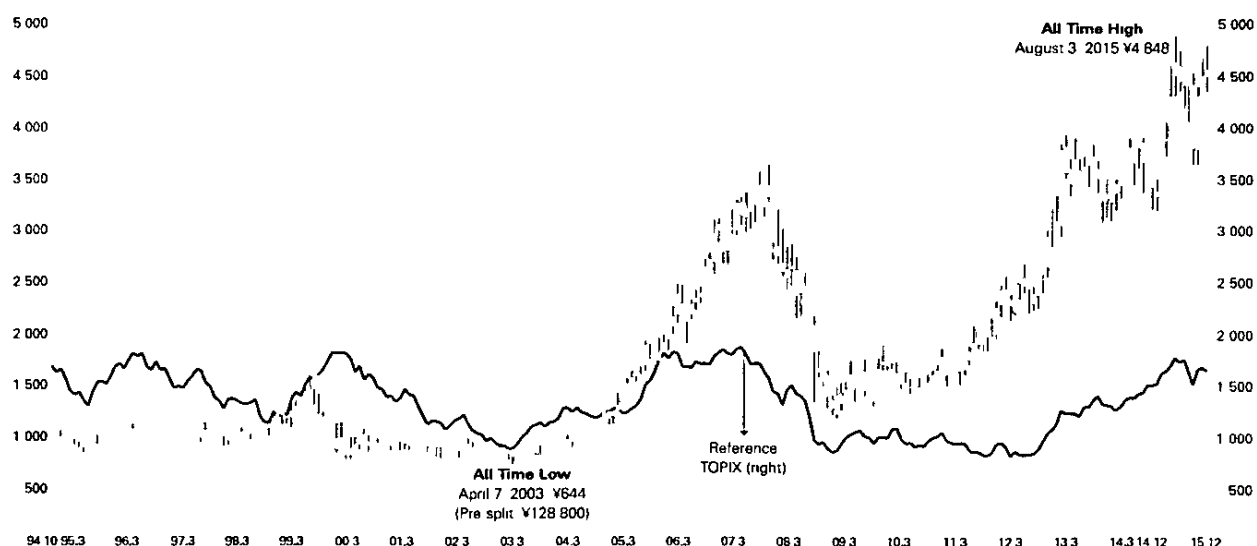
#### 2nd and 3rd, 4th Offering

	2nd Offering	3rd Offering	4th Offering
Method	Offering by Book-Building formula	Offering by Book-Building formula	Offering by Book-Building formula
Offer Price (Pricing Date)	Bid Price ¥815,000 (June 17, 1996)	¥843,000 (June 7, 2004)	¥2,949 (March 11, 2013)
Number of Offering shares	Japan 237,390 shares International 35,000 shares (Total 272,390 shares)	Japan 198,334 shares, International 91,000 shares (Total 289,334 shares)	Japan 145,625,500 shares, International 107,636,300 shares (Total 253,261,800 shares)
Offering Term	From June 18 to 19, 1996	From June 8 to 10, 2004	From March 12 to 13, 2013

### Stock Price Chart

(Yen)

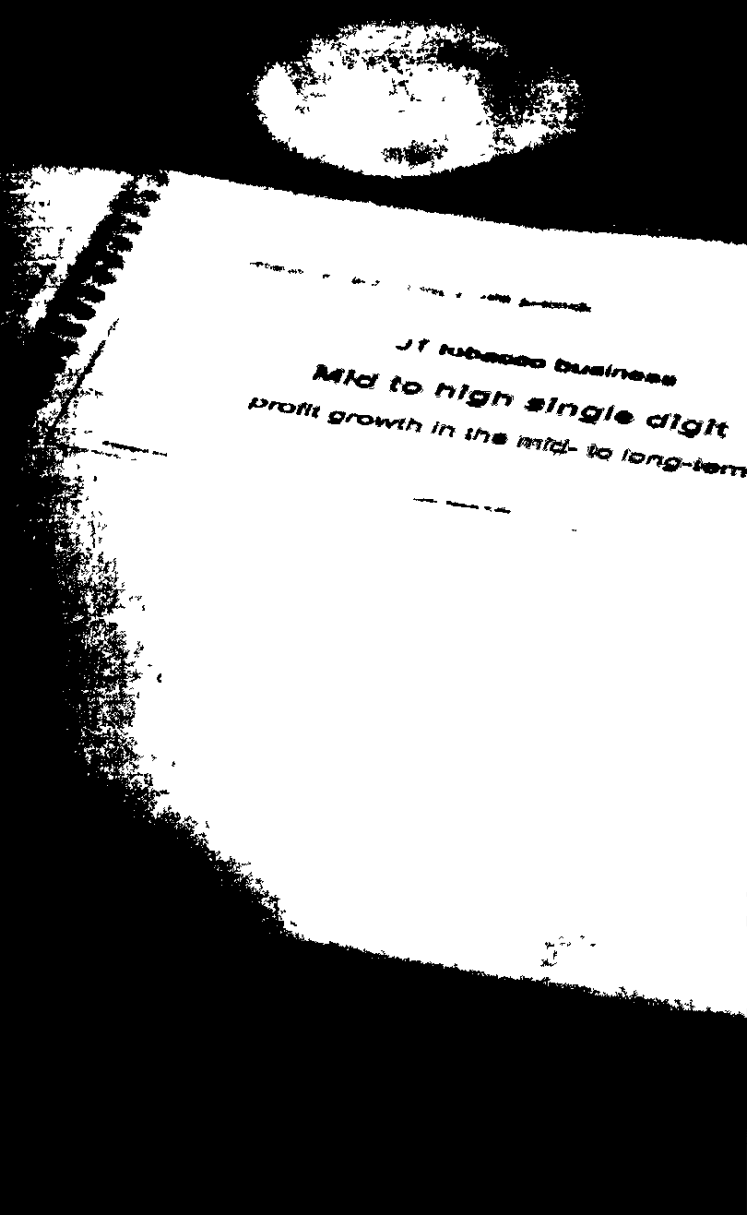
(Points)



#### Note

Due to a 5 for 1 stock split on April 1, 2006 and a 200 for 1 stock split on July 1, 2012, stock prices reflect post-split levels.

# Financial Information



JT tobacco business  
Mid to high single digit  
profit growth in the mid- to long-term

Presentation material of investors' meeting in September 2015

## Regarding Financial Review for FY2015

In accordance with IFRS requirements, beverage business had been classified as discontinued operations from the third quarter of FY2015. Consequently, profit (loss) and some items from continuing operations and discontinued operations are presented separately for the financial results of FY2015 and FY2014.

In addition, due to the change in accounting period, FY2014 was a transitional period, covering nine months from April 1, 2014 to December 31, 2014 for Japanese domestic

business. The same change in accounting period is applied to the Company's consolidated subsidiaries whose current closing date was other than December 31. For international tobacco business and its subsidiaries, accounting period remains unchanged from January 1 to December 31, 2014 (Reported basis).

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

# Financial Review

## Analysis of the Results

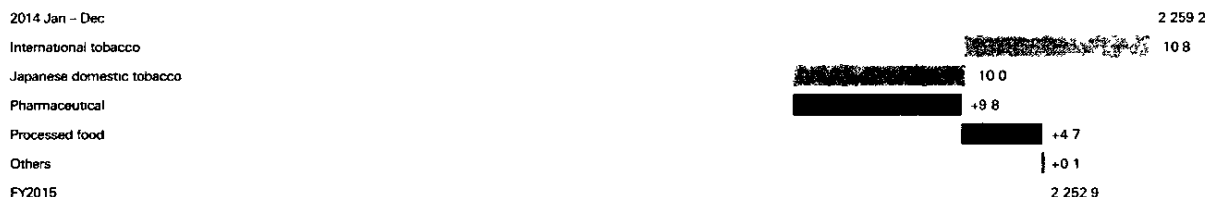
FY2015 Results for the fiscal year ended December 31, 2015

### Continuing Operations

#### Revenue<sup>1</sup>

(billions of yen)

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

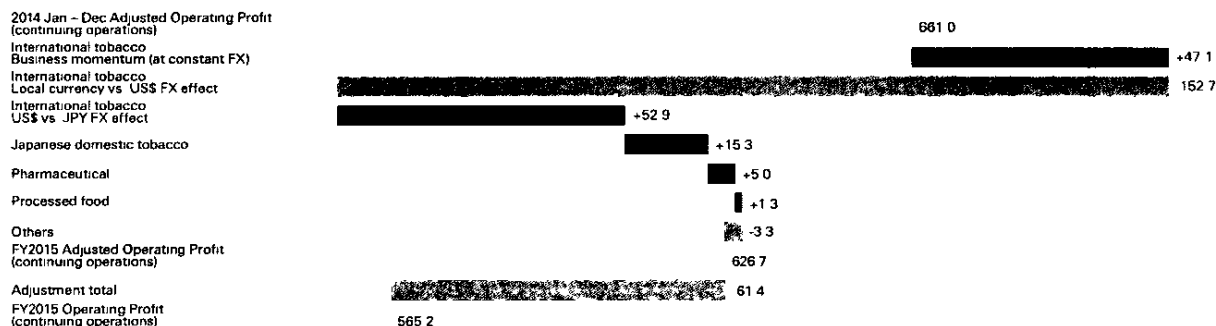


Revenue slightly decreased ¥6.4 billion or -0.3% year-on-year to ¥2,252.9 billion

- This was mainly due to the significant negative impact of foreign currency movements despite the robust pricing and mix effect as well as the weak yen effect in international tobacco business

#### Adjusted Operating Profit<sup>2</sup> / Operating Profit

(billions of yen)



Adjusted operating profit from continuing operations decreased ¥34.3 billion or -5.2% year-on-year to ¥626.7 billion

- While international tobacco business achieved strong growth driven by pricing effect and weak yen effect, adjusted operating profit still decreased due to the significant negative impact of foreign currency movements
- In Japanese domestic tobacco business, adjusted operating profit growth was mainly due to such factors as price/mix effect, the effect of competitiveness enhancing measures and a decrease in some one-time costs

Adjusted operating profit from continuing operations at constant FX increased +9.9% year-on-year

Operating profit from continuing operations decreased ¥7.4 billion or -1.3% year-on-year to ¥565.2 billion

- Recognized the costs associated with the optimization of distribution and manufacturing bases in International tobacco business
- The costs associated with the competitiveness enhancing measures in Japanese domestic tobacco business decreased
- Other income of proceeds from the sales of investment property decreased



## Continuing Operations

Profit<sup>1</sup>

(billions of yen)

2014 Jan - Dec

Operating profit

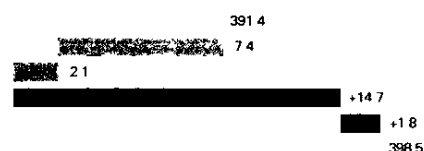
Financial income/financial cost

Income taxes (continuing operations)

Profit attributable to non controlling

interests (continuing operations)

FY2015



Profit from continuing operations increased ¥70 billion or +1.8% year-on-year to ¥398.5 billion

- Income tax expenses decreased (increased as in the graph) as a result of the decrease in profit before income tax and the recognition of deferred tax liability in prior year

## Revenue by business segment

	Billions of yen	
	2014 Jan-Dec	FY2015
Revenue (continuing operations)	2,259.2	<b>2,252.9</b>
International tobacco	1,328.0	<b>1,317.2</b>
Core revenue <sup>4</sup>	1,258.2	<b>1,252.5</b>
Japanese domestic tobacco	687.4	<b>677.3</b>
Core revenue <sup>5</sup>	649.8	<b>642.2</b>
Pharmaceutical	65.8	<b>75.6</b>
Processed Food	161.2	<b>165.8</b>
Others	16.9	<b>17.0</b>

## Average Exchange Rate

	2014 Jan-Dec	FY2015
YEN/US\$	105.79	<b>121.10</b>
RUB/US\$	38.40	<b>60.98</b>
GBP/US\$	0.61	<b>0.65</b>
EUR/US\$	0.75	<b>0.90</b>

1 Excludes tobacco excise taxes and agency transactions

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

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

3 Profit attributable to owners of the parent

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

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

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

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

## Adjusted Operating Profit and Operating profit by business segment

		Billions of yen	
		2014 Jan-Dec	FY2015
Continuing Operations	Operating profit	572.6	<b>565.2</b>
	Adjustment total <sup>6</sup>	88.3	<b>61.4</b>
Continuing Operations	Adjusted operating profit	661.0	<b>626.7</b>
International tobacco	Operating profit	379.5	<b>346.9</b>
	Adjustment total <sup>6</sup>	67.6	<b>47.5</b>
International tobacco	Adjusted operating profit	447.1	<b>394.4</b>
Japanese domestic tobacco	Operating profit	181.5	<b>249.2</b>
	Adjustment total <sup>6</sup>	57.2	<b>4.8</b>
Japanese domestic tobacco	Adjusted operating profit	238.7	<b>254.1</b>
Pharmaceutical	Operating profit	(7.3)	<b>(2.3)</b>
	Adjustment total <sup>6</sup>	-	-
Pharmaceutical	Adjusted operating profit	(7.3)	<b>(2.3)</b>
Processed Food	Operating profit	(1.2)	<b>3.2</b>
	Adjustment total <sup>6</sup>	2.6	<b>(0.5)</b>
Processed food	Adjusted operating profit	1.4	<b>2.7</b>
Others/Elimination	Operating profit	20.2	<b>(31.8)</b>
	Adjustment total <sup>6</sup>	(39.1)	<b>9.6</b>
Others/Elimination	Adjusted operating profit	(18.9)	<b>(22.2)</b>

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

## Analysis of the Results

FY2015 Results for the fiscal year ended December 31, 2015

### Consolidated

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

### Consolidated Statements of Financial Position (Assets)

(billions of yen)

December 31 2014	4 704.7
Cash and cash equivalents	+140.9
Trade and other receivables	-42.0
Inventory	24.0
Property, plant and equipment	74.3
Goodwill	110.1
Trademark	33.1
Other assets	3.9
December 31 2015	4 558.2

- Despite the weak yen effect, total assets decreased ¥146.5 billion to ¥4,558.2 billion, due to, among other factors, the decrease in goodwill, trademark and etc. caused by the weak local currency effect (vs. US\$) and the effect of shares transfer of vending machine operation business.

### Consolidated Statement of Financial Position (Debt and Equity)

(billions of yen)

December 31 2014	4 704.7
Trade and other payables	-46.7
Bonds	+75.1
Borrowing	36.8
Corporate tax payables	+51.4
Other liabilities	-88.5
Retained earnings	+294.2
Exchange differences on translation of foreign operations	288.9
Treasury shares	99.9
Other equity total	-6.4
December 31 2015	4 558.2

- Total liabilities decreased ¥45.5 billion to ¥2,036.7 billion mainly due to the decrease in trade and other payables and borrowings but partially offset by the increase in bonds and corporate tax payables etc.
- Despite the increase in retained earnings, total equity decreased ¥101.0 billion to ¥2,521.5 billion mainly because of the share repurchase implementation and the decrease in exchange differences on translation of foreign operations.

## 1 Significant Accounting Policies

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

In FY2014, the Company and its subsidiaries with fiscal year ends other than December 31 have changed their fiscal year ended December 31 for the purpose of unifying the fiscal year end with overseas consolidated subsidiaries of the Group, which would enhance and improve the efficiency of the closing and management systems. As a result, FY2014, a transitional period for the unification of accounting period, covered nine months from April 1, 2014 to December 31, 2014 for the Japanese domestic business as well as the Company's consolidated subsidiaries whose current closing date was other than December 31. However, the fiscal year end date of JT International Holding B.V. and its subsidiaries, which operate the Group's International Tobacco Business, was already December 31. Therefore, the financial results of these companies for the twelve-month period from January 1, to December 31, 2014, have been consolidated into the Group's consolidated financial results for FY2014.

In addition, from the third quarter of FY2015, beverage business has been classified as discontinued operations in accordance with IFRS requirements due to the withdrawal from beverage business in 2015. Consequently, profit (loss) and some items from continuing operations and discontinued operations are presented separately for the financial results of FY2015 and FY2014.

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

## 2 Non-GAAP financial measures

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

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

### Core revenue

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

### Adjusted Operating Profit

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

### Adjusted EPS (diluted)

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

### Consolidated dividend payout ratio

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

## Analysis of the Results

FY2015 Results for the fiscal year ended December 31, 2015

### 3. Analysis of consolidated financial results for FY2015

#### (1) Consolidated financial results

For analysis of 'Revenue', 'Operating profit', 'Adjusted operating profit' and 'Profit attributable to owners of the parent company' from continuing operations, please refer to page 72 and 73

For analysis of 'Assets', 'Debt' and 'Equity', please refer to page 74

For analysis of financial results by business segment, please refer to 'Review of Operations'

#### (2) Adjusted EPS (diluted) (continuing operations)

Adjusted profit from continuing operations for FY2015

decreased ¥16.0 billion year-on-year to ¥421.0 billion

Adjusted EPS (diluted) of continuing operations for FY2015 decreased ¥5.96 or -2.5% year-on-year to ¥234.35

	(Billions of yen)	
	2014 Jan-Dec	FY2015
<b>Continuing operations</b>		
Profit used for calculation of adjusted earnings per share	391.4	<b>398.5</b>
Adjustment items (income)	(46.1)	<b>(10.3)</b>
Adjustment items (costs)	105.0	<b>39.9</b>
Adjusted on income taxes and non-controlling interests	(13.3)	<b>(7.0)</b>
Adjusted profit of the year	437.0	<b>421.0</b>
Capital (equity attributable to owners of the parent company)	1,818,590	<b>1,796,382</b>
Adjusted diluted earnings per share (yen)	240.31	<b>234.35</b>

#### (3) Results and plans of capital expenditures

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

(Billions of yen)

	2014 Jan-Dec	FY2015
<b>Capital expenditure</b>		
Continuing operations	130.2	<b>129.8</b>
International tobacco	74.2	<b>77.2</b>
Japanese domestic tobacco	41.0	<b>37.4</b>
Pharmaceutical	4.7	<b>6.2</b>
Processed Food	4.7	<b>5.7</b>
Other/Elimination and corporate	5.5	<b>3.3</b>

Total amount of capital expenditures for continuing operations amounted to ¥129.8 billion in FY2015

In international tobacco business, capital expenditures amounted to ¥77.2 billion which was mainly spent on the optimization of manufacturing bases and the improvement of product specifications. In Japanese domestic tobacco business, capital expenditures amounted to ¥37.4 billion which was spent on the maintenance and upgrading of manufacturing bases, the enhancement of production and the improvement of product specifications in response to the new products. In pharmaceutical business, capital expenditures amounted to ¥6.2 billion which was spent on the development and reinforcement of R&D capabilities. In processed food business, capital expenditures amounted to ¥5.7 billion, which was spent on enhancing and maintaining the production capacity. These capital expenditures were internally funded through cash generated by operations.

Plans for new installations and disposal of facilities  
Regarding the mid- to long-term resource allocation of the JT Group, we will place top priority on business investments that will lead to sustainable profit growth in the mid- to long-term based on our management principles. We position the international and Japanese domestic tobacco business as the core business and profit growth engine and place top priority on business investments that will lead to their sustainable profit growth. Meanwhile, regarding the pharmaceutical business, we will strive to strengthen foundations that will lead to stable profit contribution. For the processed food business, we also strive to strengthen foundations that will lead to further profit contribution and we will make investments to that end.

Capital Expenditure Plan	FY2016 (Billions of yen)	Main purpose of investment	Funding
International tobacco	73.0	Investment in the optimization of manufacturing bases	Internally funded
Japanese domestic tobacco	32.0	Investment for maintaining and upgrading the manufacturing bases and for the enhancement of production and improvement of product specifications	Same as above
Pharmaceutical	3.0	Investment for maintaining and reinforcing of R&D	Same as above
Processed food	7.0	Investment for enhancing and maintaining production capacity	Same as above

Based on this policy, we plan capital expenditures totaling ¥122.0 billion for FY2016

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

#### 4. Dividends

The year-end dividends for FY2015 were ¥64 per share. The total annual dividends per share, including the interim dividends per share of ¥54 per share, were ¥118 per share, with a dividend payout ratio of 53.2% based on basic EPS from continuing operations. A consolidated dividend payout is 43.6% based on basic EPS from continuing and discontinued operations combined.

The year-end dividends related to the current year are recognized in the following year for accounting purposes. The year-end dividend related to FY2014 (record date of December 31, 2014) and the interim dividends for FY2015 (record date of June 30, 2015) are recorded in the financial statements for FY2015. For more details, please refer to Note 24 to the consolidated financial statements "Dividends".

#### 5 Capital management

The JT Group's management principle is pursuit of the "4S" model ensuring that in all our activities, we satisfy and fulfill our responsibilities towards our consumers, shareholders, employees and wider society, while balancing the interest of these key stakeholder groups. The JT Group believes that sustainable profit growth in the mid- to long-term based on this principle will increase the JT Group's value in the mid- to long-term, and is consequently in the best interest of all stakeholders, including our shareholders.

As its financial policy, JT Group maintains a solid balance sheet. This provides the capacity to withstand any adversity arising out of a volatile environment, such as economic crisis. It also allows for sufficient flexibility to capture attractive investment opportunities. JT Group monitors financial indicators in order to maintain a well-balanced capital structure that ensures an appropriate return on equity and a solid balance sheet for future investment. We monitor credit ratings for a solid balance sheet, and ROE (return on equity) for profitability, while focusing on changes in the domestic and overseas environment.

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

	(Billions of yen)	
	As of Dec 31, 2014	As of Dec 31, 2015
Interest-bearing debt	228.2	255.3
Cash and cash equivalents	(385.8)	(526.8)
Net interest-bearing debt <sup>(Note)</sup>	(157.6)	(271.5)
Capital (equity attributable to owners of the parent company)	2,536.8	2,451.6

Note: The figure in parentheses ( ) represents the net amount of cash and cash equivalents after deducting interest-bearing debt.

#### Share buy-back

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

As of December 31, 2015, we held 209,285,431 shares of common stock as treasury stock, amounting to 10.46% of total number of shares issued.

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

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

## Analysis of the Results

FY2015 Results for the fiscal year ended December 31, 2015

### 6 Financial activities

Our Group Treasury Division provides Group-wide support to enable secure and efficient financing activities. JT Group is exposed to financial risks (credit risks, liquidity risks, foreign exchange risks, interest rate risks, and market price fluctuation risks). Treasury operations are conducted pursuant to a set of Group-wide financial risk management policies and results are reported to the CEO and the Board of Directors of JT on a regular basis. For more details on financial risk management, please refer to "(2) Financial Risk Management" to "(8) Market Price Fluctuation Risk" of Note 33 to the consolidated financial statements "Financial Instruments".

#### (1) Cash Management Systems

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

#### (2) External financing

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

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

#### (3) External investments

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

### 7. Results of Cash flows

#### FY2015 and FY2014

Cash and cash equivalents at the end of FY2015 increased by ¥140.9 billion from the end of FY2014 to ¥526.8 billion. Cash and cash equivalents at the end of FY2014 were ¥385.8 billion.

#### Cash flows from (used in) operating activities

Net cash flows from operating activities during FY2015 were ¥468.4 billion. The main factors were the generation of a stable cash inflow from the tobacco business. As a result of holidays for financial institutions, the amount of national tobacco excise tax paid for the prior year in Japan was for 8 months, while the amount for FY2015 in Japan was for 12 months. Net cash flows from operating activities were ¥543.7 billion for FY2014.

#### Cash flows from (used in) investing activities

Net cash flows used in investing activities during FY2015 were ¥63.3 billion. This was mainly due to the proceeds from share transfer of vending machine operation business but partially offset by the payment for the purchase of property, plant and equipment and the investment in subsidiaries. Net cash flows used in investing activities were ¥49.1 billion for FY2014.

#### Cash flows from (used in) financing activities

Net cash flows used in financing activities during FY2015 were ¥254.9 billion. Despite the proceeds from issuance of bonds, this was mainly due to the increase of dividends per share and the repurchase of shares. Net cash flows used in financing activities were ¥388.9 billion for FY2014.

## 8. Liquidity

We have historically had, and expect to continue to have, significant cash flows from operating activities. We expect that cash generated from operating activities will continue to be stable and cover funds needed for ordinary business activities. On December 31, 2015, we had approximately ¥682.3 billion committed facilities for both domestic and international major financial institutions, of which 100% was unused. In addition, we have a domestic commercial paper program, uncommitted facilities and a domestic bond shelf registration.

### (1) Long-term debt

Bonds issued (including the current portion) as of December 31, 2014 and December 31, 2015 accounted for ¥140.0 billion and ¥215.1 billion respectively and long-term borrowings as loans from financial institutions (including the current portion) accounted for ¥41.0 billion and ¥1.0 billion respectively. Annual interest rates applicable to long-term borrowings outstanding as of December 31, 2014 and December 31, 2015 ranged from 0.43% to 5.90% and 2.32% to 4.64% respectively. Long-term lease obligations accounted for ¥15.3 billion as of December 31, 2014 and ¥7.8 billion as of December 31, 2015. Maturities of interest bearing debts are shown in the table below.

As of December 31, 2015, our long-term debt was rated Aa3 by Moody's Japan K.K. (Moody's), AA- by Standard & Poor's Ratings Japan K.K. (S&P), and AA by Rating and Investment Information Inc. (R&I), with a "stable" outlook from Moody's, a "stable" outlook from S&P and a "stable" outlook from R&I. These ratings are among the highest ratings for international tobacco companies.

These ratings are affected by a number of factors such as developments in our major markets, our business strategies and general economic trends that are beyond control. The ratings may be withdrawn or revised at any time. Each rating should be evaluated separately from other ratings. Under the Japan Tobacco Inc. Act, the bondholders of JT can enjoy statutory preferential rights over unsecured creditors in seeking repayment, with the exception of national and local taxes and other statutory obligations.

### (2) Short-term debt

Short-term borrowings totaled ¥27.6 billion as of December 31, 2014 and ¥30.8 billion as of December 31, 2015. There was no commercial paper outstanding as of December 31, 2014 and December 31, 2015.

Annual interest rates applicable to short-term borrowings ranged from 0.43% to 10.00% as of December 31, 2014 and from 0.43% to 11.30% as of December 31, 2015. Short-term lease obligations totaled ¥4.3 billion as of December 31, 2014 and ¥0.6 billion as of December 31, 2015.

(Billions of yen)

	Book Value	Due within 1 year	Due after 1 year through 2 years	Due after 3 years through 4 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Short-term borrowings as loans	30.8	30.8	—	—	—	—	—
Short-term lease obligations	0.6	0.6	—	—	—	—	—
Long-term borrowings as loans (current portion)	0.1	0.1	—	—	—	—	—
Long-term borrowings as loans	0.9	—	0.1	0.2	0.1	0.0	0.4
Bonds	215.1	—	20.0	60.3	—	80.0	55.0
Long-term lease obligations	7.8	—	0.4	0.3	0.3	0.1	6.7
<b>Total</b>	<b>255.3</b>	<b>31.5</b>	<b>20.6</b>	<b>60.8</b>	<b>0.4</b>	<b>80.2</b>	<b>62.1</b>

# Consolidated Financial Statements

## Consolidated Statement of Financial Position

Japan Tobacco Inc. and Consolidated Subsidiaries  
FY2015 Year ended December 31, 2015

	Millions of yen	
	FY2014 (As of December 31, 2014)	FY2015 (As of December 31, 2015)
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (Note 7)	¥ 385,820	¥ 526,765
Trade and other receivables (Note 8)	448,402	406,387
Inventories (Note 9)	587,849	563,820
Other financial assets (Note 10)	43,907	17,849
Other current assets (Note 11)	230,530	280,493
Subtotal	1,696,507	1,795,313
Non-current assets held-for-sale (Note 12)	367	2,904
Total current assets	1,696,874	1,798,217
<b>Non-current assets</b>		
Property, plant and equipment (Note 13)	756,127	681,865
Goodwill (Note 14)	1,539,376	1,429,287
Intangible assets (Note 14)	364,912	332,478
Investment property (Note 16)	17,870	23,614
Retirement benefit assets (Note 22)	35,402	38,954
Investments accounted for using the equity method	76,825	59,523
Other financial assets (Note 10)	91,959	101,727
Deferred tax assets (Note 17)	125,361	92,570
Total non-current assets	3,007,832	2,760,017
<b>Total assets</b>	<b>¥4,704,706</b>	<b>¥4,558,235</b>



Millions of yen

	FY2014 (As of December 31, 2014)	FY2015 (As of December 31, 2015)
<b>Liabilities and equity</b>		
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables (Note 18)	¥ 419,764	¥ 373,032
Bonds and borrowings (Note 19)	107,562	30,980
Income tax payables	54,942	106,391
Other financial liabilities (Note 19)	14,463	6,459
Provisions (Note 20)	9,200	19,297
Other current liabilities (Note 21)	754,169	729,761
Total current liabilities	1,360,098	1,265,920
<b>Non-current liabilities</b>		
Bonds and borrowings (Note 19)	101,001	215,938
Other financial liabilities (Note 19)	18,617	10,143
Retirement benefit liabilities (Note 22)	351,915	333,562
Provisions (Note 20)	25,425	9,210
Other non-current liabilities (Note 21)	121,792	113,958
Deferred tax liabilities (Note 17)	103,356	87,979
Total non-current liabilities	722,106	770,790
Total liabilities	2,082,204	2,036,710
<b>Equity</b>		
Share capital (Note 23)	100,000	100,000
Capital surplus (Note 23)	736,400	736,400
Treasury shares (Note 23)	(344,447)	(444,333)
Other components of equity (Note 23)	142,425	(137,122)
Retained earnings	1,902,460	2,196,651
Equity attributable to owners of the parent company	2,536,838	2,451,596
Non-controlling interests	85,665	69,929
Total equity	2,622,503	2,521,524
<b>Total liabilities and equity</b>	<b>¥4,704,706</b>	<b>¥4,558,235</b>

# Consolidated Statement of Income

Japan Tobacco Inc. and Consolidated Subsidiaries  
FY2015 Year ended December 31, 2015

	Millions of yen	
	FY2014 (Nine months ended December 31, 2014)	FY2015 (Year ended December 31, 2015)
<b>Continuing operations</b>		
Revenue (Notes 6, 25)	¥2,019,745	¥2,252,884
Cost of sales (Notes 14, 22)	(822,538)	(920,056)
Gross profit	1,197,208	1,332,828
Other operating income (Note 26)	47,419	15,367
Share of profit in investments accounted for using the equity method	7,812	6,381
Selling, general and administrative expenses (Notes 12, 13, 14, 16, 22, 27, 32)	(752,559)	(789,346)
Operating profit (Note 6)	499,880	565,229
Financial income (Notes 28, 33)	13,808	15,016
Financial costs (Notes 22, 28, 33)	(11,162)	(15,132)
Profit before income taxes	502,526	565,113
Income taxes (Note 17)	(132,811)	(162,388)
Profit for the period from continuing operations	369,715	402,727
<b>Discontinued operations</b>		
Profit (loss) for the period from discontinued operations (Note 38)	(1,088)	87,515
Profit for the period	¥ 368,626	¥ 490,242
<b>Attributable to</b>		
Owners of the parent company	¥ 362,919	¥ 485,691
Non-controlling interests	5,708	4,551
Profit for the period	¥ 368,626	¥ 490,242
<b>Earnings per share</b>		
Basic (Yen)		
Continuing operations (Note 30)	¥ 200.55	¥ 221.95
Discontinued operations (Note 30)	(0.87)	48.59
Total basic earnings per share for the period (Note 30)	¥ 199.67	¥ 270.54
Diluted (Yen)		
Continuing operations (Note 30)	¥ 200.43	¥ 221.81
Discontinued operations (Note 30)	(0.87)	48.56
Total diluted earnings per share for the period (Note 30)	¥ 199.56	¥ 270.37

## Reconciliation from "Operating profit" to "Adjusted operating profit"

	Millions of yen	
	FY2014 (Nine months ended December 31, 2014)	FY2015 (Year ended December 31, 2015)
<b>Continuing operations</b>		
Operating profit	¥499,880	¥565,229
Amortization cost of acquired intangibles	29,465	31,875
Adjustment items (income)	(44,302)	(10,346)
Adjustment items (costs)	103,641	39,900
Adjusted operating profit (Note 6)	¥588,684	¥626,657

# Consolidated Statement of Comprehensive Income

Japan Tobacco Inc. and Consolidated Subsidiaries  
FY2015 Year ended December 31, 2015

	Millions of yen	
	FY2014 (Nine months ended December 31, 2014)	FY2015 (Year ended December 31, 2015)
Profit for the period	¥ 368,626	¥ 490,242
<b>Other comprehensive income</b>		
<b>Items that will not be reclassified to profit or loss</b>		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income (Notes 29, 33)	3,725	10,735
Remeasurements of defined benefit plans (Notes 22, 29)	(14,164)	(4,102)
Total of items that will not be reclassified to profit or loss	(10,439)	6,633
<b>Items that may be reclassified subsequently to profit or loss</b>		
Exchange differences on translation of foreign operations (Notes 29, 33)	(114,242)	(289,400)
Net gain (loss) on derivatives designated as cash flow hedges (Notes 29, 33)	922	233
Total of items that may be reclassified subsequently to profit or loss	(113,319)	(289,167)
Other comprehensive income (loss) net of taxes	(123,759)	(282,534)
Comprehensive income (loss) for the period	¥ 244,868	¥ 207,708
<b>Attributable to</b>		
Owners of the parent company	¥ 240,363	¥ 203,257
Non-controlling interests	4,505	4,450
Comprehensive income (loss) for the period	¥ 244,868	¥ 207,708

# Consolidated Statement of Changes in Equity

Japan Tobacco Inc. and Consolidated Subsidiaries  
FY2015 Year ended December 31 2015

Millions of yen

	Equity attributable to owners of the parent company						
	Other components of equity						Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	
As of April 1 2014	¥100,000	¥736,400	¥(344,463)	¥1,443	¥229,990	¥293	¥19,380
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	(112,972)	922	3,753
Comprehensive income (loss) for the period	—	—	—	—	(112,972)	922	3,753
Acquisition of treasury shares (Note 23)	—	—	—	—	—	—	—
Disposal of treasury shares (Note 23)	—	—	16	(14)	—	—	—
Share based payments (Note 32)	—	—	—	202	—	—	—
Dividends (Note 24)	—	—	—	—	—	—	—
Changes in the scope of consolidation	—	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	—	(597)	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—	23
Other increase (decrease)	—	—	—	—	—	—	—
Total transactions with the owners	—	—	16	188	(597)	—	23
As of December 31 2014	100,000	736,400	(344,447)	1,631	116,421	1,215	23,156
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 (Note 23)	—	—	(100,000)	—	—	—	—
Disposal of treasury shares (Note 23)	—	—	114	(85)	—	—	—
Share based payments (Note 32)	—	—	—	395	—	—	—
Dividends (Note 24)	—	—	—	—	—	—	—
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					
	Other components of equity					Total equity
	Remeasurements of defined benefit plans	Total	Retained earnings	Total	Non controlling interests	
As of April 1 2014	¥ —	¥251,107	¥1,762,566	¥2,505,610	¥90,481	¥2,596,091
Profit for the period	—	—	362,919	362,919	5,708	368,626
Other comprehensive income (loss)	(14,259)	(122,556)	—	(122,556)	(1,203)	(123,759)
Comprehensive income (loss) for the period	(14,259)	(122,556)	362,919	240,363	4,505	244,868
Acquisition of treasury shares (Note 23)	—	—	—	—	—	—
Disposal of treasury shares (Note 23)	—	(14)	(3)	0	—	0
Share based payments (Note 32)	—	202	—	202	—	202
Dividends (Note 24)	—	—	(181,755)	(181,755)	(2,736)	(184,491)
Changes in the scope of consolidation	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	(597)	(26,985)	(27,581)	(7,623)	(35,204)
Transfer from other components of equity to retained earnings	14,259	14,282	(14,282)	—	—	—
Other increase (decrease)	—	—	—	—	1,039	1,039
Total transactions with the owners	14,259	13,874	(223,025)	(209,135)	(9,321)	(218,455)
As of December 31, 2014	—	142,425	1,902,460	2,536,838	85,665	2,622,503
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 (Note 23)	—	—	—	(100,000)	—	(100,000)
Disposal of treasury shares (Note 23)	—	(85)	(29)	0	—	0
Share based payments (Note 32)	—	395	—	395	—	395
Dividends (Note 24)	—	—	(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

# Consolidated Statement of Cash Flows

Japan Tobacco Inc. and Consolidated Subsidiaries  
FY2015 Year ended December 31, 2015

	Millions of yen	
	FY2014 (Nine months ended December 31, 2014)	FY2015 (Year ended December 31, 2015)
<b>Cash flows from operating activities</b>		
Profit before income taxes	¥ 502,526	¥ 565,113
Profit before income taxes from discontinued operations (Note 38)	(227)	119,009
Depreciation and amortization	122,171	139,057
Impairment losses	21,877	12,654
Interest and dividend income	(13,560)	(14,818)
Interest expense	4,651	4,030
Share of profit in investments accounted for using the equity method	(7,812)	(6,381)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	(31,315)	6,697
(Gains) losses on sale of investments in subsidiaries	—	(134,287)
(Increase) decrease in trade and other receivables	(12,130)	3,866
(Increase) decrease in inventories	(16,808)	(5,272)
Increase (decrease) in trade and other payables	83,885	(6,697)
Increase (decrease) in retirement benefit liabilities	(25,736)	(5,162)
(Increase) decrease in prepaid tobacco excise taxes	(23,963)	(59,789)
Increase (decrease) in tobacco excise tax payables	103,651	31,714
Increase (decrease) in consumption tax payables	37,550	(34,585)
Other	(37,055)	(33,839)
Subtotal	707,703	581,310
Interest and dividends received	22,569	22,687
Interest paid	(7,050)	(3,538)
Income taxes paid	(179,526)	(132,027)
Net cash flows from operating activities	543,696	468,432
<b>Cash flows from investing activities</b>		
Purchase of securities	(3,280)	(1,320)
Proceeds from sale and redemption of securities	4,769	3,687
Purchase of property, plant and equipment	(106,655)	(116,976)
Proceeds from sale of investment property	85,653	8,372
Purchase of intangible assets	(7,749)	(12,123)
Payments into time deposits	(852)	(1,002)
Proceeds from withdrawal of time deposits	778	977
Purchase of investments in subsidiaries (Note 37)	(20,977)	(70,110)
Proceeds from sale of investments in subsidiaries (Note 39)	—	126,774
Other	(800)	(1,550)
Net cash flows from investing activities	(49,110)	(63,271)
<b>Cash flows from financing activities</b>		
Dividends paid to owners of the parent company (Note 24)	(181,635)	(187,646)
Dividends paid to non-controlling interests	(2,663)	(13,734)
Capital contribution from non-controlling interests	44	—
Increase (decrease) in short-term borrowings and commercial paper	6,373	5,255
Repayments of long-term borrowings	(1,225)	(30,147)
Proceeds from issuance of bonds	—	114,724
Redemption of bonds	(170,670)	(40,000)
Repayments of finance lease obligations	(3,837)	(2,986)
Acquisition of treasury shares	—	(100,000)
Payments for acquisition of interests in subsidiaries from non-controlling interests	(35,246)	(318)
Other	0	0
Net cash flows from financing activities	(388,859)	(254,852)
<b>Net increase (decrease) in cash and cash equivalents</b>	105,727	150,309
<b>Cash and cash equivalents at the beginning of the period</b>	253,219	385,820
<b>Effect of exchange rate changes on cash and cash equivalents</b>	26,874	(9,365)
<b>Cash and cash equivalents at the end of the period (Note 7)</b>	¥ 385,820	¥ 526,765

# Notes to Consolidated Financial Statements

Japan Tobacco Inc. and Consolidated Subsidiaries

FY2015 Year ended December 31, 2015 / FY2014 Nine months ended December 31, 2014

## 1 Reporting Entity

Japan Tobacco Inc. (hereinafter referred to as the "Company") is a joint stock corporation under the Companies Act of Japan, pursuant to the Japan Tobacco Inc. Act with its principal places of business located in Japan since its incorporation. The addresses of the Company's registered head office and principal business offices are available on the Company's website (<https://www.jti.co.jp>)

The details of businesses and principal business activities of the Company and its subsidiaries (hereinafter referred to as the "Group") are stated in "6 Operating Segments"

The Group's consolidated financial statements for the year ended December 31, 2015, were approved on March 23, 2016 by Mitsuomi Koizumi, President and Chief Executive Officer

## 2. Basis of Preparation

### (1) Compliance with IFRS

The Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter referred to as "IFRS")

### (2) Basis of Measurement

Except for the financial instruments, stated in "3 Significant Accounting Policies," the Group's consolidated financial statements are prepared on the historical cost basis

### (3) Functional Currency and Presentation Currency

The Group's consolidated financial statements are presented in Japanese yen, which is the functional currency of the Company. The units are in millions of yen, and figures less than one million yen are rounded to the nearest million yen

### (4) Early Adoption of New Accounting Standards

The Group has early adopted IFRS 9 "Financial Instruments" (amended in November 2013) (hereinafter referred to as "IFRS 9") from January 1, 2015

IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement" (hereinafter referred to as "IAS 39") and provides two measurement categories for financial instruments: amortized cost and fair value. Changes in fair value of financial assets measured at fair value are recognized in profit or loss. However, changes in fair value of investments in equity instruments, except for equity instruments held for trading purposes, are allowed to be recognized in other comprehensive income

For hedge accounting, the hedging relationships that meet the qualifying criteria are reviewed to appropriately reflect an entity's risk management activities in the financial statements

### (5) Changes in Method of Presentation

For the year ended December 31, 2015, continuing operations and discontinued operations have been presented separately. To reflect the changes in method of presentation, the consolidated statement of income, the consolidated statement of cash flows and relevant notes to the consolidated financial statements for the nine months ended December 31, 2014 have been accordingly changed

For discontinued operations, please refer to "38 Discontinued Operations"

### (6) Change of Fiscal Year End

In the previous fiscal year, the Company and its subsidiaries with fiscal year ends other than December 31 changed their fiscal year ends to December 31 for the purpose of unifying the fiscal year ends with overseas consolidated subsidiaries of the Group in order to enhance and improve the efficiency of the closing and management systems

As a consequence of this change of fiscal year end, fiscal year 2014 was a nine-month period from April 1, 2014 to December 31, 2014

In addition, the fiscal year end date of JT International Holding B.V. and its subsidiaries which operate the Group's international tobacco business (hereinafter referred to as "JTIH Group") continues to be December 31 as before, hence the Group consolidates the financial results of the JTIH Group for the twelve-month period from January 1, 2014 to December 31, 2014 into the Group's consolidated financial results for the nine months ended December 31, 2014

For the consolidated statement of income assuming that the previous fiscal year of the Group had been the twelve-month period from January 1, 2014 to December 31, 2014, please refer to Note "42 Consolidated Statement of Income (2014 January – December)"

### 3. Significant Accounting Policies

#### (1) Basis of Consolidation

The consolidated financial statements include financial statements of the Company and its subsidiaries, and interests in investments in associates and joint arrangements

##### A Subsidiaries

A subsidiary is an entity that is controlled by the Group and the Group has control over the entity if it is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The acquisition date of a subsidiary is the date on which the Group obtains control of the subsidiary and the subsidiary is included in the consolidation from the date of acquisition until the date on which the Group loses control.

In cases where the accounting policies applied by a subsidiary are different from those applied by the Group, adjustments are made to the subsidiary's financial statements, if necessary.

All intergroup balances, transactions, income and expenses are eliminated on consolidation.

Comprehensive income for subsidiaries is attributed to owners of the parent company and non-controlling interests even if this results in the non-controlling interests having a deficit balance.

##### B Associates

An associate is an entity over which the Group has significant influence. The Group has significant influence over the entity if it has the power to participate in the financial and operating policy decisions of the investee but it does not have control or joint control over the investee. Investments in associates are accounted for using the equity method from the date on which the Group has the significant influence until the date on which it ceases to have the significant influence.

##### C Joint Arrangements

A joint arrangement is a contractual arrangement of which two or more parties have joint control. Depending upon the rights and obligations of the parties to the arrangement, the Group classifies a joint arrangement into a joint operation whereby the Group has rights to the assets and obligations for the liabilities relating to the arrangement, and a joint venture whereby the Group has rights to the net assets of the arrangement only. The Group recognizes the assets, liabilities, revenues and expenses relating to its interest in a joint operation while a joint venture is accounted for using the equity method.

#### (2) Business Combination

Business combinations are accounted for using the acquisition method. Consideration transferred in a business combination is measured as the sum of the acquisition-date fair value of the assets

transferred, the liabilities assumed and equity instruments issued by the Company in exchange for control over an acquiree. Any excess of the consideration of acquisition over the fair value of identifiable assets and liabilities is recognized as goodwill in the consolidated statement of financial position. If the consideration of acquisition is lower than the fair value of the identifiable assets and liabilities, the difference is immediately recognized as profit in the consolidated statement of income. If the amount of initial accounting for a business combination is not determined by the end of the reporting period in which the combination occurs, the provisional amounts for the items for which the accounting is incomplete are reported and are adjusted during the measurement period, which is one year from the acquisition date. Acquisition-related costs incurred are recognized as expenses. The additional acquisition of non-controlling interests after obtaining control is accounted for as a capital transaction. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in retained earnings and no goodwill is recognized with respect to such transaction.

#### (3) Foreign Currency Translation

Consolidated financial statements of the Group are presented in Japanese yen, which is the functional currency of the Company. Each company in the Group specifies its own functional currency and measures transactions based on it.

Foreign currency transactions are translated into the functional currency at the rates of exchange prevailing at the dates of transactions or an approximation of the rate. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates of exchange prevailing at the fiscal year end date. Differences arising from the translation and settlement are recognized as profit or loss. However, exchange differences arising from the translation of financial instruments designated as hedging instruments for net investment in foreign operations (foreign subsidiaries), financial assets measured at fair value through other comprehensive income, and cash flow hedges are recognized as other comprehensive income.

The assets and liabilities of foreign operations are translated into Japanese yen at the rates of exchange prevailing at the fiscal year end date, while income and expenses of foreign operations are translated into Japanese yen at the rates of exchange prevailing at the dates of transactions or an approximation to the rate. The resulting translation differences are recognized as other comprehensive income. In cases where foreign operations are disposed of, the cumulative amount of translation differences related to the foreign operations is recognized as profit or loss in the period of disposition.

## **(4) Financial Instruments**

### **A Financial Assets**

#### **(i) Initial Recognition and Measurement**

Financial assets are classified into financial assets measured at fair value through profit or loss, fair value through other comprehensive income and amortized cost. The Group determines the classification at initial recognition.

Financial assets are classified as financial assets measured at amortized cost if both of the following conditions are met. Otherwise, they are classified as financial assets measured at fair value.

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For financial assets measured at fair value, each equity instrument is designated as measured at fair value through profit or loss or as measured at fair value through other comprehensive income except for equity instruments held for trading purposes that must be measured at fair value through profit or loss. Such designations are applied consistently.

All financial assets are measured at fair value plus transaction costs that are attributable to the financial assets, except for the case of being classified in the category of financial assets measured at fair value through profit or loss.

#### **(ii) Subsequent Measurement**

After initial recognition, financial assets are measured based on the classification as follows.

##### **(a) Financial Assets Measured at Amortized Cost**

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method.

##### **(b) Other Financial Assets**

Financial assets other than those measured at amortized cost are measured at fair value.

Changes in the fair value of financial assets measured at fair value are recognized as profit or loss.

However, changes in the fair value of equity instruments designated as measured at fair value through other comprehensive income are recognized as other comprehensive income and the amount in other comprehensive income is transferred to retained earnings when equity instruments are derecognized or the decline in its fair value compared to its acquisition cost is significant. Dividends on the financial assets are recognized in profit or loss for the year.

#### **(iii) Derecognition**

Financial assets are derecognized when the rights to receive benefits from them expire or are transferred or when substantially all the risks and rewards of the ownership are transferred.

### **B Impairment of Financial Assets**

In accordance with IAS 39, the Group assesses at the end of each reporting period whether there is any objective evidence

that financial assets measured at amortized cost are impaired. Evidence of impairment includes significant financial difficulty of the borrower or a group of borrowers, a default or delinquency in interest or principal payments, and bankruptcy of the borrower.

The Group assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and collectively for financial assets that are not individually significant.

If there is objective evidence that impairment losses on financial assets measured at amortized cost have been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.

When impairment is recognized, the carrying amount of the financial asset is reduced by an allowance for doubtful accounts and impairment losses are recognized in profit or loss. The carrying amount of financial assets measured at amortized cost is directly reduced for the impairment when they are expected to become uncollectible in the future and all collateral is implemented or transferred to the Group. If, in a subsequent period, the amount of the impairment loss provided changes due to an event occurring after the impairment was recognized, the previously recognized impairment losses are adjusted through the allowance for doubtful accounts.

### **C Financial Liabilities**

#### **(i) Initial Recognition and Measurement**

Financial liabilities are classified into financial liabilities measured at fair value through profit or loss and financial liabilities measured at amortized cost. The Group determines the classification at initial recognition.

All financial liabilities are measured at fair value at initial recognition. However, financial liabilities measured at amortized cost are measured at cost after deducting transaction costs that are directly attributable to the financial liabilities.

#### **(ii) Subsequent Measurement**

After initial recognition, financial liabilities are measured based on the classification as follows.

**(a) Financial Liabilities Measured at Fair Value through Profit or Loss**  
Financial liabilities measured at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated as measured at fair value through profit or loss at initial recognition.

##### **(b) Financial Liabilities Measured at Amortized Cost**

After initial recognition, financial liabilities measured at amortized cost are measured at amortized cost using the effective interest method. Amortization under the effective interest method and gains or losses on derecognition are recognized as profit or loss in the consolidated statement of income.

After initial recognition, financial guarantee contracts are measured at the higher of

- The best estimate of expenditure required to settle the obligation as of the end of the fiscal year, and
- The amount initially recognized less cumulative amortization.



**(iii) Derecognition**

Financial liabilities are derecognized when the obligation is discharged, canceled or expired

**D Offsetting of Financial Instruments**

Financial assets and financial liabilities are offset and presented as a net amount in the consolidated statement of financial position only when there is a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously

**E Derivatives and Hedge Accounting**

The Group utilizes derivatives, including forward foreign exchange contracts and interest rate swap contracts, to hedge foreign exchange and interest rate risks. These derivatives are initially measured at fair value when the contract is entered into and are subsequently remeasured at fair value. Changes in the fair value of derivatives are recognized as profit or loss in the consolidated statement of income. However, the gains or losses on the hedging instrument relating to the effective portion of cash flow hedges and hedges of net investment in foreign operations are recognized as other comprehensive income in the consolidated statement of comprehensive income.

At the inception of the hedge, the Group formally designates and documents the hedging relationship to which hedge accounting is applied and the objectives and strategies of risk management for undertaking the hedge. The documentation includes identification of the hedging instruments, the hedged items, the nature of the risks being hedged and how the hedging relationship's effectiveness is assessed. These hedges are assessed on an ongoing basis to determine whether the hedging relationship is effective prospectively even though it is expected that there is an economic relationship between the hedged item and the hedging instrument, that the effect of credit risk does not dominate the value changes that result from that economic relationship, and that the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of the hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio due to changes in an economic relationship between the hedged item and the hedging instrument but the risk management objective remains the same, the Group would adjust the hedge ratio so that it meets the qualifying criteria again. The Group discontinues hedge accounting for the portion that does not meet the requirement when the hedging relationship ceases to meet the qualifying criteria even after adjusting the hedge ratio.

Hedges that meet the stringent requirements for hedge accounting are classified in the following categories and accounted for in accordance with IFRS 9

**(i) Fair Value Hedge**

The gain or loss on the hedging instrument is recognized as profit or loss in the consolidated statement of income. However, changes in the fair value of the hedging instrument are recognized as other comprehensive income in the consolidated statement of comprehensive income if the hedging instrument hedges an equity instrument designated as at fair value through other comprehensive income. Regarding the hedging gain or loss on the hedged item, the carrying amount of the hedged item is adjusted and the change is recognized as profit or loss in the consolidated statement of income. However, changes in the fair value of an equity instrument which the Group elected to present in other comprehensive income are recognized as other comprehensive income.

**(ii) Cash Flow Hedge**

The effective portion of gains or losses on hedging instruments is recognized as other comprehensive income in the consolidated statement of comprehensive income while the ineffective portion is recognized immediately as profit or loss in the consolidated statement of income.

The amounts of hedging instruments recognized in other comprehensive income are reclassified to profit or loss when the transactions of the hedged items affect profit or loss. In cases where hedged items result in the recognition of non-financial assets or liabilities, the amounts recognized as other comprehensive income are accounted for as adjustments to the original carrying amount of non-financial assets or liabilities.

If the hedged future cash flows are no longer expected to occur, any related cumulative gain or loss that has been recognized in equity as other comprehensive income is reclassified to profit or loss. If the hedged future cash flows are still expected to occur, amounts that have been recognized in other comprehensive income are continued to be recognized in other comprehensive income until the future cash flows occur.

**(iii) Hedge of Net Investment in Foreign Operations**

Translation differences resulting from the hedge of net investment in foreign operations are accounted for similarly to a cash flow hedge. The effective portion of gains or losses on hedging instruments is recognized as other comprehensive income in the consolidated statement of comprehensive income while the ineffective portion is recognized as profit or loss in the consolidated statement of income. At the time of the disposal of the foreign operations, any related cumulative gain or loss that has been recognized in equity as other comprehensive income is reclassified to profit or loss.

**F Fair Value of Financial Instruments**

Fair value of financial instruments that are traded in active financial markets at the fiscal year end refers to quoted prices or dealer quotations.

If there is no active market, fair value of financial instruments is determined using appropriate valuation models.

## **(5) Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value and due within three months from the date of acquisition

## **(6) Inventories**

The cost of inventories includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition

Inventories are measured at the lower of cost or net realizable value, and the costs are determined by using the weighted-average method. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

Leaf tobacco which is stored for more than 12 months before being used for production is included in current assets since it is held within the normal operating cycle.

## **(7) Property, Plant and Equipment**

Property, plant, and equipment is measured by using the cost model and is stated at cost less accumulated depreciation and accumulated impairment losses.

The acquisition cost includes any costs directly attributable to the acquisition of the asset and dismantlement, removal and restoration costs, as well as borrowing costs eligible for capitalization.

Except for assets that are not subject to depreciation such as land, assets are depreciated using the straight-line method over their estimated useful lives. The estimated useful lives of major asset items are as follows:

- Buildings and structures: 38 to 50 years
- Machinery and vehicles: 10 to 15 years

The estimated useful lives and depreciation method are reviewed at each fiscal year end and if there are any changes made to the estimated useful lives and depreciation method, such changes are applied prospectively as changes in estimate.

## **(8) Goodwill and Intangible Assets**

### **A Goodwill**

Goodwill is stated at acquisition cost less accumulated impairment losses.

Goodwill is not amortized. It is allocated to cash-generating units that are identified according to locations and types of businesses and tested for impairment annually or whenever there is any indication of impairment. Impairment losses on goodwill are recognized in the consolidated statement of income and no subsequent reversal is made.

### **B Intangible Assets**

Intangible assets are measured by using the cost model and are stated at cost less accumulated amortization and accumulated impairment losses.

Intangible assets acquired separately are measured at cost at the initial recognition, and the costs of intangible assets acquired

through business combinations are recognized at fair value at the acquisition date. Expenditures on internally generated intangible assets are recognized as expense in the period when incurred except for development expenses that satisfy the capitalization criteria.

Intangible assets with finite useful lives are amortized using the straight-line method over their estimated useful lives and are tested for impairment whenever there is any indication of impairment. The estimated useful lives and amortization method of intangible assets with finite useful lives are reviewed at each fiscal year end, and the effect of any changes in estimate would be accounted for on a prospective basis.

The estimated useful lives of major intangible assets with finite useful lives are as follows:

- Trademarks: 20 years
- Software: 5 years

Intangible assets with indefinite useful lives and intangible assets that are not ready to use are not amortized, but they are tested for impairment individually or by cash-generating unit annually or whenever there is any indication of impairment.

## **(9) Leases**

Leases are classified as finance leases whenever substantially all the risks and rewards incidental to ownership are transferred to the Group. All other leases are classified as operating leases.

In finance lease transactions, leased assets and lease obligations are recognized in the consolidated statement of financial position at the lower of the fair value of the leased property or the present value of the minimum lease payments, each determined at the inception of the lease. Lease payments are apportioned between the financial cost and the reduction of the lease obligations based on the effective interest method. Financial costs are recognized in the consolidated statement of income. Leased assets are depreciated using the straight-line method over their estimated useful lives or lease terms, whichever is shorter.

In operating lease transactions, lease payments are recognized as an expense using the straight-line method over the lease terms in the consolidated statement of income. Contingent rents are recognized as an expense in the period when they are incurred.

Determining whether an arrangement is, or contains, a lease is based on the substance of the arrangement in accordance with IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, even if the arrangement does not take the legal form of a lease.

## **(10) Investment Property**

Investment property is property held to earn rentals or for capital appreciation or both.

Investment property is measured by using the cost model and is stated at cost less accumulated depreciation and accumulated impairment losses.

## **(11) Impairment of Non-financial Assets**

The Group assesses for each fiscal year whether there is any indication that an asset may be impaired. If any such indication exists,

or in cases where the impairment test is required to be performed each year, the recoverable amount of the asset is estimated. In cases that the recoverable amount cannot be estimated for each asset, it is estimated by the cash-generating unit to which the asset belongs. The recoverable amount of an asset or a cash-generating unit is determined at the higher of its fair value less costs of disposal or its value in use. If the carrying amount of the asset or cash-generating unit exceeds the recoverable amount, impairment losses are recognized and the carrying amount is reduced to the recoverable amount. In determining the value in use, estimated future cash flows are discounted to the present value, using pretax discount rates that reflect current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs of disposal, the Group uses an appropriate valuation model supported by available fair value indicators.

The Group assesses whether there is any indication that an impairment loss recognized in prior years for an asset other than goodwill may no longer exist or may have decreased, such as any changes in assumptions used for the determination of the recoverable amount. If any such indication exists, the recoverable amount of the asset or cash-generating unit is estimated. In cases that the recoverable amount exceeds the carrying amount of the asset or cash-generating unit, impairment losses are reversed up to the lower of the estimated recoverable amount or the carrying amount (net of depreciation) that would have been determined if no impairment losses had been recognized in prior years.

## **(12) Non-current Assets Held-for-Sale and Discontinued Operations**

### **A Non-current Assets Held-for-Sale**

An asset or asset group for which the value is expected to be recovered through a sales transaction rather than through continuing use is classified into a non-current asset or disposal group held-for-sale when the following conditions are met: it is highly probable that the asset or asset group will be sold within one year, the asset or asset group is available for immediate sale in its present condition, and the Group management commits to the sale plan. In such cases, the non-current asset is not depreciated or amortized and is measured at the lower of its carrying amount or its fair value less costs of disposal.

### **B Discontinued Operations**

The Group has classified a business segment that has been disposed of or is classified as held-for-sale, into discontinued operations.

## **(13) Post-employment Benefits**

The Group sponsors defined benefit plans and defined contribution plans as employee retirement benefit plans.

The Company is obligated to bear pension expenses for a mutual assistance association incurred with respect to services in or before June 1956 (prior to the enforcement of the Act on the Mutual Aid Association of Public Corporation Employees). Such obligations are calculated and included in liabilities related to the retirement

benefits.

For each plan, the Group calculates the present value of defined benefit obligations, related current service cost and past service cost using the projected unit credit method. For a discount rate, a discount period is determined based on the period until the expected date of benefit payment in each fiscal year, and the discount rate is determined by reference to market yields for the period corresponding to the discount period at the end of the fiscal year on high quality corporate bonds or government bonds. Liabilities or assets for defined benefit plans are calculated by the present value of the defined benefit obligation, deducting the fair value of any plan assets (including adjustments for the asset ceiling for defined benefit plan and minimum funding requirements, if necessary). Expected interest costs and interest income are recognized as financial costs.

Remeasurements of defined benefit plans are recognized in full as other comprehensive income in the period when they are incurred and transferred to retained earnings immediately. Past service costs are recognized as profit or loss in the period when incurred.

The cost for retirement benefits for defined contribution plans is recognized as an expense at the time of contribution.

## **(14) Share-based Payments**

The Company has a share option plan as an equity-settled share-based payment plan. Share options are estimated at fair value at grant date and are recognized as an expense over the vesting period in the consolidated statement of income after considering the number of share options that are expected to be eventually vested. The corresponding amount is recognized as an increase in equity in the consolidated statement of financial position.

## **(15) Provisions**

The Group has present obligations (legal or constructive) resulting from past events and recognizes provisions when it is probable that the obligations are required to be settled and the amount of the obligations can be estimated reliably.

Where the effect of the time value of money is material, the amount of provisions is measured at the present value of the expenditures expected to be required to settle the obligations. In calculating the present value, the Group uses the pretax discount rate reflecting current market assessments of the time value of money and the risks specific to the liability.

In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets," the Group recognizes a provision for restructuring when it has a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main scheme to those affected by it. Restructuring provisions include only the direct expenditures arising from the restructuring which meet both of the following criteria:

- necessarily entailed by the restructuring,
- not associated with the ongoing activities of the entity.

## **(16) Revenue**

### **A Sale of Goods**

The Group mainly engages in the sale of tobacco products, prescription drugs and processed foods. Revenue from the sale of these goods is recognized when the significant risks and rewards of ownership of the goods transfer to the buyers; the Group retains neither continuing managerial involvement nor effective control over the goods sold, it is probable that the future economic benefits will flow to the Group, and the amount of revenue and the corresponding costs can be measured reliably. Therefore, revenue is usually recognized at the time of delivery of goods to customers. In addition, revenue is recognized at fair value of the consideration received or receivable less discounts, rebates and taxes, including consumption taxes.

Since the amount of turnover where the Group is involved as an agency, including tobacco excise taxes, is deducted from revenue, the Group recognizes only the economic benefit inflow, excluding such amount as revenue in the consolidated statement of income.

### **B Interest Income**

Interest income is recognized using the effective interest rate method.

### **C Dividend Income**

Dividend income is recognized when the shareholder's right to receive payment is established.

### **D Royalties**

Royalties are recognized on an accrual basis in accordance with the substance of the relevant agreement.

## **(17) Government Grants**

Government grants are recognized at fair value when there is a reasonable assurance that the Group will comply with the conditions attached to them and receive the grants.

In case that the government grants are related to expense items, they are recognized in profit or loss on a systematic basis over the period in which the related costs for which the grants are intended to compensate are recognized. With regard to government grants for assets, the amount of the grants is deducted from the acquisition cost of the assets.

## **(18) Borrowing Costs**

With respect to assets that necessarily take a substantial period of time to get ready for their intended use or sale, the borrowing costs that are directly attributable to the acquisition, construction or production of the assets are capitalized as part of the acquisition cost of the assets. Other borrowing costs are recognized as an expense in the period when they are incurred.

## **(19) Income Taxes**

Income taxes in the consolidated statement of income are presented as the total of current income taxes and deferred income taxes.

Current income taxes are measured at the amount that is expected to be paid to or refunded from the taxation authorities. For the calculation of the tax amount, the Group uses the tax rates and tax laws that have been enacted or substantively enacted by the end of the fiscal year. The current income taxes are recognized in profit or loss, except for taxes arising from items that are recognized in other comprehensive income or directly in equity and taxes arising from business combinations.

Deferred income taxes are calculated based on the temporary differences between the tax base for assets and liabilities and the carrying amount at the fiscal year end. Deferred tax assets are recognized for deductible temporary differences, carryforward of unused tax credits and unused tax losses to the extent that it is probable that future taxable profit will be available against which they can be utilized. Deferred tax liabilities are recognized for taxable temporary differences.

The deferred tax assets or liabilities are not recognized for the following temporary differences:

- the initial recognition of goodwill
- the initial recognition of assets or liabilities in transactions that are not business combinations and at the time of transaction affect neither accounting profit nor taxable profit or tax loss
- deductible temporary differences arising from investments in subsidiaries and associates, and interests in joint venture to the extent that it is probable that the timing of the reversal of the temporary difference in the foreseeable future and it is not probable that future taxable profits will be available against which they can be utilized
- taxable temporary differences arising from investments in subsidiaries and associates, and interests in joint venture to the extent that the timing of the reversal of the temporary difference is controlled and that it is probable the temporary difference will not reverse in the foreseeable future

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the fiscal year when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the fiscal year end.

## **(20) Treasury Shares**

Treasury shares are recognized at cost and deducted from equity. No gain or loss is recognized on the purchase, sale or cancellation of the treasury shares. Any difference between the carrying amount and the consideration paid is recognized in capital surplus.

## **(21) Earnings per Share**

Basic earnings per share are calculated by dividing profit or loss attributable to ordinary shareholders of the parent company by the weighted-average number of ordinary shares outstanding during the year, adjusted by the number of treasury shares. Diluted earnings per share are calculated by adjusting the effects of dilutive potential ordinary shares.

## (22) Dividends

Dividend distributions to the shareholders of the Company are recognized as liabilities in the period in which, for year end dividends, the Annual Shareholders' Meeting approves the distribution and for interim dividends, the Board of Directors' Meeting approves the distribution.

## (23) Contingencies

### A Contingent Liabilities

The Group discloses contingent liabilities in the notes to consolidated financial statements if it has possible obligations at the fiscal year end, whose existence cannot be confirmed at that date, or if the obligations do not meet the recognition criteria of a provision described in "20 Provisions."

### B Contingent Assets

The Group discloses contingent assets in the notes to consolidated financial statements if an inflow of future economic benefits to the Group is probable, but not virtually certain at the fiscal year end.

## (24) Adjusted Financial Measures

The adjusted financial measures are calculated by adding certain adjustment items to the non-adjusted financial data or by deducting the items from the non-adjusted financial data.

The adjustment items are determined by management's judgment, taking into consideration the nature and frequency of the income and costs such that they provide effective comparative information on the Group performance and that they reflect the way of managing our business appropriately. Adjusted financial measures are presented in the consolidated statement of income '16 Operating Segments and '30 Earnings per Share.

The adjusted financial measures are not defined under IFRS and are not comparable with equivalent indicators for other entities.

### (Changes in Accounting Policies)

The Group has adopted the following new accounting standards, amended standards and new interpretations from the fiscal year ended December 31, 2015.

IFRS		Description of new standards and amendments
IFRS 9	Financial Instruments	Amendments to hedge accounting
IAS 19	Employee Benefits	Clarifying the accounting treatment for contributions from employees or third parties set out in the formal terms of defined benefit plans

The effect of adopting the above standards and interpretations on the consolidated financial statements is immaterial.

IFRS 9 mentioned above has been early adopted.

## 4. Significant Accounting Estimates and Judgments

Preparation of consolidated financial statements of the Group requires management estimates and assumptions in order to measure income, expenses, assets and liabilities, and disclose contingencies as of the fiscal year end date. These estimates and assumptions are based on the best judgment of management in light of historical experience and various factors deemed to be reasonable as of the fiscal year end date. Given their nature, actual results may differ from those estimates and assumptions.

The estimates and assumptions are continuously reviewed by management. The effects of a change in estimates and assumptions are recognized in the period of the change or the period of the change and future periods.

Among the above estimates and assumptions, the following are items that may have a material effect on the amounts recognized in the consolidated financial statements of the Group.

### A Impairment of Property, Plant and Equipment, Goodwill, Intangible Assets and Investment Properties

With regard to property, plant and equipment, goodwill, intangible assets and investment properties, if there is any indication that the recoverable amount declines below the carrying amounts of the assets, the Group performs an impairment test.

The important indications include significant changes with adverse effect on the results of past or projected business performance, significant changes in the use of acquired assets or in overall business strategy, and significant deteriorations in industry trends and economic trends. With regard to goodwill, the impairment test is conducted at least once a year, regardless of any indication of the impairment, in order to ensure that the recoverable amount exceeds the carrying amount.

The impairment test is performed by comparing the carrying amount and the recoverable amount of assets. If the recoverable amount declines below the carrying amount, impairment losses are recognized. The recoverable amount is mainly calculated based on the discounted cash flow model. Certain assumptions are made for the useful lives and the future cash flows of the assets, discount rates and long-term growth rates. These assumptions are based on the best estimates and judgments made by management; however, there is a possibility that these assumptions may be affected by changes in uncertain future economic conditions, which may have a material impact on the consolidated financial statements in future periods.

The method for calculating the recoverable amount is described in "13 Property Plant and Equipment" "14 Goodwill and Intangible Assets" and "16 Investment Property". With regard to goodwill, the sensitivity analysis is described in "14 Goodwill and Intangible Assets".

## **B Post-employment Benefits**

The Group has various types of retirement benefit plans, including defined benefit plans. In addition, the mutual pension benefits plan of the Company is one of the public pension systems under the jurisdiction of the government of Japan, and the Company is legally obligated to bear a part of the pension costs of the plan.

The present value of defined benefit obligations on each of these plans and the related service costs are calculated based on actuarial assumptions. These actuarial assumptions require estimates and judgments on variables, such as discount rates and inflation rate.

The Group obtains advice from external pension actuaries with respect to the appropriateness of these actuarial assumptions, including these variables.

The actuarial assumptions are determined based on the best estimates and judgments made by management, however, there is a possibility that these assumptions may be affected by changes in uncertain future economic conditions or by the publication or the amendment of related laws, which may have a material impact on the consolidated financial statements in future periods.

These actuarial assumptions and related sensitivity analysis are described in "22 Employee Benefits".

## **C Provisions**

The Group recognizes various provisions, including provisions for asset retirement obligations and restructuring, in the consolidated statement of financial position.

These provisions are recognized based on the best estimates of the expenditures required to settle the obligations, taking risks and uncertainty related to the obligations into account as of the fiscal year end date.

Expenditures required to settle the obligations are calculated by taking possible results into account comprehensively, however, they may be affected by the occurrence of unexpected events or changes in conditions, which may have a material impact on the consolidated financial statements in future periods.

The nature and amount of recognized provisions are described in "20 Provisions".

## **D Income Taxes**

The Group operates business activities around the world, and it recognizes current tax liabilities and income taxes as the estimated amounts to be paid to the tax authorities, based on the estimation in accordance with their laws and regulations.

Calculating current tax liabilities and income taxes requires estimates and judgment on various factors, including the interpretation of tax regulations by taxable entities and the tax authority in the jurisdiction or the experience of past tax audits.

Therefore, there may be differences between the amount recognized as tax liabilities and income taxes and the amount of actual tax liabilities and income taxes. These differences may have a material impact on the consolidated financial statements in future periods.

In addition, deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilized.

In recognizing the deferred tax assets, when judging the possibility of the future taxable income, we reasonably estimate the timing and amount of future taxable income based on the business plan.

The timing when taxable income arises and the amount of such income may be affected by changes in uncertain future economic conditions. Therefore, this may have a material impact on the consolidated financial statements in future periods.

The content and amount related to income taxes are described in "17 Income Taxes".

## **E Contingencies**

With regard to contingencies, any items that may have a material impact on business in the future are disclosed in light of all the available evidence as of the fiscal year end date and by taking into account the probability of these contingencies and their impact on financial reporting.

The content of contingencies is described in "40 Contingencies".

## 5 New Accounting Standards Not Yet Adopted by the Group

By the date of approval of the consolidated financial statements, new accounting standards, amended standards and new interpretations that have been issued but have not been early adopted by the Group are as follows

The implications from adoption of these standards and interpretations are assessed by the Group however we evaluate that none of them will have a material impact on our operating results and financial condition

IFRS		Mandatory adoption (From the year beginning)	To be adopted by the Group	Description of new standards and amendments
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	January 1 2016	Fiscal year ending December 2016	Clarifying accounting treatment in cases where the criteria to classify a non-current asset as held for distribution to owners are no longer met or cases where a non-current asset is reclassified from held for sale to held for distribution to owners
IFRS 7	Financial Instruments Disclosures	January 1 2016	Fiscal year ending December 2016	Clarifying the criteria on whether a servicing contract is continuing involvement in a transferred financial asset Clarifying the applicability of the offset disclosure of financial assets and financial liabilities to condensed interim financial statements
IFRS 9	Financial Instruments	January 1, 2018	Fiscal year ending December 2018	Limited changes to classification and measurement of financial assets, and introduction of an expected credit loss impairment model
IFRS 11	Joint Arrangements	January 1 2016	Fiscal year ending December 2016	Modifications of accounting for the acquisition of an interest in a joint operation in circumstances in which the activity of the joint operation constitutes a business as defined in IFRS 3
IFRS 14	Regulatory Deferral Accounts	January 1 2016	Fiscal year ending December 2016	Issuance of requirements for accounting treatment for regulatory deferral accounts for rate-regulated activities
IFRS 15	Revenue from Contracts with Customers	January 1 2018	Fiscal year ending December 2018	Amendments to accounting treatment for recognizing revenue
IFRS 16	Leases	January 1 2019	Fiscal year ending December 2019	Amendments to accounting treatment for lease arrangements
IAS 1	Presentation of Financial Statements	January 1 2016	Fiscal year ending December 2016	Clarifying disclosure requirement regarding materiality considerations
IAS 7	Statement of Cash Flows	January 1 2017	Fiscal year ending December 2017	Requiring disclosure of changes in liabilities arising from financing activities
IAS 12	Income Taxes	January 1 2017	Fiscal year ending December 2017	Clarifying the requirements for the recognition of deferred tax assets for unrealized losses
IAS 19	Employee Benefits	January 1 2016	Fiscal year ending December 2016	Clarifying the method of determining the discount rate for post employment benefit obligations
IAS 27	Separate Financial Statements	January 1 2016	Fiscal year ending December 2016	Amendments to accounting treatment for investments in subsidiaries joint ventures and associates in separate financial statements
IAS 34	Interim Financial Reporting	January 1 2016	Fiscal year ending December 2016	Clarifying disclosure requirement for information elsewhere in the interim financial report
IFRS 10 IFRS 12 IAS 28	Investment Entities	January 1 2016	Fiscal year ending December 2016	Clarifying exceptions for applying consolidation and the equity method for investment entities
IFRS 10 IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Not yet determined	Not yet determined	Amendments to accounting treatment for sale or contribution of assets between an investor and its associate or joint venture
IAS 16 IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization	January 1 2016	Fiscal year ending December 2016	Clarifying that a revenue-based method is not considered to be an acceptable method of depreciation and amortization in principle
IAS 16 IAS 41	Agriculture	January 1 2016	Fiscal year ending December 2016	Provisions of accounting treatment for bearer plants

## 6. Operating Segments

### (1) Outline of Reportable Segments

The reportable segments of the Group are determined based on the operating segments that are components of the Group for which separate financial information is available and are evaluated regularly by the Board of Directors in deciding how to allocate resources and in assessing performance.

The Group is mainly engaged in the manufacture and sale of tobacco products, prescription drugs and processed foods. With respect to tobacco products, operations are managed separately for domestic and overseas markets. The reportable segments of the Group are composed of four segments: "Domestic Tobacco Business," "International Tobacco Business," "Pharmaceutical Business," and "Processed Food Business." They are determined by types of products, characteristics, and markets.

The "Domestic Tobacco Business" manufactures and sells tobacco products in domestic areas (which include duty-free shops in Japan and markets in China, Hong Kong, and Macau where the Company's China Division operates). The "International Tobacco Business" manufactures and sells tobacco products overseas mainly through JT International S.A., which controls manufacturing

and sales operations. The "Pharmaceutical Business" consists of research and development and the manufacture and sale of prescription drugs. The "Processed Food Business" consists of the manufacture and sale of frozen and room-temperature processed foods, bakery products and seasonings.

In addition, "Beverage Business" has been classified as discontinued operations from the year ended December 31, 2015.

For discontinued operations, please refer to "38. Discontinued Operations."

### (2) Revenues and Performances of Reportable Segments

Revenues and performances of reportable segments from continuing operations are as follows. The Board of Directors assesses the segment performance and determines resource allocation after reviewing revenues and adjusted operating profit. Since financial income, financial costs and income taxes are managed by the Group head office, these income and expenses are excluded from segment performance. Transactions within the segments are based mainly on prevailing market prices.

FY2014: Nine months ended December 31, 2014

	Millions of yen							
	FY2014							
	Reportable Segments							
	Domestic Tobacco	International Tobacco (Note 2)	Pharmaceuticals	Processed Food	Total	Other (Note 3)	Elimination	Consolidated
Revenue								
External revenue (Note 4)	¥506,725	¥1,328,005	¥47,555	¥123,351	¥2,005,637	¥14,108	¥—	¥2,019,745
Intersegment revenue	12,776	39,445	—	21	52,242	4,046	(56,288)	—
Total revenue	¥519,501	¥1,367,450	¥47,555	¥123,373	¥2,057,879	¥18,154	¥(56,288)	¥2,019,745
Segment profit (loss)								
Adjusted operating profit (Note 1)	¥172,235	¥447,053	¥(6,914)	¥1,259	¥613,634	¥(25,266)	¥317	¥588,684
Other items								
Depreciation and amortization	¥33,475	¥69,940	¥3,283	¥5,135	¥111,834	¥2,383	¥(227)	¥113,989
Impairment losses on other than financial assets	4,926	16,842	—	110	21,877	—	—	21,877
Reversal of impairment losses on other than financial assets	—	33	—	—	33	—	—	33
Share of profit (loss) in investments accounted for using the equity method	114	7,671	—	(26)	7,758	54	—	7,812
Capital expenditures	27,915	74,244	2,856	3,615	108,630	3,818	—	112,448



FY2015 Year ended December 31, 2015

	Millions of yen							
	FY2015							
	Reportable Segments					Other (Note 3)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharmaceuticals	Processed Food	Total			
Revenue								
External revenue (Note 4)	¥677,331	¥1,317,178	¥75,564	¥165,843	¥2,235,916	¥ 16,968	¥ —	¥2,252,884
Intersegment revenue	20,342	46,738	—	37	67,117	9,858	(76,976)	—
Total revenue	¥697,672	¥1,363,917	¥75,564	¥165,880	¥2,303,034	¥ 26,826	¥(76,976)	¥2,252,884
Segment profit (loss)								
Adjusted operating profit (Note 1)	¥254,053	¥ 394,395	¥ (2,315)	¥ 2,728	¥ 648,860	¥(21,802)	¥ (402)	¥ 626,657
Other items								
Depreciation and amortization	¥ 43,668	¥ 76,007	¥ 4,603	¥ 6,476	¥ 130,754	¥ 2,673	¥ (303)	¥ 133,123
Impairment losses on other than financial assets	1,168	4,393	187	56	5,805	3,757	(47)	9,516
Reversal of impairment losses on other than financial assets	—	276	—	—	276	—	—	276
Share of profit (loss) in investments accounted for using the equity method	61	6,252	—	37	6,351	30	—	6,381
Capital expenditures	37,416	77,217	6,200	5,651	126,484	3,970	(703)	129,751

Reconciliation from "Adjusted operating profit" to Profit before income taxes"

FY2014 Nine months ended December 31, 2014

	Millions of yen							
	FY2014							
	Reportable Segments					Other (Note 3)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco (Note 2)	Pharmaceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	¥172,235	¥447,053	¥(6,914)	¥1,259	¥ 613,634	¥(25,266)	¥317	¥ 588,684
Amortization cost of acquired intangibles	—	(29,465)	—	—	(29,465)	—	—	(29,465)
Adjustment items (income) (Note 5)	76	4,221	—	3	4,300	40,002	—	44,302
Adjustment items (costs) (Note 5)	(56,680)	(42,351)	—	(2,215)	(101,246)	(2,395)	—	(103,641)
Operating profit (loss)	¥115,631	¥379,458	¥(6,914)	¥ (953)	¥ 487,222	¥ 12,341	¥317	¥ 499,880
Financial income								13,808
Financial costs								(11,162)
Profit before income taxes								¥ 502,526

FY2015 Year ended December 31, 2015

	Millions of yen							
	FY2015							
	Reportable Segments							
	Domestic Tobacco	International Tobacco	Pharmaceuticals	Processed Food	Total	Other (Note 3)	Elimination	Consolidated
Adjusted operating profit (Note 1)	¥254,053	¥394,395	¥(2,315)	¥2,728	¥648,860	¥(21,802)	¥(402)	¥626,657
Amortization cost of acquired intangibles	—	(31,875)	—	—	(31,875)	—	—	(31,875)
Adjustment items (income) (Note 5)	97	3,548	—	464	4,108	6,238	—	10,346
Adjustment items (costs) (Note 5)	(4,946)	(19,148)	—	(9)	(24,103)	(15,798)	—	(39,900)
Operating profit (loss)	¥249,204	¥346,921	¥(2,315)	¥3,182	¥596,992	¥(31,361)	¥(402)	¥565,229
Financial income								15,016
Financial costs								(15,132)
Profit before income taxes								¥565,113

(Note 1) For adjusted operating profit, amortization cost of acquired intangibles and adjustment items (income and costs) are excluded from operating profit (loss).

(Note 2) The foreign subsidiaries group, which includes the core company of JT International S.A. that is part of the "International Tobacco Business" segment continues to have December 31 as its fiscal year end date as before, and the profit or loss for the period from January 1, 2014 to December 31, 2014 is included in the nine months ended December 31, 2014.

(Note 3) "Other" includes business activities relating to rent of real estate and corporate expenses relating to corporate communication and operation of the head office.

(Note 4) Core revenue as part of the Domestic Tobacco Business and the International Tobacco Business is as follows.

	Millions of yen	
	FY2014 (Nine months ended December 31, 2014)	FY2015 (Year ended December 31, 2015)
Domestic Tobacco	¥ 478,692	¥ 642,240
International Tobacco	1,258,176	1,252,496

(Note 5) "Adjustment items (income)" include restructuring income of gains on sale of real estate.

"Adjustment items (costs)" include restructuring costs of the closing down of a factory.

The breakdown of restructuring income is described in "26. Other Operating Income." Restructuring costs included in "Cost of sales" were ¥70 million and ¥57 million for the nine months ended December 31, 2014 and for the year ended December 31, 2015, respectively. Restructuring costs included in "Selling, general and administrative expenses" were ¥100,335 million and ¥39,843 million for the nine months ended December 31, 2014 and for the year ended December 31, 2015, respectively. The breakdown of restructuring costs in "Selling, general and administrative expenses" is described in "27. Selling, General and Administrative Expenses."

The breakdown of Adjustment items (costs) is as follows.

	Millions of yen	
	FY2014 (Nine months ended December 31, 2014)	FY2015 (Year ended December 31, 2015)
Restructuring costs	¥100,405	¥39,900
Other	3,236	—
Adjustment items (costs)	¥103,641	¥39,900

Restructuring costs for the nine months ended December 31, 2014 mainly relate to costs of measures to strengthen the competitiveness of "Domestic Tobacco Business" and restructuring of manufacturing facilities in Europe in the "International Tobacco Business." Restructuring costs for the year ended December 31, 2015 mainly relate to rationalization of distribution system and factory platform in some markets in the "International Tobacco Business" and disposal of real estate.

### (3) Geographic Information

The regional breakdown of non-current assets and external revenue from continuing operations as of each fiscal year end is as follows.

#### Non-current Assets

	Millions of yen	
	FY2014 (As of December 31, 2014)	FY2015 (As of December 31, 2015)
Japan	¥ 522,920	¥ 461,265
Overseas	2,155,365	2,005,979
Consolidated	¥2,678,285	¥2,467,244

(Note) Non-current assets, exclusive of financial instruments, deferred tax assets and retirement benefits assets, are segmented by the location of the assets.

## External Revenue from Continuing Operations

	Millions of yen	
	FY2014 (Nine months ended December 31, 2014)	FY2015 (Year ended December 31, 2015)
Japan	¥ 667,527	¥ 894,710
Overseas	1,352,218	1,358,174
Consolidated	¥2,019,745	¥2,252,884

(Note) Revenue is segmented by the sales destination

## (4) Major Customers Information

The "International Tobacco Business" of the Group sells products to the Megapolis Group that engages in distribution and wholesale business in Russia and other countries. The external revenues from the Megapolis Group were ¥335,446 million (16.6% of consolidated revenue) for the nine months ended December 31, 2014 and ¥293,541 million (13.0% of consolidated revenue) for the year ended December 31, 2015.

## 7 Cash and Cash Equivalents

The breakdown of "Cash and cash equivalents" as of each fiscal year end is as follows

	Millions of yen	
	FY2014 (As of December 31, 2014)	FY2015 (As of December 31, 2015)
Cash and deposits	¥297,000	¥399,265
Short-term investments	88,820	127,499
Total	¥385,820	¥526,765

Cash and cash equivalents are classified as financial assets measured at amortized cost

## 8. Trade and Other Receivables

The breakdown of "Trade and other receivables" as of each fiscal year end is as follows

	Millions of yen	
	FY2014 (As of December 31, 2014)	FY2015 (As of December 31, 2015)
Note and account receivables	¥435,824	¥392,882
Other	14,487	15,316
Allowance for doubtful accounts	(1,910)	(1,812)
Total	¥448,402	¥406,387

Trade and other receivables are presented net of allowance for doubtful accounts in the consolidated statement of financial position

Trade and other receivables are classified as financial assets measured at amortized cost

## 9. Inventories

The breakdown of Inventories as of each fiscal year end is as follows

	Millions of yen	
	FY2014 (As of December 31, 2014)	FY2015 (As of December 31, 2015)
Merchandise and finished goods <sup>(Note 1)</sup>	¥163,436	¥162,208
Leaf tobacco <sup>(Note 2)</sup>	367,991	344,623
Other	56,422	56,989
<b>Total</b>	<b>¥587,849</b>	<b>¥563,820</b>

(Note 1) For imported tobacco products (merchandise) that are sold by TS Network Co., Ltd., a subsidiary of the Company, commissions solely from wholesale are included in revenue. The amount of imported tobacco products (merchandise) that the company holds at the end of each fiscal year is included in inventories and presented as "Merchandise and finished goods."

(Note 2) Leaf tobacco includes those products that will be used after 12 months from the end of each fiscal year, but they are included in inventories since they are held within the normal operating cycle.

## 10 Other Financial Assets

(1) The breakdown of Other financial assets as of each fiscal year end is as follows

	Millions of yen	
	FY2014 (As of December 31, 2014)	FY2015 (As of December 31, 2015)
Derivative assets	¥ 31,837	¥ 7,106
Equity securities	59,355	72,795
Debt securities	8,787	6,600
Time deposits	1,044	994
Other	43,530	39,614
Allowance for doubtful accounts	(8,685)	(7,533)
<b>Total</b>	<b>¥135,866</b>	<b>¥119,576</b>
Current assets	¥ 43,907	¥ 17,849
Non-current assets	91,959	101,727
<b>Total</b>	<b>¥135,866</b>	<b>¥119,576</b>

Other financial assets are presented net of allowance for doubtful accounts in the consolidated statement of financial position.

Derivative assets are classified as financial assets measured at fair value through profit or loss, excluding those hedge accounting is applied to. Equity securities are classified as financial assets measured at fair value through other comprehensive income, and time deposits and debt securities are classified as financial assets measured at amortized cost.

(2) Names of major securities held as financial assets measured at fair value through other comprehensive income and their fair values as of each fiscal year end are as follows

	Millions of yen	
Company name	FY2014 (As of December 31, 2014)	FY2015 (As of December 31, 2015)
KT&G Corporation	¥23,939	¥30,926
Seven & I Holdings Co., Ltd.	3,728	4,747
Mizuho Financial Group, Inc.	2,590	3,114
Mitsubishi UFJ Financial Group, Inc.	2,394	2,668
DOUTOR-NICHIREI Holdings Co., Ltd.	2,314	2,496
Japan Airport Terminal Co., Ltd.	1,914	2,168

Equity securities are held mainly for strengthening relationships with investees. Therefore, they are designated as financial assets measured at fair value through other comprehensive income.

In order to pursue the efficiency of assets held and to use them effectively, sales of financial assets measured at fair value through other comprehensive income have been carried out (derecognition).

The fair value at the time of sale and cumulative gain or loss that is recognized in equity through other comprehensive income for each fiscal year is as follows.

	Millions of yen	
	FY2014 (Nine months ended December 31, 2014)	FY2015 (Year ended December 31, 2015)
Fair Value	¥227	¥ 800
Cumulative gain or loss recognized in equity as other comprehensive income <sup>(Note)</sup>	23	(232)

(Note) The figure represents the amount transferred to retained earnings.

The cumulative gain or loss recognized in equity as other comprehensive income is transferred to retained earnings when an equity instrument is sold or the decline in its fair value compared to its acquisition cost is significant.

## 11. Other Current Assets

The breakdown of "Other current assets" as of each fiscal year end is as follows.

	Millions of yen	
	FY2014 (As of December 31, 2014)	FY2015 (As of December 31, 2015)
Prepaid tobacco excise taxes	¥180,160	¥219,942
Prepaid expenses	16,914	14,144
Consumption tax receivables	12,818	17,125
Other	20,637	29,282
Total	¥230,530	¥280,493

## 12. Non-current Assets Held-for-Sale

The breakdown of "Non-current assets held-for-sale" as of each fiscal year end is as follows.

### Breakdown of Major Assets

	Millions of yen	
	FY2014 (As of December 31, 2014)	FY2015 (As of December 31, 2015)
Non-current assets held-for-sale		
Property, plant and equipment	¥115	¥ 105
Investment property	252	2,799
Total	¥367	¥2,904

"Non-current assets held-for-sale" are mainly rental properties and idle properties which are currently actively marketed for sale.

With regard to such assets and assets sold, impairment losses from continuing operations of ¥46 million and ¥47 million are recognized in "Selling, general and administrative expenses" in

the consolidated statement of income for the nine months ended December 31, 2014 and for the year ended December 31, 2015 respectively.

## 13 Property, Plant and Equipment

### (1) Schedule of Property, Plant and Equipment

The schedules of the carrying amount, acquisition cost, and accumulated depreciation and accumulated impairment losses of Property, plant and equipment are as follows.

	Millions of yen				
Carrying Amount	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of April 1, 2014	¥331,308	¥311,929	¥68,710	¥68,041	¥779,987
Individual acquisition	15,646	33,818	16,944	42,215	108,623
Capitalization of borrowing costs <sup>(Note)</sup>	—	—	—	141	141
Acquisition through business combinations	4	1	10	—	15
Transfer to investment property	(2,627)	(1)	(5)	—	(2,633)
Depreciation	(13,545)	(48,444)	(18,086)	—	(80,075)
Impairment losses	(7,552)	(10,663)	(177)	(653)	(19,045)
Reversal of impairment losses	—	33	—	—	33
Sale or disposal	(655)	(7,867)	(461)	(444)	(9,427)
Exchange differences on translation of foreign operations	(3,070)	(11,808)	(1,086)	(4,480)	(20,443)
Other	6,385	25,406	774	(33,614)	(1,050)
As of December 31, 2014	325,895	292,404	66,622	71,206	756,127
Individual acquisition	27,483	29,903	20,601	42,433	120,420
Acquisition through business combinations	560	3,538	69	1	4,168
Transfer to investment property	(19,439)	(90)	(192)	—	(19,721)
Transfer to non-current assets held-for-sale	(193)	(415)	(0)	—	(608)
Depreciation	(16,380)	(54,478)	(19,237)	—	(90,094)
Impairment losses	(1,988)	(2,826)	(3,133)	(56)	(8,003)
Reversal of impairment losses	—	229	1	46	276
Sale or disposal	(2,025)	(4,103)	(3,836)	(189)	(10,154)
Decrease resulting from transfer of subsidiaries	(5,617)	(4,732)	(14,059)	—	(24,407)
Exchange differences on translation of foreign operations	(14,886)	(23,311)	(2,475)	(3,964)	(44,635)
Other	46,130	13,041	1,994	(62,667)	(1,503)
<b>As of December 31, 2015</b>	<b>¥339,542</b>	<b>¥249,160</b>	<b>¥46,355</b>	<b>¥46,808</b>	<b>¥681,865</b>

(Note) The capitalization rates calculating the borrowing costs for capitalization were 4.6% for the nine months ended December 31, 2014.  
There are no capitalized borrowing costs for the year ended December 31, 2015.

	Millions of yen				
Acquisition Cost	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of April 1, 2014	¥654,008	¥811,079	¥187,959	¥68,041	¥1,721,087
As of December 31, 2014	661,172	804,276	188,732	71,206	1,725,386
<b>As of December 31, 2015</b>	<b>633,789</b>	<b>706,561</b>	<b>144,618</b>	<b>46,808</b>	<b>1,531,776</b>

	Millions of yen				
Accumulated Depreciation and Accumulated Impairment Losses	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of April 1, 2014	¥322,700	¥499,150	¥119,250	¥—	¥941,099
As of December 31, 2014	335,277	511,872	122,110	—	969,259
<b>As of December 31, 2015</b>	<b>294,247</b>	<b>457,401</b>	<b>98,263</b>	<b>—</b>	<b>849,910</b>

The carrying amount of property plant and equipment as of each fiscal year end includes the carrying amount of the following leased assets

	Millions of yen			
	Land buildings and structures	Machinery and vehicles	Tools furniture and fixtures	Total
As of April 1, 2014	¥1,335	¥5,015	¥6,763	¥13,113
As of December 31, 2014	6,910	5,250	6,766	18,926
<b>As of December 31, 2015</b>	<b>6,801</b>	<b>1,853</b>	<b>9</b>	<b>8,662</b>

## (2) Impairment Losses

The grouping of property plant and equipment for impairment test is the smallest cash-generating unit that independently generates cash inflow.

The Group recognized impairment losses from continuing operations of ¥19,045 million for the nine months ended December 31, 2014, and ¥5,185 million for the year ended December 31, 2015 in Selling, general and administrative expenses in the consolidated statement of income.

Impairment losses recognized in the nine months ended December 31, 2014 represent the losses incurred to reduce the

carrying amounts to the recoverable amounts of the buildings, structures, machinery and vehicles due to decision of closing down of a factory.

The recoverable amounts of these assets are calculated mainly by their values in use, which are set at "zero."

Impairment losses recognized in the year ended December 31, 2015 represent the losses incurred to reduce the carrying amounts to the recoverable amounts of the buildings, structures, machinery and vehicles due to decision of closing down of a factory.

The recoverable amounts of these assets are calculated mainly by their values in use, which are set at "zero."

## 14 Goodwill and Intangible Assets

### (1) Schedule of Goodwill and Intangible Assets

The schedules of carrying amount, acquisition cost, and accumulated amortization and accumulated impairment losses of "Goodwill" and "Intangible assets" are as follows.

	Millions of yen				
Carrying Amount	Goodwill	Trademarks	Software	Other	Total
As of April 1, 2014	¥1,584,432	¥321,234	¥34,366	¥29,501	¥1,969,532
Individual acquisition	49	256	5,176	6,354	11,836
Acquisition through business combinations	29,615	376	4	—	29,995
Amortization <sup>(Note)</sup>	—	(27,326)	(9,457)	(4,299)	(41,082)
Impairment losses	—	(2,672)	(6)	—	(2,678)
Sale or disposal	—	—	(87)	(148)	(234)
Exchange differences on translation of foreign operations	(74,720)	10,085	977	376	(63,281)
Other	—	7	4,882	(4,688)	201
As of December 31, 2014	1,539,376	301,960	35,856	27,096	1,904,288
Individual acquisition	—	794	7,232	7,024	15,051
Acquisition through business combinations	65,252	14,967	8	8,740	88,967
Amortization <sup>(Note)</sup>	—	(30,216)	(12,852)	(5,040)	(48,107)
Impairment losses	—	—	(268)	(362)	(631)
Sale or disposal	—	(0)	(316)	(140)	(456)
Decrease resulting from transfer of subsidiaries	(882)	(0)	(193)	(3,022)	(4,097)
Exchange differences on translation of foreign operations	(174,516)	(20,182)	(172)	(206)	(195,076)
Other	57	1,505	4,124	(3,858)	1,827
<b>As of December 31, 2015</b>	<b>¥1,429,287</b>	<b>¥268,828</b>	<b>¥33,418</b>	<b>¥30,232</b>	<b>¥1,761,765</b>

(Note) The amortization of intangible assets is included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of income. The amortization of intangible assets from discontinued operations is included in "Profit (loss) for the period from discontinued operations."

Acquisition Cost	Millions of yen				
	Goodwill	Trademarks	Software	Other	Total
As of April 1, 2014	¥1,584,432	¥824,669	¥123,940	¥92,853	¥2,625,893
As of December 31, 2014	1,539,376	845,499	132,309	92,280	2,609,465
<b>As of December 31, 2015</b>	<b>1,429,287</b>	<b>818,982</b>	<b>135,951</b>	<b>92,062</b>	<b>2,476,282</b>

Accumulated Amortization and Accumulated Impairment Losses	Millions of yen				
	Goodwill	Trademarks	Software	Other	Total
As of April 1, 2014	¥ —	¥503,435	¥ 89,574	¥63,352	¥656,361
As of December 31, 2014	—	543,539	96,453	65,184	705,177
<b>As of December 31, 2015</b>	<b>—</b>	<b>550,154</b>	<b>102,533</b>	<b>61,830</b>	<b>714,517</b>

## (2) Material Goodwill and Intangible Assets

Goodwill and intangible assets recognized in the consolidated statement of financial position are mainly composed of goodwill and trademarks in the JTIH Group. The carrying amounts of goodwill as of December 31, 2014 and December 31, 2015 were ¥1,496,799 million and ¥1,387,593 million, respectively. The carrying amounts of trademarks as of December 31, 2014 and December 31, 2015 were ¥299,502 million and ¥266,521 million, respectively.

The majority of the goodwill and trademarks was recognized as a result of acquisitions of RJR Nabisco's non-U.S. tobacco operations in 1999 and Gallaher in 2007.

The trademarks are amortized using the straight-line method and the remaining amortization period is mainly 11 years.

## (3) Impairment Test for Goodwill

For the year ended December 31, 2015, the carrying amount of the majority of goodwill is allocated to the international tobacco cash-generating unit of ¥1,387,593 million (¥1,496,799 million for the nine months ended December 31, 2014) and the processed food cash-generating unit of ¥25,368 million (¥25,368 million for the nine months ended December 31, 2014). Details of the result of impairment tests are as follows.

### A International Tobacco Cash-generating Unit

The recoverable amount is calculated by the value in use based on the three-year business plan that was prepared by reflecting past experiences and external information and that was approved by management. After the three-year business plan, the Group sets a growth rate from 3.2% in the fourth year (FY2014: 5.1%) to 3.8% in the ninth year (FY2014: 3.9%), and the same growth rate as the ninth year from the tenth year as a continued growth rate for inflation.

The discount rate before taxes is 11.7% (FY2014: 11.1%). The value in use sufficiently exceeds the carrying amount of the cash-generating unit. Therefore, even in cases where the discount rate

and growth rate used in calculating the value in use fluctuate within reasonable ranges, the Group assumes that the value in use will not become less than the carrying amount.

### B Processed Food Cash-generating Unit

The recoverable amount is calculated by the value in use based on the three-year business plan that was prepared by reflecting past experiences and external information and that was approved by management. After the three-year business plan, the Group sets a growth rate from 2.8% in the fourth year (FY2014: 2.8%) to 1.1% in the ninth year (FY2014: 2.1%) and the same growth rate as the ninth year issued from the tenth year as a continued growth rate for inflation. The discount rate before taxes is 4.1% (FY2014: 3.9%). The value in use sufficiently exceeds the carrying amount of the cash-generating unit. Therefore, even in cases where the discount rate and growth rate used in calculating the value in use fluctuate within reasonable ranges, the Group assumes that the value in use will not become less than the carrying amount.

## (4) Impairment Losses

Goodwill is allocated to cash-generating units that are identified according to locations and types of businesses. The grouping of intangible assets for impairment test is the smallest cash-generating unit that independently generates cash inflow.

The Group recognized impairment losses from continuing operations of ¥2,678 million for the nine months ended December 31, 2014 and ¥311 million for the year ended December 31, 2015 in 'Selling, general and administrative expenses' in the consolidated statement of income.

Impairment losses recognized in the nine months ended December 31, 2014 represent the losses incurred to reduce the carrying amounts to the recoverable amounts of trademarks and software as the recoverable amounts were lower than the carrying amounts.

The recoverable amounts of these assets are calculated mainly by their values in use.



## 15 Lease Transactions

The Group leases factory sites, vehicles and other assets as a lessee. Some of the lease contracts have renewal options or escalation clauses. There are no restrictions on additional debt and further leasing imposed by the lease arrangements.

### (1) Present Value of Finance Lease Obligations

The total of future minimum lease payments for leased assets recognized based on the finance lease contracts, their present value and future financial costs as of each fiscal year end are as follows.

	Millions of yen	
	FY2014 (As of December 31, 2014)	FY2015 (As of December 31, 2015)
Not later than 1 year		
Total of future minimum lease payments	¥ 4,675	¥ 702
Future financial costs	357	149
Present value	4,318	553
Later than 1 year and not later than five years		
Total of future minimum lease payments	10,071	2,201
Future financial costs	1,168	1,062
Present value	8,902	1,140
Later than 5 years		
Total of future minimum lease payments	10,447	10,066
Future financial costs	4,015	3,385
Present value	6,432	6,680
Total		
Total of future minimum lease payments	25,192	12,969
Future financial costs	5,540	4,596
Present value	19,652	8,373

### (2) Future Minimum Lease Payments under Non-cancellable Operating Leases

The total of future minimum lease payments under non-cancellable operating leases as of each fiscal year end is as follows.

	Millions of yen	
	FY2014 (As of December 31, 2014)	FY2015 (As of December 31, 2015)
Not later than 1 year	¥ 8,250	¥ 6,446
Later than 1 year and not later than 5 years	9,957	8,968
Later than 5 years	7,996	7,419
Total	¥26,203	¥22,833

### (3) Total of Minimum Lease Payments and Contingent Rents

The total of minimum lease payments and contingent rents of operating lease contracts recognized as an expense from continuing operations for each fiscal year is as follows.

	Millions of yen	
	FY2014 (Nine months ended December 31, 2014)	FY2015 (Year ended December 31, 2015)
Total of minimum lease payments	¥11,625	¥11,621
Contingent rents	773	1,057

## 16 Investment Property

### (1) Schedule of Investment Property

The schedule of the carrying amount of "Investment property" for each fiscal year is as follows

	Millions of yen	
	FY2014 (Nine months ended December 31, 2014)	FY2015 (Year ended December 31, 2015)
Balance at the beginning of the period	¥ 61,421	¥17,870
Expenditure after acquisition	77	556
Transfer from property, plant and equipment	2,633	19,721
Transfer to non-current assets held-for-sale	(44,381)	(3,560)
Transfer to property, plant and equipment	—	(731)
Depreciation	(1,014)	(856)
Impairment losses	(108)	(3,973)
Sale or disposal	(760)	(5,399)
Decrease resulting from transfer of subsidiaries	—	(6)
Exchange differences on translation of foreign operations	0	(8)
Other	2	—
Balance at the end of the period	¥ 17,870	¥23,614
Acquisition cost at the beginning of the period	¥108,831	¥46,084
Accumulated depreciation and accumulated impairment losses at the beginning of the period	47,410	28,214
Acquisition cost at the end of the period	46,084	69,106
Accumulated depreciation and accumulated impairment losses at the end of the period	28,214	45,493

### (2) Fair Value

The fair value of investment property is determined based on a valuation conducted by an external real estate appraiser. The valuation is made in accordance with the appraisal standards of the country where the investment property is located and based on market evidence of transaction prices for similar assets.

The fair value hierarchy of investment property is categorized from Level 1 to Level 3 as follows:

Level 1: Fair value measured at the quoted price in the active market.

Level 2: Fair value that is calculated using the observable price other than categorized in Level 1 directly or indirectly.

Level 3: Fair value that is calculated based on valuation techniques which include inputs that are not based on observable market data.

The fair value of investment property based on the fair value hierarchy as of each fiscal year end is as follows:

	Millions of yen			
	FY2014 (As of December 31, 2014)			
	Level 1	Level 2	Level 3	Total
Investment property	¥ —	¥44,687	¥1,986	¥46,674

	Millions of yen			
	FY2015 (As of December 31, 2015)			
	Level 1	Level 2	Level 3	Total
Investment property	¥ —	¥64,829	¥3,526	¥68,355

The carrying amount of investment property as of each fiscal year end is as follows:

	Millions of yen	
	FY2014 (As of December 31, 2014)	FY2015 (As of December 31, 2015)
Investment property	¥17,870	¥23,614

### (3) Income and Expenses from Investment Property

The rental income from investment property and direct operating expenses from continuing operations for each fiscal year are as follows

	Millions of yen	
	FY2014 (Nine months ended December 31, 2014)	FY2015 (Year ended December 31, 2015)
Rental income	¥3,796	¥2,740
Direct operating expenses	2,629	2,834

### (4) Impairment Losses

The grouping of investment properties for impairment test is based on the smallest cash-generating unit that independently generates cash inflow. Impairment test for idle properties is carried out individually.

The Group recognized impairment losses from continuing operations of ¥108 million for the nine months ended December 31, 2014, and ¥3,973 million for the year ended December 31, 2015 in "Selling, general and administrative expenses" in the consolidated statement of income.

Impairment losses recognized for the nine months ended December 31, 2014 represent the difference between the recoverable amount and the carrying amount of land and buildings as idle

properties were individually selected for demolition. The recoverable amount is calculated based on value in use basis, which is zero for buildings due to the decision of demolition, and the recoverable amount of other properties is calculated by the fair value less costs of disposal.

Impairment losses recognized for the year ended December 31, 2015 represent the difference between the recoverable amount and the carrying amount of land and buildings as idle properties were individually selected for demolition.

The recoverable amount is calculated based on value in use basis, which is zero for buildings due to the decision of demolition, and the recoverable amount of other properties is calculated by the fair value less costs of disposal.

## 17. Income Taxes

### (1) Deferred Tax Assets and Deferred Tax Liabilities

The breakdown and schedule of "Deferred tax assets" and "Deferred tax liabilities" by major causes of their occurrence for each fiscal year are as follows:

FY2014 Nine months ended December 31, 2014

	Millions of yen				
	As of April 1, 2014	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of December 31, 2014
<b>Deferred Tax Assets</b>					
Fixed assets (Note 2)	¥ 42,763	¥ 2,051	¥ —	¥ 414	¥ 45,228
Retirement benefits	94,101	22,786	6,550	893	124,330
Carryforward of unused tax losses	59,369	3,401	—	280	63,050
Other	86,186	(10,195)	6,628	3,064	85,684
Subtotal	282,420	18,043	13,178	4,651	318,292
Valuation allowance	(64,911)	(144)	11	(1,433)	(66,478)
<b>Total</b>	<b>¥217,508</b>	<b>¥ 17,898</b>	<b>¥13,189</b>	<b>¥ 3,218</b>	<b>¥251,814</b>

	Millions of yen				
	As of April 1, 2014	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of December 31, 2014
<b>Deferred Tax Liabilities</b>					
Fixed assets (Note 2)	¥(131,013)	¥ 15,715	¥ —	¥(455)	¥(115,753)
Retirement benefits	(3,403)	(2,043)	(1,968)	80	(7,334)
Other	(90,916)	(10,636)	(5,753)	583	(106,722)
<b>Total</b>	<b>¥(225,332)</b>	<b>¥ 3,035</b>	<b>¥(7,721)</b>	<b>¥ 209</b>	<b>¥(229,809)</b>

FY2015 Year ended December 31, 2015

	Millions of yen				
	As of January 1, 2015	Recognized in profit or loss	Recognized in other compre hensive income	Other (Note 1)	As of December 31, 2015
<b>Deferred Tax Assets</b>					
Fixed assets (Note 2)	¥ 45,228	¥ (4,868)	¥ —	¥ 32	¥ 40,392
Retirement benefits	124,330	(25,886)	(3,495)	(3,080)	91,870
Carryforward of unused tax losses	63,050	1,479	—	(6,946)	57,582
Other	85,684	(1,513)	(4,860)	(2,472)	76,839
Subtotal	318,292	(30,788)	(8,355)	(12,466)	266,683
Valuation allowance	(66,478)	(4,403)	(611)	5,704	(65,788)
<b>Total</b>	<b>¥251,814</b>	<b>¥(35,191)</b>	<b>¥(8,966)</b>	<b>¥ (6,762)</b>	<b>¥200,895</b>

	Millions of yen				
	As of January 1, 2015	Recognized in profit or loss	Recognized in other compre hensive income	Other (Note 1)	As of December 31, 2015
<b>Deferred Tax Liabilities</b>					
Fixed assets (Note 2)	¥(115,753)	¥24,602	¥ —	¥3,236	¥ (87,915)
Retirement benefits	(7,334)	(476)	(502)	615	(7,696)
Other	(106,722)	(913)	2,147	4,794	(100,693)
<b>Total</b>	<b>¥(229,809)</b>	<b>¥23,214</b>	<b>¥1,646</b>	<b>¥8,645</b>	<b>¥(196,305)</b>

(Note 1) "Other" includes exchange differences on translation of foreign operations

(Note 2) "Fixed assets" include property, plant and equipment, goodwill, intangible assets and investment property

The deferred tax assets are recognized by taking taxable temporary differences, future taxable profits plan and tax planning into account. The carryforward of unused tax losses, for which the deferred tax assets are not recognized, was ¥50,549 million (including ¥23,962 million, for which the carryforward expires after five years) as of December 31, 2014, and ¥47,738 million (including ¥14,609 million, for which the carryforward expires after five years)

as of December 31, 2015. Tax credits, for which the deferred tax assets are not recognized, were ¥606 million (including ¥192 million, for which the carryforward expires after five years) as of December 31, 2014, and ¥3,953 million (including ¥3,669 million, for which the carryforward expires after five years) as of December 31, 2015.

## (2) Income Taxes

The breakdown of "Income taxes" from continuing operations for each fiscal year is as follows:

	Millions of yen	
	FY2014 (Nine months ended December 31, 2014)	FY2015 (Year ended December 31, 2015)
Current income taxes	¥154,750	¥150,774
Deferred income taxes	(21,939)	11,612
<b>Total income taxes</b>	<b>¥132,811</b>	<b>¥162,386</b>

Deferred income taxes increased by ¥61 million and decreased by ¥1,358 million for the nine months ended December 31, 2014, and for the year ended December 31, 2015, respectively, due to the effect of changes in tax rates in Japan and other countries.

### (3) Reconciliation of the Effective Tax Rate

The breakdown of major items that caused differences between the effective statutory tax rate and the average actual tax rate in continuing operations for each fiscal year is as follows

The Company is subject mainly to corporate tax, inhabitant tax, and enterprise tax, and the effective statutory tax rate calculated based on these taxes was 35.41%. Foreign subsidiaries are subject to income taxes at their locations.

	FY2014 (Nine months ended December 31, 2014)	FY2015 (Year ended December 31, 2015)
		%
Effective statutory tax rate	35.41	35.41
Different tax rates applied to foreign subsidiaries	(13.27)	(10.20)
Non-deductible expenses	1.89	0.53
Undistributed earnings of subsidiaries	2.00	0.63
Valuation allowance	0.25	1.74
Other	0.15	0.64
Average actual tax rate	26.43	28.74

## 18 Trade and Other Payables

The breakdown of "Trade and other payables" as of each fiscal year end is as follows

	FY2014 (As of December 31, 2014)	FY2015 (As of December 31, 2015)
		Millions of yen
Accounts payable	¥188,674	¥178,709
Other payables	147,918	104,193
Other	83,173	90,130
Total	¥419,764	¥373,032

Trade and other payables are classified as financial liabilities measured at amortized cost.

## 19 Bonds and Borrowings (including Other Financial Liabilities)

### (1) Breakdown of Financial Liabilities

The breakdown of "Bonds and borrowings" and "Other financial liabilities" as of each fiscal year end is as follows

	FY2014 (As of December 31, 2014)	FY2015 (As of December 31, 2015)	Average interest rate (Note 1)	% Due
		Millions of yen		
Derivative liabilities	¥ 10,010	¥ 5,595	—	—
Short-term borrowings	27,632	30,832	4.47	—
Current portion of long-term borrowings	39,930	148	2.90	—
Current portion of bonds (Note 2)	40,000	—	—	—
Long-term borrowings	1,046	866	3.90	2017–2028
Bonds (Note 2)	99,954	215,072	—	—
Other	23,070	11,007	—	—
Total	¥241,642	¥263,520		
Current liabilities	¥122,024	¥ 37,439		
Non-current liabilities	119,618	226,080		
Total	¥241,642	¥263,520		

(Note 1) The average interest rate is calculated using the interest rate and outstanding balance as of December 31, 2015.

(Note 2) The summary of the issuing conditions of the bonds is as follows

Company	Name of bond	Date of issuance	Millions of yen		Interest rate	Collateral	Date of maturity
			FY2014 (As of December 31, 2014)	FY2015 (As of December 31, 2015)			
Japan Tobacco Inc.	6th domestic straight bond	December 9, 2010	¥40,000 (40,000)	¥ —	0.53	Yes	December 9, 2015
Japan Tobacco Inc.	7th domestic straight bond	December 9, 2010	20,000	20,000	0.84	Yes	December 8, 2017
Japan Tobacco Inc.	8th domestic straight bond	December 9, 2010	20,000	20,000	1.30	Yes	December 9, 2020
Japan Tobacco Inc.	9th domestic straight bond	July 15, 2015	—	60,000	0.22	Yes	July 15, 2020
Japan Tobacco Inc.	10th domestic straight bond	July 15, 2015	—	30,000	0.36	Yes	July 15, 2022
Japan Tobacco Inc.	11th domestic straight bond	July 15, 2015	—	25,000	0.60	Yes	July 15, 2025
Japan Tobacco Inc.	Straight bond in USD	July 23, 2013	59,954 [USD 500 mil]	60,072 [USD 500 mil]	2.10	Yes	July 23, 2018
Total			¥139,954 (40,000)	¥215,072 (—)			

(Note 1) The figure in parentheses ( ) represents the amount of the current portion of the bond

(Note 2) The figure in parentheses [ ] represents the amount of foreign currency denominated bond

Derivative liabilities are classified as financial liabilities measured at fair value through profit or loss excluding those to which hedge accounting is applied, and bonds and borrowings are classified as financial liabilities measured at amortized cost.

There are no financial covenants that have a significant impact on the Group on bonds and borrowings.

## (2) Assets Pledged as Collateral for Liabilities

A Pursuant to the provisions of Article 6 of Japan Tobacco Inc. Act, the Company's properties are pledged as general collateral for bonds issued by the Company. Bondholders are entitled to claim satisfaction in preference to unsecured creditors of the Company properties (with the exception of national and local taxes and certain other statutory obligations).

B Assets pledged as collateral by some subsidiaries are ¥125 million and ¥70 million as of December 31, 2014 and as of December 31, 2015, respectively. Their corresponding debts are ¥125 million and ¥82 million as of December 31, 2014 and as of December 31, 2015, respectively.

## 20 Provisions

The breakdown and schedule of 'Provisions' for each fiscal year are as follows

FY2014 Nine months ended December 31, 2014

	Millions of yen				
	Asset retirement provisions	Restructuring provisions	Provisions for sales rebates	Other provisions	Total
As of April 1, 2014	¥1,695	¥ 2,055	¥ 4,288	¥4,566	¥ 12,603
Provisions	1,110	31,154	3,994	969	37,227
Interest cost associated with passage of time	28	—	—	—	28
Provisions used	(91)	(10,902)	(4,148)	(247)	(15,388)
Provisions reversed	—	(462)	(140)	(800)	(1,402)
Exchange differences on translation of foreign operations	—	1,110	—	447	1,557
As of December 31, 2014	¥2,742	¥ 22,954	¥ 3,994	¥4,935	¥ 34,624
Current liabilities	¥ —	¥ 3,950	¥ 3,994	¥1,256	¥ 9,200
Non-current liabilities	2,742	19,004	—	3,679	25,425
Total	¥2,742	¥ 22,954	¥ 3,994	¥4,935	¥ 34,624

FY2015 Year ended December 31, 2015

	Millions of yen				
	Asset retirement provisions	Restructuring provisions	Provisions for sales rebates	Other provisions	Total
As of January 1, 2015	¥2,742	¥ 22,954	¥ 3,994	¥ 4,935	¥ 34,624
Provisions	498	15,039	3,323	742	19,603
Interest cost associated with passage of time	36	—	—	—	36
Provisions used	(100)	(13,416)	(3,941)	(1,149)	(18,606)
Provisions reversed	(447)	(1,161)	(53)	(3,299)	(4,960)
Exchange differences on translation of foreign operations	—	(2,150)	—	(40)	(2,190)
As of December 31, 2015	¥2,728	¥ 21,267	¥ 3,323	¥ 1,189	¥ 28,507
Current liabilities	¥ —	¥ 15,058	¥ 3,323	¥ 915	¥ 19,297
Non-current liabilities	2,728	6,209	—	273	9,210
Total	¥2,728	¥ 21,267	¥ 3,323	¥ 1,189	¥ 28,507

### A Asset Retirement Provisions

In order to settle the obligation of restoring and of removing hazardous substances from plant facilities and premises that the Group uses, the probable amount to be paid in the future is recognized based on past performances. These expenses are expected to be paid after one year or more, however they may be affected by future business plans.

### B Restructuring Provisions

These provisions are mainly related to business integration and measures for the rationalization of international tobacco business.

The timing of the payment may be affected by future business plans.

### C Provisions for Sales Rebates

These provisions are for contracts which reward the customers with discounts when the sales volume or sales amount in a given period exceeds specified volume or amount. They are expected to be paid within one year.

## 21 Other Liabilities

The breakdown of "Other current liabilities" and "Other non-current liabilities" as of each fiscal year end is as follows

	Millions of yen	
	FY2014 (As of December 31, 2014)	FY2015 (As of December 31, 2015)
Tobacco excise tax payables	¥325,171	¥334,557
Tobacco special excise tax payables	14,758	14,548
Tobacco local excise tax payables	186,197	183,492
Consumption tax payables	138,810	103,933
Bonus to employees	45,982	34,014
Employee's unused paid vacations liabilities	21,173	18,827
Other	143,869	154,348
<b>Total</b>	<b>¥875,960</b>	<b>¥843,719</b>
Current liabilities	¥754,169	¥729,761
Non-current liabilities	121,792	113,958
<b>Total</b>	<b>¥875,960</b>	<b>¥843,719</b>

## 22. Employee Benefits

### (1) Post-employment Benefits

The Group sponsors funded or unfunded defined benefit plans and defined contribution plans as employee retirement benefit plans. The benefits of defined benefit plans are predetermined based on conditions such as points employees have gained in compensation for each year of service, the payment rate, years of service, and average salaries in their final years of service before retirement.

The Company is obligated to bear pension costs for a mutual assistance association incurred with respect to services in or before June 1956 (prior to enforcement of the Act on the Mutual Aid Association of Public Corporation Employees). Such obligations are recognized as liabilities at their present value using the actuarial valuation method and are included in retirement benefit liabilities.

Special termination benefits may be provided to employees on their early retirements under certain circumstances.

The funded defined benefit plans are administrated by the Group or the fund that is legally separated from the Group in accordance with statutory requirements. The Group or the board of pension fund and the trustee of the plan are required by law to act in the best interests of the plan participants and are responsible for managing the plan assets in accordance with the designated investment strategy.

The Group's main defined benefit plans expose the Group to actuarial risks such as investment risk, interest rate risk, inflation risk, and longevity risk.

#### (i) Investment risk

The present value of the defined benefit obligations is calculated using a discount rate set with reference to a yield on high quality corporate bond or government bond. If the return on the plan assets is below this yield, there is a possibility that the plan is underfunded.

#### (ii) Interest rate risk

A decrease in a yield on high quality corporate bonds or government bonds will increase the present value of the defined benefit obligations. However, this will be partially offset by an increase in the fair value of the debt instruments (plan assets).

#### (iii) Inflation risk

The level of benefit for certain defined benefit plans of the Group is linked to inflation. Accordingly, a rise in inflation will increase the present value of the defined benefit obligations.

#### (iv) Longevity risk

Some defined benefit plans of the Group provide a lifetime annuity and the Group is obligated to provide pension benefits to the plan participants for the rest of their lives after their retirements. The present value of the defined benefit obligations is calculated by reference to the best estimate of the mortality of plan participants during or after employment. An increase in average life expectancy of the plan participants will increase the defined benefit obligations.



**A Schedule of Defined Benefit Obligations**

The schedule of the defined benefit obligations is as follows

	Millions of yen		
	Japan (Note 2)	Overseas	Total
As of April 1, 2014 (Notes 1-2)	¥319,579	¥470,230	¥789,809
Current service cost	9,957	9,028	18,984
Past service cost and gains and losses on settlement	590	(1,293)	(703)
Interest expense	2,135	18,102	20,236
Contributions by plan participants	—	1,156	1,156
Remeasurement gains and losses			
Actuarial gains and losses arising from changes in demographic assumptions	(4)	3,120	3,116
Actuarial gains and losses arising from changes in financial assumptions	5,539	47,891	53,430
Actuarial gains and losses arising from experience adjustments	(2,571)	(5,648)	(8,219)
Benefits paid	(43,044)	(21,829)	(64,872)
Exchange differences on translation of foreign operations	—	31,249	31,249
Other	(42)	—	(42)
As of December 31, 2014 (Notes 1-2)	292,138	552,006	844,144
Current service cost	11,802	11,216	23,018
Past service cost and gains and losses on settlement	310	389	699
Interest expense	1,923	15,337	17,261
Contributions by plan participants	—	1,697	1,697
Remeasurement gains and losses			
Actuarial gains and losses arising from changes in demographic assumptions	(634)	(327)	(961)
Actuarial gains and losses arising from changes in financial assumptions	(105)	(2,266)	(2,371)
Actuarial gains and losses arising from experience adjustments	(47)	346	299
Benefits paid	(25,941)	(20,823)	(46,764)
Decrease resulting from transfer of subsidiaries	(13,277)	—	(13,277)
Exchange differences on translation of foreign operations	—	(38,030)	(38,030)
Other	42	(466)	(423)
<b>As of December 31, 2015 (Notes 1-2)</b>	<b>¥266,213</b>	<b>¥519,079</b>	<b>¥785,292</b>

(Note 1) The Group's weighted average duration of the defined benefit obligations is 7.7 years for Japan and 15.3 years for overseas (FY2014: 8.1 years for Japan and 15.4 years for overseas).

(Note 2) The Group's breakdown of the defined benefit obligation by plan participant is as follows

	FY2014 (As of December 31, 2014)			FY2015 (As of December 31, 2015)		
	Japan	Overseas	Total	Japan	Overseas	Total
Active members	¥183,381	¥214,855	¥398,236	¥165,996	¥208,743	¥374,739
Deferred members	14,542	58,165	72,707	16,235	51,014	67,249
Pensioners	94,216	278,986	373,202	83,982	259,322	343,304
Total	¥292,138	¥552,006	¥844,144	¥266,213	¥519,079	¥785,292

(Note 3) The schedule of mutual pension benefits obligations included in the category of Japan is as follows

	Millions of yen	
	FY2014 (Nine months ended December 31, 2014)	FY2015 (Year ended December 31, 2015)
Balance at the beginning of the period	¥67,825	¥59,191
Interest expense	254	296
Remeasurement gains and losses	(3,748)	276
Benefits paid	(5,140)	(7,052)
Balance at the end of the period	¥59,191	¥52,710

## B Schedule of Plan Assets

The schedule of the plan assets is as follows

	Millions of yen		
	Japan	Overseas	Total
As of April 1, 2014	¥109,484	¥356,392	¥465,876
Interest income	821	14,003	14,823
Remeasurement gains and losses			
Return on plan assets (excluding amounts included in interest income)	3,592	26,027	29,618
Contributions by the employer (Notes 1-2)	3,087	9,433	12,519
Contributions by plan participants	—	1,156	1,156
Benefits paid	(5,425)	(15,743)	(21,168)
Exchange differences on translation of foreign operations	—	26,811	26,811
Other	(43)	(1,962)	(2,005)
As of December 31, 2014	111,515	416,117	527,631
Interest income	765	12,517	13,282
Remeasurement gains and losses			
Return on plan assets (excluding amounts included in interest income)	1,605	(4,724)	(3,119)
Contributions by the employer (Notes 1-2)	3,754	10,536	14,290
Contributions by plan participants	—	1,697	1,697
Benefits paid	(9,162)	(17,091)	(26,253)
Decrease resulting from transfer of subsidiaries	(11,670)	—	(11,670)
Exchange differences on translation of foreign operations	—	(24,708)	(24,708)
Other	—	(466)	(466)
<b>As of December 31, 2015</b>	<b>¥ 96,806</b>	<b>¥393,878</b>	<b>¥490,684</b>

(Note 1) Pursuant to laws and regulations, the Group and the pension fund review the financial condition of the pension plan regularly and recalculate contributions for allocating future benefit and keeping the balance of the pension financing when the plan is underfunded.

(Note 2) The Group plans to pay contributions of ¥9,145 million in the year ending December 31, 2016.

## C Reconciliation of Defined Benefit Obligations and Plan Assets

The reconciliation of the defined benefit obligations and plan assets to the net defined benefit liabilities (assets) recognized in the consolidated statement of financial position as of each fiscal year end is as follows

FY2014 As of December 31, 2014

	Millions of yen		
	Japan	Overseas	Total
Present value of the funded defined benefit obligations	¥ 115,668	¥ 413,149	¥ 528,817
Fair value of the plan assets	(111,515)	(416,117)	(527,631)
Subtotal	4,154	(2,968)	1,186
Present value of the unfunded defined benefit obligations	176,470	138,858	315,327
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	¥ 180,624	¥ 135,889	¥ 316,513
Retirement benefit liabilities	¥ 181,548	¥ 170,367	¥ 351,915
Retirement benefit assets	(924)	(34,477)	(35,402)
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	¥ 180,624	¥ 135,889	¥ 316,513

FY2015 As of December 31, 2015

	Millions of yen		
	FY2015		
	Japan	Overseas	Total
Present value of the funded defined benefit obligations	¥ 96,583	¥ 387,804	¥ 484,387
Fair value of the plan assets	(96,806)	(393,878)	(490,684)
Subtotal	(223)	(6,074)	(6,297)
Present value of the unfunded defined benefit obligations	169,629	131,275	300,905
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	¥169,406	¥ 125,201	¥ 294,608
Retirement benefit liabilities	¥172,385	¥ 161,176	¥ 333,562
Retirement benefit assets	(2,979)	(35,975)	(38,954)
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	¥169,406	¥ 125,201	¥ 294,608

**D Major Breakdown of Plan Assets**

The breakdown of plan assets by major category as of each fiscal year end is as follows

## Japan

	Millions of yen					
	FY2014 (As of December 31, 2014)			FY2015 (As of December 31, 2015)		
	Market price in an active market		Total	Market price in an active market		Total
	Quoted	Unquoted		Quoted	Unquoted	
Cash and cash equivalents	¥24,172	¥ —	¥ 24,172	¥23,002	¥ —	¥23,002
Equity instruments	7,946	—	7,946	3,383	—	3,383
Japan	4,668	—	4,668	2,251	—	2,251
Overseas	3,278	—	3,278	1,132	—	1,132
Debt instruments	15,383	—	15,383	10,395	—	10,395
Japan	12,820	—	12,820	9,142	—	9,142
Overseas	2,563	—	2,563	1,252	—	1,252
Real estate	75	—	75	—	—	—
General account of life insurance companies (Note 2)	—	63,023	63,023	—	59,454	59,454
Other	84	830	914	—	572	572
Total	¥47,662	¥63,853	¥111,515	¥36,779	¥60,027	¥96,806

## Overseas

	Millions of yen					
	FY2014 (As of December 31, 2014)			FY2015 (As of December 31, 2015)		
	Market price in an active market		Total	Market price in an active market		Total
	Quoted	Unquoted		Quoted	Unquoted	
Cash and cash equivalents	¥ 18,725	¥ —	¥ 18,725	¥ 12,084	¥ —	¥ 12,084
Equity instruments	142,301	—	142,301	122,613	—	122,613
United Kingdom	49,318	—	49,318	29,719	—	29,719
North America	39,859	—	39,859	35,974	—	35,974
Other	53,124	—	53,124	56,920	—	56,920
Debt instruments	218,662	5,518	224,180	220,473	4,968	225,441
United Kingdom	136,578	—	136,578	143,809	—	143,809
North America	46,413	—	46,413	48,969	—	48,969
Other	35,671	5,518	41,189	27,695	4,968	32,663
Real estate	6,225	1,051	7,276	9,266	464	9,731
Other	7,360	16,275	23,635	18,105	5,905	24,009
Total	¥393,272	¥22,844	¥416,117	¥382,541	¥11,337	¥393,878

Total

	Millions of yen					
	FY2014 (As of December 31, 2014)			FY2015 (As of December 31, 2015)		
	Market price in an active market		Total	Market price in an active market		Total
	Quoted	Unquoted		Quoted	Unquoted	
Cash and cash equivalents	¥ 42,897	¥ —	¥ 42,897	¥ 35,086	¥ —	¥ 35,086
Equity instruments	150,247	—	150,247	125,996	—	125,996
Debt instruments	234,046	5,518	239,563	230,868	4,968	235,836
Real estate	6,300	1,051	7,351	9,266	464	9,731
General account of life insurance companies <sup>(Note 2)</sup>	—	63,023	63,023	—	59,454	59,454
Other	7,444	17,105	24,549	18,105	6,477	24,582
Total	¥440,934	¥86,697	¥527,631	¥419,320	¥71,364	¥490,684

(Note 1) The fair value of the plan assets is provided for each of quoted and unquoted market price in an active market as defined in IFRS 13 "Fair Value Measurement."

(Note 2) A certain interest rate and principal for the general account of life insurance are guaranteed by life insurance companies.

The investment strategy for the Group's major plans is as follows (Japan)

The Company's pension fund is managed in accordance with the internal policy for securing stable profits in the middle- and long-term in order to ensure the redemption of the plan liability. Concretely, by setting a target rate of return and composition ratio of plan assets by asset category within the risk tolerance that is annually assessed, the Company invests plan assets consistently with the composition ratio. When reviewing the composition ratio, the Company considers introducing an asset investment which has a high correlation with the liability.

In the case where an unexpected situation occurs in the market environment, it is temporarily allowed to make an adjustment on the weight of risk assets complying with the policy.

(Overseas)

The investment strategy for the foreign subsidiaries' funded pension plans is decided properly by the trustee of the plan or the management of overseas subsidiaries according to local legislations. The Company's objective for the foreign subsidiaries' funded pension plans is to manage risks arising from its defined benefit obligation and meanwhile to achieve a return on assets in excess of the movement in the value of the defined benefit obligation.

The majority of the plan assets have been allocated to liability matching bonds and the remaining parts of the plan assets are mainly invested in equities targeting long-term return.

## E Matters Related to Actuarial Assumptions

The major items of actuarial assumptions as of each fiscal year end are as follows.

	%			
	FY2014 (As of December 31, 2014)		FY2015 (As of December 31, 2015)	
	Japan	Overseas	Japan	Overseas
Discount rate	0.7	2.9	0.7	2.9
Inflation rate	—	2.4	—	2.4

FY2014 As of December 31, 2014

	Years			
	FY2014			
	Japan		Overseas	
	Males	Females	Males	Females
Average life expectancy at retirement <sup>(Note 1)</sup>				
Current pensioners	23.4 <sup>(Note 2)</sup>	29.3 <sup>(Note 2)</sup>	21.7 <sup>(Note 3)</sup>	24.1 <sup>(Note 3)</sup>
Future pensioners			23.1 <sup>(Note 4)</sup>	25.6 <sup>(Note 4)</sup>

FY2015 As of December 31, 2015

	Years			
	FY2015			
	Japan		Overseas	
	Males	Females	Males	Females
Average life expectancy at retirement <sup>(Note 1)</sup>				
Current pensioners	23.6 <sup>(Note 2)</sup>	29.3 <sup>(Note 2)</sup>	21.7 <sup>(Note 3)</sup>	24.2 <sup>(Note 3)</sup>
Future pensioners			23.1 <sup>(Note 4)</sup>	25.7 <sup>(Note 4)</sup>

(Note 1) The average life expectancies underlie the values of the defined benefit obligations on major plans. Assumptions regarding future mortality rate are based on published statistics and mortality tables.

(Note 2) Life expectancy for a pensioner currently aged 60. Regardless of the plan participant's current age, the Group performs actuarial calculations based on the assumption that life expectancy remains the same.

(Note 3) Life expectancy for a pensioner currently aged 65.

(Note 4) Life expectancy at the age of 65 for an active member currently aged 50.

(Note 5) The valuation of defined benefit obligations reflects a judgment on uncertain future events. The sensitivities of defined benefit obligations due to changes in major assumptions as of each fiscal year end are as follows. Each of these sensitivities assumes that other variables remain fixed; however, in fact, they do not always change independently. Negative figures show a decrease in pension plan obligations, while positive figures show an increase.

		Millions of yen			
		FY2014 (As of December 31, 2014)		FY2015 (As of December 31, 2015)	
		Japan	Overseas	Japan	Overseas
Discount rate	Increase by 0.5%	¥(11,283)	¥(40,281)	¥(9,672)	¥(37,287)
	Decrease by 0.5%	12,081	44,274	10,368	42,058
Inflation rate	Increase by 0.5%	—	28,231	—	27,545
	Decrease by 0.5%	—	(26,185)	—	(25,543)
Mortality rate	Extended 1 year	6,441	17,700	5,809	16,859
	Shortened 1 year	(6,317)	(17,698)	(5,649)	(16,964)

## F Breakdown of Defined Benefit Cost

The breakdown of defined benefit cost for each fiscal year is as follows.

### FY2014 Nine months ended December 31, 2014

		Millions of yen		
		FY2014		
		Japan	Overseas	Total
Current service cost		¥ 9,957	¥ 9,028	¥ 18,984
Past service cost and gains and losses on settlement		590	(1,293)	(703)
Interest expense (income)		1,314	4,099	5,413
Defined benefit cost through profit or loss		11,861	11,834	23,695
Actuarial gains and losses arising from changes in demographic assumptions		(4)	3,120	3,116
Actuarial gains and losses arising from changes in financial assumptions		5,539	47,891	53,430
Actuarial gains and losses arising from experience adjustments		(2,571)	(5,648)	(8,219)
Return on plan assets (excluding amounts included in interest income)		(3,592)	(26,027)	(29,618)
Defined benefit cost through other comprehensive income		¥ (628)	¥ 19,336	¥ 18,708
Total of defined benefit cost		¥11,233	¥ 31,170	¥ 42,403

### FY2015 Year ended December 31, 2015

		Millions of yen		
		FY2015		
		Japan	Overseas	Total
Current service cost		¥11,802	¥11,216	¥23,018
Past service cost and gains and losses on settlement		310	389	699
Interest expense (income)		1,159	2,820	3,979
Defined benefit cost through profit or loss		13,270	14,426	27,696
Actuarial gains and losses arising from changes in demographic assumptions		(634)	(327)	(961)
Actuarial gains and losses arising from changes in financial assumptions		(105)	(2,266)	(2,371)
Actuarial gains and losses arising from experience adjustments		(47)	346	299
Return on plan assets (excluding amounts included in interest income)		(1,605)	4,724	3,119
Defined benefit cost through other comprehensive income		¥ (2,390)	¥ 2,476	¥ 86
Total of defined benefit cost		¥10,880	¥16,902	¥27,782

(Note 1) The net amount of interest expense and interest income is included in "Financial costs." Other expenses are included in "Cost of sales" and "Selling, general and administrative expenses." The defined benefit cost through profit or loss from discontinued operations is included in "Profit (loss) for the period from discontinued operations."

(Note 2) Contributions to the defined contribution plans were ¥6,833 million for the nine months ended December 31, 2014 and ¥7,649 million for the year ended December 31, 2015 and were not included in the table above.

## (2) Other Employee Benefit Expenses

The employee benefit expenses other than post-employment benefits from continuing operations that are included in the consolidated statement of income for each fiscal year are as follows

	Millions of yen	
	FY2014 (Nine months ended December 31, 2014)	FY2015 (Year ended December 31, 2015)
Remuneration and salary	¥215,315	¥233,512
Bonus to employees	51,771	62,134
Legal welfare expenses	42,439	43,861
Welfare expenses	30,496	36,183
Termination benefits	61,524	4,392

## 23. Equity and Other Equity Items

### (1) Share Capital and Capital Surplus

#### A Authorized Shares

The number of authorized shares as of December 31, 2014 and as of December 31, 2015 is 8,000,000 thousand ordinary shares

#### B Fully Paid Issued Shares

The schedule of the number of issued shares and share capital is as follows

	Thousands of shares Number of ordinary issued shares	Millions of yen	
		Share capital	Capital surplus
As of April 1, 2014	2,000,000	¥100,000	¥736,400
Increase (decrease)	—	—	—
As of December 31, 2014	2,000,000	100,000	736,400
Increase (decrease)	—	—	—
<b>As of December 31, 2015</b>	<b>2,000,000</b>	<b>¥100,000</b>	<b>¥736,400</b>

(Note) The shares issued by the Company are non par value ordinary shares that have no restriction on any content of rights

### (2) Treasury Shares

The schedule of the number of treasury shares and its amount as of each fiscal year end is as follows

	Thousands of shares Number of shares	Millions of yen Amount
As of April 1, 2014	182,452	¥344,463
Increase (decrease) (Note 2)	(9)	(16)
As of December 31, 2014	182,443	344,447
Increase (decrease) (Note 2)	26,842	99,886
<b>As of December 31, 2015</b>	<b>209,285</b>	<b>¥444,333</b>

(Note 1) The Company adopts share option plans and utilizes treasury shares for delivery of shares due to its exercise. Contract conditions and amount are described in 32 Share-based Payments

(Note 2) The number of treasury shares purchased based on the resolution made by the Board of Directors was 26,896 thousand shares and the total purchase cost was ¥100,000 million for the year ended December 31, 2015. Purchase of shares less than one unit is 0 thousand shares for the year ended December 31, 2015. The number of shares delivered upon exercise of share option is 9 thousand shares for the nine months ended December 31, 2014 and 54 thousand shares for the year ended December 31, 2015

### (3) Other Components of Equity

#### A Subscription rights to shares

The Company adopts share option plans and issues subscription rights to shares based on the Companies Act. Contract conditions and amount are described in 32 Share-based Payments

#### B Exchange differences on translation of foreign operations

Exchange differences on translation of foreign operations are composed of foreign currency translation difference that occurs when consolidating financial statements of foreign subsidiaries prepared

in foreign currencies, and the effective portion of net gain (loss) on the hedging instruments designated as hedge of net investment

#### C Net gain (loss) on derivatives designated as cash flow hedges

The Company uses derivatives for hedging to avoid the risk of fluctuation in future cash flows. This is the effective portion of changes in the fair value of derivative transactions designated as cash flow hedges

**D Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income**

This is the valuation difference in the fair value of financial assets measured at fair value through other comprehensive income

**E Remeasurements of defined benefit plans**

Remeasurements of defined benefit plans comprise actuarial gains and losses, the return on plan assets excluding amounts included in interest income, and any change in the effect of the asset ceiling

excluding amounts included in interest income. In addition, actuarial gains and losses are the effects of differences between the actuarial assumptions at the beginning of the year and what has actually occurred, and the effects of changes in actuarial assumptions. Remeasurements are recognized as other comprehensive income when they occur and are transferred immediately from other components of equity to retained earnings.

## 24. Dividends

Dividends paid for each fiscal year are as follows

FY2014 Nine months ended December 31, 2014

FY2014					
	Class of shares	Millions of yen	Yen	Basis date	Effective date
		Total dividends	Dividends per share		
(Resolution)					
Annual Shareholders Meeting (June 24, 2014)	Ordinary shares	¥90,877	¥50	March 31, 2014	June 25, 2014
Board of Directors (October 30, 2014)	Ordinary shares	90,878	50	September 30, 2014	December 1, 2014

FY2015 Year ended December 31, 2015

FY2015					
	Class of shares	Millions of yen	Yen	Basis date	Effective date
		Total dividends	Dividends per share		
(Resolution)					
Annual Shareholders Meeting (March 20, 2015)	Ordinary shares	¥90,878	¥50	December 31, 2014	March 23, 2015
Board of Directors (August 3, 2015)	Ordinary shares	96,696	54	June 30, 2015	September 1, 2015

Dividends, for which the effective date falls in the following fiscal year, are as follows

FY2014 Nine months ended December 31, 2014

FY2014					
	Class of shares	Millions of yen	Yen	Basis date	Effective date
		Total dividends	Dividends per share		
(Resolution)					
Annual Shareholders Meeting (March 20, 2015)	Ordinary shares	¥90,878	¥50	December 31, 2014	March 23, 2015

FY2015 Year ended December 31, 2015

FY2015					
	Class of shares	Millions of yen	Yen	Basis date	Effective date
		Total dividends	Dividends per share		
(Resolution)					
Annual Shareholders Meeting (March 23, 2016)	Ordinary shares	¥114,606	¥64	December 31, 2015	March 24, 2016

## 25 Revenue

The reconciliation from "Gross turnover" to "Revenue" from continuing operations for each fiscal year is as follows

	Millions of yen	
	FY2014 (Nine months ended December 31, 2014)	FY2015 (Year ended December 31, 2015)
Gross turnover	¥ 6,443,768	¥ 7,436,141
Tobacco excise taxes and agency transaction amount	(4,424,023)	(5,183,257)
Revenue	¥ 2,019,745	¥ 2,252,884

The tobacco excise taxes and other transactions in which the Group is involved as an agency are excluded from revenue. The inflow of economic benefits after deducting the tobacco excise taxes and other transactions is presented as "Revenue" in the consolidated statement of income.

Gross turnover is an item that the Group discloses voluntarily and is not "Revenue" as defined by IFRS.

## 26. Other Operating Income

The breakdown of "Other operating income" from continuing operations for each fiscal year is as follows

	Millions of yen	
	FY2014 (Nine months ended December 31, 2014)	FY2015 (Year ended December 31, 2015)
Gains on sale of property, plant and equipment, intangible assets and investment properties (Notes 1, 2)	¥40,917	¥ 7,277
Other (Note 2)	6,502	8,089
Total	¥47,419	¥15,367

(Note 1) Mainly from sales of old factory sites and rental properties

(Note 2) The amount of restructuring income included in each account for each fiscal year is as follows

	Millions of yen	
	FY2014 (Nine months ended December 31, 2014)	FY2015 (Year ended December 31, 2015)
Gains on sale of property, plant and equipment, intangible assets and investment properties	¥40,005	¥6,193
Other	669	606
Total	¥40,674	¥6,799



## 27 Selling, General and Administrative Expenses

The breakdown of "Selling, general and administrative expenses" from continuing operations for each fiscal year is as follows

	Millions of yen	
	FY2014 (Nine months ended December 31, 2014)	FY2015 (Year ended December 31, 2015)
Advertising expenses	¥ 20,501	¥ 25,644
Promotion expenses	108,032	120,270
Shipping, warehousing expenses	18,765	26,859
Commission	44,090	51,330
Employee benefit expenses (Note 2)	297,551	264,725
Research and development expenses (Note 1)	44,008	57,796
Depreciation and amortization	55,015	65,999
Impairment losses on other than financial assets (Note 2)	21,877	9,516
Losses on sale and disposal of property, plant and equipment, intangible assets, and investment property (Note 2)	14,061	19,156
Other (Note 2)	128,658	148,052
<b>Total</b>	<b>¥752,559</b>	<b>¥789,346</b>

(Note 1) All research and development expenses are included in "Selling, general and administrative expenses"

(Note 2) The amount of restructuring costs included in each account is as follows

	Millions of yen	
	FY2014 (Nine months ended December 31, 2014)	FY2015 (Year ended December 31, 2015)
Employee benefit expenses	¥ 66,814	¥ 4,720
Impairment losses on other than financial assets	18,078	7,643
Losses on sale and disposal of property, plant and equipment, intangible assets, and investment property	5,111	12,523
Other	10,333	14,957
<b>Total</b>	<b>¥100,335</b>	<b>¥39,843</b>

## 28 Financial Income and Financial Costs

The breakdown of "Financial income" and "Financial costs" from continuing operations for each fiscal year is as follows

	Millions of yen	
	FY2014 (Nine months ended December 31, 2014)	FY2015 (Year ended December 31, 2015)
<b>Financial income</b>		
Dividend income		
Financial assets measured at fair value through other comprehensive income	¥ 652	¥ 1,771
Interest income		
Financial assets measured at amortized cost		
Deposits and bonds	12,869	13,010
Other	287	235
<b>Total</b>	<b>¥13,808</b>	<b>¥15,016</b>

Financial Costs	Millions of yen	
	FY2014 (Nine months ended December 31, 2014)	FY2015 (Year ended December 31, 2015)
Interest expenses		
Financial liabilities measured at amortized cost		
Bonds and borrowings (Note 2)	¥ 4,334	¥ 3,745
Other	191	153
Foreign exchange losses (Note 1)	426	6,010
Employee benefit expenses (Note 3)	5,397	3,971
Other	815	1,253
Total	¥11,162	¥15,132

(Note 1) Valuation gain (loss) of currency derivatives is included in the foreign exchange losses

(Note 2) Valuation gain (loss) of interest rate derivatives is included in interest expenses

(Note 3) The employee benefit expenses are the net amount of interest cost and interest income related to employee benefits

## 29 Other Comprehensive Income

Amount arising during the year, reclassification adjustments to profit or loss and tax effects for each component of "Other comprehensive income" for each fiscal year are as follows

### FY2014 Nine months ended December 31, 2014

	Millions of yen				
	Amount arising	Reclassification adjustments	Before tax effects	Tax effects	Net of tax effects
Items that will not be reclassified to profit or loss					
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	¥ 5,895	¥ —	¥ 5,895	¥(2,171)	¥ 3,725
Remeasurements of defined benefit plans	(18,708)	—	(18,708)	4,544	(14,164)
Total of items that will not be reclassified to profit or loss	¥ (12,813)	¥ —	¥ (12,813)	¥ 2,374	¥ (10,439)
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	¥(117,734)	¥ (122)	¥(117,856)	¥ 3,614	¥(114,242)
Net gain (loss) on derivatives designated as cash flow hedges	10,998	(9,570)	1,428	(506)	922
Total of items that may be reclassified subsequently to profit or loss	¥(106,736)	¥(9,693)	¥(116,428)	¥ 3,109	¥(113,319)
Total	¥(119,548)	¥(9,693)	¥(129,241)	¥ 5,483	¥(123,759)

### FY2015 Year ended December 31, 2015

	Millions of yen				
	Amount arising	Reclassification adjustments	Before tax effects	Tax effects	Net of tax effects
Items that will not be reclassified to profit or loss					
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	¥ 14,220	¥ —	¥ 14,220	¥(3,485)	¥ 10,735
Remeasurements of defined benefit plans	(86)	—	(86)	(4,016)	(4,102)
Total of items that will not be reclassified to profit or loss	¥ 14,134	¥ —	¥ 14,134	¥(7,501)	¥ 6,633
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	¥(289,270)	¥ (223)	¥(289,493)	¥ 93	¥(289,400)
Net gain (loss) on derivatives designated as cash flow hedges	1,084	(812)	271	(38)	233
Total of items that may be reclassified subsequently to profit or loss	¥(288,186)	¥(1,036)	¥(289,222)	¥ 55	¥(289,167)
Total	¥(274,052)	¥(1,036)	¥(275,088)	¥(7,446)	¥(282,534)

## 30 Earnings per Share

### (1) Basis of Calculating Basic Earnings per Share

#### A Profit Attributable to Ordinary Shareholders of the Parent Company

	FY2014 (Nine months ended December 31, 2014)	FY2015 (Year ended December 31, 2015)
Profit for the period attributable to owners of the parent company	¥362,919	¥485,691
Profit not attributable to ordinary shareholders of the parent company	—	—
Profit for the period used for calculation of basic earnings per share	¥362,919	¥485,691
Profit (loss) for the period from discontinued operations attributable to ordinary shareholders of the parent company	¥ (1,583)	¥ 87,237
Profit for the period from continuing operations used for calculation of basic earnings per share	¥364,502	¥398,454

#### B Weighted-average Number of Ordinary Shares Outstanding During the Period

	FY2014 (Nine months ended December 31, 2014)	FY2015 (Year ended December 31, 2015)
Weighted-average number of shares during the period	1,817,553	1,795,254

### (2) Basis of Calculating Diluted Earnings per Share

#### A Profit Attributable to Diluted Ordinary Shareholders

	FY2014 (Nine months ended December 31, 2014)	FY2015 (Year ended December 31, 2015)
Profit for the period used for calculation of basic earnings per share	¥362,919	¥485,691
Adjustment	—	—
Profit for the period used for calculation of diluted earnings per share	¥362,919	¥485,691
Profit (loss) for the period from discontinued operations attributable to ordinary shareholders of the parent company	¥ (1,583)	¥ 87,237
Profit for the period from continuing operations used for calculation of diluted earnings per share	¥364,502	¥398,454

#### B Weighted-average Number of Diluted Ordinary Shares Outstanding During the Period

	FY2014 (Nine months ended December 31, 2014)	FY2015 (Year ended December 31, 2015)
Weighted-average number of ordinary shares during the period	1,817,553	1,795,254
Increased number of ordinary shares under subscription rights to shares	1,048	1,128
Weighted-average number of diluted ordinary shares during the period	1,818,601	1,796,382

### (3) Adjusted Diluted Earnings per Share (Continuing Operations)

	FY2014 (Nine months ended December 31, 2014)	FY2015 (Year ended December 31, 2015)
Profit for the period from continuing operations used for calculation of adjusted diluted earnings per share	¥364,502	¥398,454
Adjustment items (income)	(44,302)	(10,346)
Adjustment items (costs)	103,641	39,900
Adjustments on income taxes and non-controlling interests	(13,534)	(7,017)
Adjusted profit for the period (continuing operations)	¥410,308	¥420,990
Adjusted diluted earnings per share (continuing operations) (yen)	¥ 225.62	¥ 234.35

## 31. Non-cash Transactions

### Significant Non-cash Transactions

The amount of assets acquired under finance leases was ¥9 199 million for the nine months ended December 31 2014 and ¥3 507 million for the year ended December 31, 2015, respectively

## 32 Share-based Payments

The Company adopts share option plans. Share options are granted by the resolution of the Board of Directors based on the approval at the Annual Shareholders Meeting.

The outline of the share option plan is as follows:

### (1) Share Option Contract Conditions

Positions of persons granted	Directors and Executive Officers
Settlement	Issuance of shares
Effective period of granted share option	30 years after the date of grant
Vesting conditions	None

Conditions related to the exercise of share options are as follows:

- (a) The subscription rights to shares become exercisable when a holder of a subscription right to shares no longer holds a position as a director, an audit & supervisory board member or an executive officer. In the subscription rights to shares allocation contract with holders of such rights, it is provided for that the rights become exercisable from the date following the date on which they no longer hold their positions.
- (b) In case where any holders of subscription rights to shares waive such rights, they cannot exercise them.

### (2) Changes in the Number of Share Options

	FY2014 (Nine months ended December 31 2014)			FY2015 (Year ended December 31 2015)		
	Directors	Executive Officers	Total	Directors	Executive Officers	Total
Balance at the beginning of the period	351,000	659,800	1,010,800	275,800	795,200	1,071,000
Granted	35,600	33,200	68,800	49,000	66,200	115,200
Exercised	—	(8,600)	(8,600)	—	(54,200)	(54,200)
Transfer	(110,800)	110,800	—	—	—	—
Balance at the end of the period	275,800	795,200	1,071,000	324,800	807,200	1,132,000
Exercisable balance at the end of the period	—	341,000	341,000	—	424,400	424,400

(Note 1) The number of share options is presented as the number of underlying shares.

(Note 2) All share options are granted with an exercise price of ¥1 per share.

(Note 3) Share options were granted to 6 directors and 19 executive officers for the nine months ended December 31 2014 and 6 directors and 18 executive officers for the year ended December 31 2015.

"Transfer" included in the "Changes in the Number of Share Options" represents the number of share options for persons granted whose management position changed during the period.

(Note 4) The weighted average fair values per share of share options granted during the period were ¥2 416 and ¥3 556 for the nine months ended December 31 2014 and for the year ended December 31 2015, respectively.

(Note 5) The weighted-average share prices of share options at the time of exercise during the period were ¥3 600 and ¥4 497 for the nine months ended December 31 2014 and for the year ended December 31 2015, respectively.

(Note 6) The weighted-average remaining contract year of unexercised share options at the end of each period was 26.2 years and 25.7 years for the nine months ended December 31 2014 and for the year ended December 31 2015, respectively.

### (3) Method of Measuring Fair Value of Share Options Granted During the Period

#### A Valuation Model

Black-Scholes Model

#### B Main Assumptions and Estimation

	FY2014 (Nine months ended December 31, 2014)	FY2015 (Year ended December 31, 2015)
Share price	¥3,603	¥4,847
Volatility of share price <sup>(Note 1)</sup>	34.6%	32.7%
Estimated remaining period <sup>(Note 2)</sup>	15 years	15 years
Estimated dividends <sup>(Note 3)</sup>	¥96/share	¥100/share
Risk free interest rate <sup>(Note 4)</sup>	0.93%	0.78%

(Note 1) Calculated based on daily share prices quoted for the past 15 years

(Note 2) Because of the difficulty of a reasonable estimation due to insufficient data, the remaining period is estimated based on the assumption that share option rights would be exercised at a midpoint of the exercise period

(Note 3) Based on the latest dividends paid

(Note 4) The yield on government bonds for a period of the expected remaining period

#### (4) Share-based Payment Expenses

The costs for share options from continuing operations included in "Selling, general and administrative expenses" in the consolidated statement of income were ¥196 million for the nine months ended December 31, 2014, and ¥383 million for the year ended December 31, 2015.

## 33 Financial Instruments

### (1) Capital Management

The Group's management principle is pursuit of the "4S" model balancing the interests of consumers, shareholders, employees and wider society, and fulfilling our responsibilities towards them, aiming to exceed their expectations.

The Group believes that sustainable profit growth in the mid- to long-term based on this principle will increase the Group's value in

the mid- to long-term, and is consequently in the best interest of all stakeholders, including our shareholders.

For that reason, as its financial policy, the Group maintains 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.

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

	Millions of yen	
	FY2014 (As of December 31, 2014)	FY2015 (As of December 31, 2015)
Interest-bearing debt	¥ 228,214	¥ 255,291
Cash and cash equivalents	(385,820)	(526,765)
Net interest-bearing debt <sup>(Note)</sup>	(157,605)	(271,474)
Capital (equity attributable to owners of the parent company)	2,536,838	2,451,596

(Note) The figure in parentheses ( ) represents the net amount of cash and cash equivalents after deducting interest-bearing debt.

There are specific rules for shares of the Company under the Japan Tobacco Inc. Act as follows:

The Japanese government shall hold more than one-third of all of the shares issued by the Company (excluding the type of shares, for which it is stipulated that voting rights may not be exercised on any matters that can be resolved by Annual Shareholders Meeting) (Article 2 (1)).

In cases where the Company intends to solicit persons to subscribe for shares to be issued or subscription rights to shares or where the Company intends to deliver shares (excluding treasury shares), subscription rights to shares (excluding subscription right to own shares) or bonds with subscription rights to shares (excluding

bonds with subscription rights to shares) when exchanging with shares, the Company shall obtain the approval of the Minister of Finance (Article 2 (2)).

Disposal of shares owned by the Japanese government shall be within the limits on the number of shares decided by the Diet in the relevant annual budget (Article 3).

The Group monitors financial indicators in order to maintain a well-balanced capital structure that ensures an appropriate return on equity and a stable and flexible financial condition for future investment. We monitor credit ratings for a financial stability and flexibility, and ROE (return on equity) for profitability, while focusing on changes in the domestic and overseas environment.

## (2) Financial Risk Management

The Group is exposed to financial risks (credit risks, liquidity risks, foreign exchange risks, interest rate risks and market price fluctuation risks) in the process of its management activities and it manages risks based on a specific policy in order to avoid or reduce said risks. The results of risk management are regularly reported by the Treasury Division to the president and the Board of Directors of the Company.

The Group policy limits derivatives to transactions for the purpose of mitigating risks from transactions based on actual demand. Therefore, we do not transact derivatives for speculation purposes or trading purposes.

## (3) Credit Risk

Receivables such as note and account receivables acquired from the operating activities of the Group are exposed to customer credit risk.

The Group holds mainly debt securities for surplus investment and equity securities of customers and suppliers to strengthen relationships with them; those securities are exposed to the issuer's credit risk. In addition, through derivative transactions that the Group conducts in order to hedge foreign exchange fluctuation risks

and interest rate fluctuation risks, we are exposed to the credit risk of the financial institutions which are counterparties to these transactions.

In principle, the Group sets credit lines or transaction conditions with respect to trade receivables for counterparties based on the Credit Management Guidelines in order to control the credit risk relating to counterparties. In addition, the receivable balances of counterparties with high credit risk are monitored. The Treasury Division of the Company regularly monitors the status of the occurrence and collection of bad debts and reports them to the president and the Board of Directors of the Company.

With regard to the investment of cash surpluses and derivatives, the Group invests in debt securities and other financial instruments with a certain credit rating and transacts with financial institutions with a high credit rating in principle in order to prevent credit risks from occurring and based on the Group Financial Operation Basic Policy. In addition, the Treasury Division of the Company regularly monitors the performances of these transactions and reports the results to the president and the Board of Directors of the Company.

The maximum exposure pertaining to credit risks for financial assets is the carrying amount after considering impairment in the consolidated financial statements.

The analysis of the aging of financial assets that are past due but not impaired as of each fiscal year end date is as follows.

The financial assets include amounts considered recoverable by credit insurance and collateral.

FY2014 As of December 31, 2014

	Millions of yen				
	FY2014				
	Amount past due				
	Total	Within 30 days	Over 30 days within 60 days	Over 60 days within 90 days	Over 90 days
Trade and other receivables	¥2,518	¥1,515	¥696	¥252	¥55

FY2015 As of December 31, 2015

	Millions of yen				
	FY2015				
	Amount past due				
	Total	Within 30 days	Over 30 days within 60 days	Over 60 days within 90 days	Over 90 days
Trade and other receivables	¥3,238	¥2,260	¥349	¥38	¥591

The Group reviews collectability of trade receivables depending on the credit conditions of counterparties and recognizes allowance for doubtful accounts. The schedule of the allowance of doubtful accounts is as follows.

	Millions of yen	
	FY2014 (Nine months ended December 31, 2014)	FY2015 (Year ended December 31, 2015)
Balance at the beginning of the period	¥10,620	¥10,595
Addition	782	346
Decrease (intended use)	(616)	(357)
Decrease (reversal)	(378)	(986)
Other	187	(253)
Balance at the end of the period	¥10,595	¥9,345

#### (4) Liquidity Risk

The Group raises funds by borrowings, commercial paper and bonds; however, these liabilities are exposed to the liquidity risk that we would not be able to repay liabilities on the due date due to the deterioration of the financing environment.

In accordance with the Group Financial Operation Basic Policy, the Group establishes a finance plan based on the annual business

plan and the Treasury Division of the Company regularly monitors and collects information on the balance of liquidity-in-hand and interest-bearing debt and reports it to the president and the Board of Directors of the Company. In addition, the Group keeps necessary credit facilities to manage liquidity risk by having commitment lines with several financial institutions.

The financial liability balance (including derivative financial instruments) by maturity as of each fiscal year end is as follows.

FY2014 As of December 31, 2014

	Millions of yen							
	FY2014							
	Carrying amount	Contractual cash flow	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
<b>Non-derivative financial liabilities</b>								
Trade and other payables	¥419,764	¥419,764	¥419,764	¥ —	¥ —	¥ —	¥ —	¥ —
Short-term borrowings	27,632	27,632	27,632	—	—	—	—	—
Current portion of long-term borrowings	39,930	39,930	39,930	—	—	—	—	—
Long-term borrowings	1,046	1,046	—	146	149	151	97	503
Current portion of bonds	40,000	40,000	40,000	—	—	—	—	—
Bonds	99,954	100,275	—	—	20,000	60,275	—	20,000
Subtotal	628,326	628,647	527,325	146	20,149	60,426	97	20,503
<b>Derivative financial liabilities</b>								
Foreign exchange forward contract	9,901	9,901	9,901	—	—	—	—	—
Interest rate swap	109	97	95	1	—	—	—	—
Subtotal	10,010	9,998	9,997	1	—	—	—	—
<b>Total</b>	<b>¥638,336</b>	<b>¥638,644</b>	<b>¥537,322</b>	<b>¥147</b>	<b>¥20,149</b>	<b>¥60,426</b>	<b>¥97</b>	<b>¥20,503</b>

FY2015 As of December 31, 2015

	Millions of yen							
	FY2015							
	Carrying amount	Contractual cash flow	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
<b>Non-derivative financial liabilities</b>								
Trade and other payables	¥373,032	¥373,032	¥373,032	¥ —	¥ —	¥ —	¥ —	¥ —
Short-term borrowings	30,832	30,832	30,832	—	—	—	—	—
Current portion of long-term borrowings	148	148	148	—	—	—	—	—
Long-term borrowings	866	866	—	150	152	97	45	422
Bonds	215,072	215,305	—	20,000	60,305	—	80,000	55,000
Subtotal	619,949	620,183	404,012	20,150	60,457	97	80,045	55,422
<b>Derivative financial liabilities</b>								
Foreign exchange forward contract	5,594	5,594	5,594	—	—	—	—	—
Interest rate swap	1	1	1	—	—	—	—	—
Subtotal	5,595	5,595	5,595	—	—	—	—	—
<b>Total</b>	<b>¥625,544</b>	<b>¥625,778</b>	<b>¥409,607</b>	<b>¥20,150</b>	<b>¥60,457</b>	<b>¥97</b>	<b>¥80,045</b>	<b>¥55,422</b>

The total of commitment lines and withdrawal as of each fiscal year end are as follows

	Millions of yen	
	FY2014 (As of December 31, 2014)	FY2015 (As of December 31, 2015)
Total committed line of credit	¥386,492	¥682,286
Withdrawing	—	—
Unused balance	¥386,492	¥682,286

## (5) Foreign Exchange Risk

The Group operates businesses globally and therefore is exposed to the following risks due to foreign exchange fluctuation

- (i) The risk where the profit or loss and cash flow in each functional currency of the Group is influenced by foreign exchange fluctuation as a result of external transactions and intergroup transactions including the payment and receipt of dividends, in currencies that are different from each functional currency of the Group
- (ii) The risk that the equity of the Group is influenced by foreign exchange fluctuation when equity denominated in each functional currency of the Group is translated into Japanese yen and consolidated
- (iii) The risk that the profit or loss of the Group is influenced by foreign exchange fluctuation when profit or loss denominated in each functional currency of the Group is translated into Japanese yen and consolidated

The Group hedges against risk (i) using derivatives or foreign currency-denominated interest-bearing debts for example, when future cash flow is projected or when receivables and payables are fixed, and some of them are designated as cash flow hedges

The Group hedges against risk (ii) using foreign currency-denominated interest-bearing debts for example and part of these are designated as net investment hedges. The Group does not hedge against risk (iii) in principle

In order to mitigate risks mentioned above resulting from the foreign exchange fluctuation, in accordance with the Group Financial Operation Basic Policy and under the supervision of the Financial Risk Management Committee of the Company, the Group establishes and implements a foreign currency hedge policy taking into consideration the impact on the Group's performance and the current conditions of the foreign exchange market in a comprehensive manner. The Treasury Division of the Company regularly reports the performances to the president and the Board of Directors of the Company

## Foreign Exchange Sensitivity Analysis

In cases where each currency other than the functional currency that denominates the financial instruments held by the Group as of each fiscal year end increases by 10% in value against the functional currency, the impact on profit before income taxes in the consolidated statement of income is as follows

The impact from the translation of functional currency-denominated financial instruments, and assets, liabilities, income and expenses of foreign operations into Japanese yen is not included. Also, it is based on the assumption that currencies other than the currencies used for the calculation do not fluctuate

	Millions of yen	
	FY2014 (As of December 31, 2014)	FY2015 (As of December 31, 2015)
Profit before income taxes	¥(3,255)	¥(866)

## (6) Interest Rate Risk

Interest rate risk within the Group arises from interest-bearing debts after deducting cash equivalents. Borrowings and bonds with floating rates are exposed to interest rate fluctuation risk

In order to reduce the interest rate fluctuation risk related to borrowings and bonds in accordance with the Group Financial Operation Basic Policy and under the supervision of the Financial Risk Management Committee of the Company, the Group establishes and implements an interest rate hedging policy taking into consideration the impact on the Group's performance and the current condition of the interest rates in a comprehensive manner. The Treasury Division of the Company reports the performances to the president and the Board of Directors of the Company

## Interest Rate Sensitivity Analysis

In cases where the interest rate of financial instruments held by the Group as of each fiscal year end increases by 100bp, the impact on profit before income taxes in the consolidated statement of income is as follows

The analysis is subject to financial instruments affected by interest rate fluctuation and based on the assumption that other factors including the impacts of foreign exchange fluctuation are constant

	Millions of yen	
	FY2014 (As of December 31, 2014)	FY2015 (As of December 31, 2015)
Profit before income taxes	¥1,589	¥2,058



## (7) Hedging Transactions

The Group's policy for hedging transactions is stated in 3 Significant Accounting Policies

### A Cash Flow Hedges

The details of hedging instruments designated as cash flow hedges are as follows

FY2014 As of December 31, 2014

	Contract amount	Over one year	Carrying amount <sup>(Note)</sup> (Millions of yen)		Average rates (yen %)
			Assets	Liabilities	
Foreign exchange risk					
Foreign exchange forward contract					
USD/JPY	USD 133 mil	USD —	¥1,899	¥ —	¥105 04
Interest rate risk					
Cross currency swap					
Floating rate receipt and fixed rate payment	USD 330 mil	USD —	9 731	—	0 43%
Fixed rate receipt and fixed rate payment	USD 175 mil	USD 175 mil	3,927	—	0 24%

FY2015 As of December 31, 2015

	Contract amount	Over one year	Carrying amount <sup>(Note)</sup> (Millions of yen)		Average rates (yen %)
			Assets	Liabilities	
Foreign exchange risk					
Foreign exchange forward contract					
USD/JPY	USD 129 mil	USD —	¥ 70	¥ 75	¥119 95
Interest rate risk					
Cross currency swap					
Fixed rate receipt and fixed rate payment	USD 175 mil	USD 175 mil	3,870	—	0 24%

(Note) Carrying amounts of derivatives are presented as "Other financial assets" or "Other financial liabilities" in the consolidated statement of financial position, and the portion with over one year maturity is classified as "Non-current assets" or "Non-current liabilities."

The schedule of net gains (losses) on hedging instrument designated as cash flow hedges is as follows

	Millions of yen		
	Effective portion of changes in the fair value of cash flow hedges		
	Foreign exchange risk	Interest rate risk	Total
As of January 1, 2015	¥ 1,077	¥ 139	¥ 1,215
Other comprehensive income			
Amount arising <sup>(Note 1)</sup>	284	800	1,084
Reclassification adjustments <sup>(Note 2)</sup>	—	(812)	(812)
Tax effects	(49)	11	(38)
Others	(1,324)	—	(1,324)
<b>As of December 31, 2015</b>	<b>¥ (12)</b>	<b>¥ 137</b>	<b>¥ 125</b>

(Note 1) The change in value of the hedged item used as the basis for recognizing hedge ineffectiveness approximates the change in fair value of the hedging instrument.

(Note 2) The amount which is reclassified when the hedged item affects profit or loss is recognized in "Financial income" or "Financial costs" in the consolidated statement of income. The amount of hedge ineffectiveness is immaterial.

## B Hedge of Net Investment in Foreign Operations

The details of hedging instruments designated as hedge of net investment are as follows

FY2014 As of December 31, 2014

					FY2014
	Contract amount	Over one year	Carrying amount (Notes)		Average rates
			(Millions of yen)		
			Assets	Liabilities	
Bonds in USD	USD 325 mil	USD 325 mil	¥ —	¥38,858	¥99.45

FY2015 As of December 31, 2015

					FY2015
			Carrying amount <sup>(Note)</sup> (Millions of yen)		Average rates (yen)
	Contract amount	Over one year	Assets	Liabilities	
Bonds in USD	USD 325 mil	USD 325 mil	¥ —	¥38,965	¥99.45

(Note) Carrying amounts of bonds are presented as "Bonds and borrowings" in the consolidated statement of financial position, and the portion with over one year maturity is classified as "Non current liabilities."

The schedule of net gains (losses) on hedging instrument designated as hedge of net investment in foreign operations is as follows

	Millions of yen
As of January 1, 2015	¥(3,100)
Other comprehensive income	
Amount arising <sup>(Note 1)</sup>	(1,490)
Tax effects	93
<b>As of December 31, 2015 <sup>(Note 2)</sup></b>	<b>¥(4,497)</b>

(Note 1) The change in value of the hedged item used as the basis for recognizing hedge ineffectiveness approximates the change in fair value of the hedging instrument.

(Note 2) Net gain of ¥136 million arising from the hedging instrument for which hedge accounting is discontinued is included in the exchange differences on translation of foreign operations.

## (8) Market Price Fluctuation Risk

With respect to securities, the Group regularly assesses the fair value and financial conditions of the issuers, and each relevant department reviews the portfolio held by taking into account the relationship with counterparty entities as necessary.

## (9) Fair Value of Financial Instruments

The fair value hierarchy of financial instruments is categorized from Level 1 to Level 3 as follows

Level 1 Fair value measured at the quoted price in the active market

Level 2 Fair value that is calculated using the observable price other than categorized in Level 1 directly or indirectly

Level 3 Fair value that is calculated based on valuation techniques which include inputs that are not based on observable market data

(i) Financial instruments measured at amortized cost

The carrying amount and fair value hierarchy of financial instruments measured at amortized cost as of each fiscal year end are as follows

FY2014 As of December 31, 2014

		Millions of yen			
		FY2014			
		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Long-term borrowings <sup>(Note)</sup>	¥ 40,976	¥ —	¥ —	¥40,976	¥ 40,976
Bonds <sup>(Note)</sup>	139,954	142,586	—	—	142,586

FY2015 As of December 31, 2015

	Millions of yen				
	FY2015				
	Fair value				
	Carrying amount	Level 1	Level 2	Level 3	Total
Long-term borrowings <sup>(Note)</sup>	¥ 1,014	¥ —	¥ —	¥1,014	¥ 1,014
Bonds	215,072	217,215	—	—	217,215

(Note) Current portion is included

With regard to short-term financial assets and short-term financial liabilities measured at amortized cost, their fair value approximates the carrying amount

The fair value of long-term borrowings is calculated based on the present value which is obtained by discounting the total of the principal and interest by the interest rate assumed in a case where the same loan is newly made

(ii) Financial instruments measured at fair value

The fair value hierarchy of financial instruments measured at fair value is as follows

FY2014 As of December 31, 2014

	Millions of yen			
	FY2014			
	Level 1	Level 2	Level 3 <sup>(Note)</sup>	Total
Derivative assets	¥ —	¥31,837	¥ —	¥31,837
Equity securities	55,499	—	3,856	59,355
Other	279	—	1,555	1,834
Total	¥55,778	¥31,837	¥5,411	¥93,025
Derivative liabilities	¥ —	¥10,010	¥ —	¥10,010
Total	¥ —	¥10,010	¥ —	¥10,010

FY2015 As of December 31, 2015

	Millions of yen			
	FY2015			
	Level 1	Level 2	Level 3 <sup>(Note)</sup>	Total
Derivative assets	¥ —	¥7,106	¥ —	¥ 7,106
Equity securities	67,557	—	5,239	72,795
Other	319	—	1,727	2,046
Total	¥67,876	¥7,106	¥6,966	¥81,948
Derivative liabilities	¥ —	¥5,595	¥ —	¥ 5,595
Total	¥ —	¥5,595	¥ —	¥ 5,595

(Note) The schedule of financial instruments that are classified in Level 3 is as follows

	Millions of yen	
	FY2014	FY2015
	(Nine months ended December 31, 2014)	(Year ended December 31, 2015)
Balance at the beginning of the period	¥5,229	¥5,411
Total gain (loss)		
Profit or loss <sup>(Note 1)</sup>	294	172
Other comprehensive income <sup>(Note 2)</sup>	212	1,154
Purchases	—	478
Sales	(324)	(250)
Balance at the end of the period	¥5,411	¥6,966

(Note 1) Gains and losses included in profit or loss for the nine months ended December 31, 2014 and for the year ended December 31, 2015 are related to financial assets measured at fair value through profit or loss as of the fiscal year end date. These gains and losses are included in "Financial income" and "Financial costs."

(Note 2) Gains and losses included in other comprehensive income for the nine months ended December 31, 2014 and for the year ended December 31, 2015 are related to financial assets measured at fair value through other comprehensive income as of the fiscal year end date. These gains and losses are included in "Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income."

## 34 Related Parties

Based on the Japan Tobacco Inc. Act, the Japanese government shall hold more than one-third of all of the shares issued by the Company (excluding the type of shares, for which it is stipulated that voting rights may not be exercised on any matters that can be resolved by Annual Shareholders Meeting). As of December 31, 2015, the Japanese government held 33.35% of all outstanding shares of the Company.

### (1) Related-party Transactions

Related-party transactions are conducted under the same conditions as regular business transactions.

The Company's revenue from CJSC TK Megapolis, the local Russian distribution affiliate, was ¥309,519 million and ¥240,837 million for the nine months ended December 31, 2014 and for the year ended December 31, 2015, respectively. The Company held trade receivables of ¥33,302 million and ¥27,396 million from CJSC TK Megapolis as of December 31, 2014 and December 31, 2015, respectively.

### (2) Remuneration for Directors and Audit & Supervisory Board Members

Remuneration for directors and audit & supervisory board members for each fiscal year is as follows.

	Millions of yen	
	FY2014 (Nine months ended December 31, 2014)	FY2015 (Year ended December 31, 2015)
Remuneration and bonuses	¥526	¥650
Share-based payments	84	159
Total	¥610	¥809

## 35. Subsidiaries, Associates and Others

(The composition of the Group)

The composition of the Group by reportable segment as of each fiscal year end is as follows.

Reportable Segments	FY2014 (As of December 31, 2014)		FY2015 (As of December 31, 2015)	
	Number of subsidiaries	Number of entities accounted for using the equity method (Note 1)	Number of subsidiaries	Number of entities accounted for using the equity method (Note 1)
Domestic Tobacco	14	2	11	2
International Tobacco	145	6	144	5
Pharmaceuticals	3	—	3	—
Processed Food	28	3	28	3
Other (Note 2)	25	1	8	2
Total	215	12	194	12

(Note 1) No associates or joint ventures are considered to be material to the Group.

(Note 2) As "Beverage Business" has been classified as discontinued operations for the year ended December 31, 2015, subsidiaries classified in the discontinued operations are presented in "Other."

## 36 Commitments

### (1) Commitments for the Acquisition of Assets

Commitments for the acquisition of assets after each fiscal year end date are as follows.

	Millions of yen	
	FY2014 (As of December 31, 2014)	FY2015 (As of December 31, 2015)
Acquisition of property, plant and equipment	¥64,832	¥41,879
Acquisition of intangible assets	2,612	1,402
Total	¥67,444	¥43,281

**(2) Procurement of Domestic Leaf Tobacco**

With regard to the procurement of domestic leaf tobacco by the Company, based on the Tobacco Business Act the Company enters into purchase contracts with domestic leaf tobacco growers every year and the contracts determine the area under cultivation by

type of tobacco and the prices by type and quality of tobacco leaf. Under the contracts the Company is obligated to purchase all domestic leaf tobacco produced pursuant to such contracts except for any domestic leaf tobacco not suited for the manufacture of tobacco products.

**37. Business Combinations**

For the year ended December 31, 2015, the Group has made several acquisitions. As none of them is material to the consolidated financial statements, the description for each acquisition is omitted.

The total considerations for the acquisitions and the breakdown are as follows:

	Millions of yen
	Considerations paid
Cash	¥67,172
Consideration adjustments	14,251
Total considerations	¥81,423

	Millions of yen
	Net cash outflow for the acquisitions of subsidiaries
Cash consideration	¥67,172
Cash and cash equivalents in subsidiaries acquired	(121)
Net cash outflow for the acquisitions of subsidiaries	¥67,051

Total fair values of the assets acquired and liabilities assumed from the acquisitions are as follows:

	Millions of yen
	Fair value
Current assets	¥ 3,244
Non-current assets	28,695
Total assets	¥31,939
Current liabilities	¥ 8,873
Non-current liabilities	6,044
Total liabilities	¥14,917
Goodwill	¥64,402

Goodwill reflects integration synergies including future economic benefits from enhanced business scale in each market. Fair values of assets acquired and liabilities assumed are provisional amounts recognized at the acquisition date and will change during the measurement period (one year from the acquisition date).

**38. Discontinued Operations****(1) General Information of Discontinued Operations**

The Group classifies continuing operations and discontinued operations based on operating segments. As a result, for a business not managed as an independent operating segment, it will not be classified as discontinued operations when sold or discontinued and its operating income (loss) and cash flows will be included in the operating income (loss) and cash flows of continuing operations.

Shares of Japan Beverage Holdings Inc. (JT A-star Co., Ltd.) and other subsidiaries conducting vending machine operation business were transferred to Suntory Beverage & Food Limited (SBF) on July 31, 2015, and the manufacture and sale of JT beverage products was discontinued at the end of September 2015. Accordingly, for the year ended December 31, 2015, 'Beverage Business' has been classified as discontinued operations and presented separately from continuing operations.

## (2) Profit and Loss of Discontinued Operations

	Millions of yen	
	FY2014 (Nine months ended December 31, 2014)	FY2015 (Year ended December 31, 2015)
Profit and loss of discontinued operations		
Revenue	¥134,225	¥ 88,597
Cost of sales	(63,729)	(40,542)
Gross profit	70,495	48,055
Other operating income <sup>(Note 1)</sup>	232	135,081
Selling, general and administrative expenses <sup>(Note 2)</sup>	(70,850)	(64,017)
Operating profit	(123)	119,120
Financial income	39	36
Financial costs	(143)	(148)
Profit before income taxes	(227)	119,009
Income taxes <sup>(Note 3)</sup>	(861)	(31,493)
Profit (loss) for the period from discontinued operations	¥ (1,088)	¥ 87,515
Attributable to		
Owners of the parent company	¥ (1,583)	¥ 87,237
Non-controlling interests	495	278
Profit (loss) for the period from discontinued operations	¥ (1,088)	¥ 87,515

(Note 1) Gain of ¥134,287 million arising from sale of subsidiaries conducting vending machine operation business is included in the year ended December 31, 2015.

(Note 2) Impairment losses of ¥3,138 million are included in the year ended December 31, 2015.

(Note 3) Tax expense of ¥36,494 million related to transfer of subsidiaries is included in the year ended December 31, 2015.

## (3) Cash Flows of Discontinued Operations

	Millions of yen	
	FY2014 (Nine months ended December 31, 2014)	FY2015 (Year ended December 31, 2015)
Cash flows of discontinued operations		
Cash flows from operating activities	¥ 3,297	¥ 2,211
Cash flows from investing activities <sup>(Note)</sup>	(5,571)	123,772
Cash flows from financing activities	(1,903)	(13,197)
Total	¥(4,177)	¥112,786

(Note) Proceeds from sale of investments in subsidiaries conducting vending machine operation business are included in the year ended December 31, 2015.

## 39. Transfer of Subsidiaries

On July 31, 2015, shares of Japan Beverage Holdings Inc., JT A-star Co., Ltd., and other fourteen subsidiaries conducting vending machine operation business were transferred to SBF.

The consideration is ¥148,438 million and all is received in cash.

	Millions of yen
	Net cash inflow from transfer of subsidiaries
Cash consideration received	¥148,438
Cash and cash equivalents in subsidiaries transferred	(21,664)
Net cash inflow from transfer of subsidiaries	¥126,774

The breakdown of assets and liabilities transferred is as follows.

	Millions of yen
	Book value
Current assets	¥40,047
Non-current assets	32,001
Total assets	¥72,048
Current liabilities	¥35,716
Non-current liabilities	16,137
Total liabilities	¥51,853

## 40. Contingencies

### Contingent Liabilities

The Company and some of its subsidiaries are defendants in lawsuits. Provisions are not accounted for in matters it is not practicable to reasonably estimate the final outcomes.

The Company and some of its subsidiaries, who are defendants in such lawsuits, believe that our defenses asserted in these lawsuits are based on substantial evidence and implements the system for the response to action with the assistance of external lawyers.

#### (1) Smoking and Health Related Litigation

The Company and some of its subsidiaries are defendants in lawsuits filed by plaintiffs seeking damages for harm allegedly caused by smoking, the marketing of tobacco products, or exposure to tobacco smoke. As of December 31, 2015, there were a total of 20 smoking and health related cases pending in which one or more members of the Group were named as a defendant or for which the Company may have certain indemnity obligations pursuant to the agreement for the Company's acquisition of RJR Nabisco Inc.'s overseas (non-U.S.) tobacco operations.

The major ongoing smoking and health related cases are as follows:

##### a. Individual Claim

There is one individual case brought against the Company's indemnitee in South Africa.

##### South Africa Individual Claim (Joselowitz)

The individual claim was brought against the Company's indemnitee in South Africa in October 2000. Plaintiff seeks compensatory and

punitive damages, alleging that the Company's indemnitee marketed products which it knew to be dangerous to health, manipulated nicotine content to foster addiction, failed to comply with South African labeling requirements and participated in a clandestine worldwide operation to encourage children to smoke. This case has been dormant since February 2001.

In addition, there is one individual case (which is currently dormant) brought against the Company's subsidiary in Ireland.

##### b. Class Actions

There are eight ongoing class actions in Canada against the Company's subsidiary and/or indemnitees.

##### Canada Quebec Class Action (Cecilia Letourneau)

This class action was brought in September 1998 against three Canadian tobacco manufacturers including JTI-Macdonald Corp (hereinafter referred to as "JTI-Mac"), the Company's Canadian subsidiary. Plaintiffs are seeking a total of approximately ¥400.3 billion (approximately CAD 4.6 billion) in compensatory damages, an amount for which all the defendants would be jointly and severally liable. Plaintiffs are seeking an additional amount of approximately ¥400.3 billion (approximately CAD 4.6 billion) in punitive damages, to be divided among all the defendants based on their respective market shares. The class was certified by the court in February 2005, and the trial was conducted from March 2012 through December 2014.

The Quebec Superior Court rendered the first instance judgment in May 2015, ordering a punitive damage award against the defendants of approximately ¥11.4 billion (CAD 131 million), in which the

share of the total damage award against JTI-Mac is approximately ¥1.1 billion (approximately CAD 13 million). Although the Court found that the defendants had all committed some faults, it refused to award moral damages because the evidence did not establish the total amount of the claims of class members. In June 2015, JTI-Mac appealed the judgment to the Quebec Court of Appeal, and the defendants' appeal on the merits is scheduled to be heard in November 2016.

*Canada Quebec Class Action (Conseil Québécois sur le tabac et la santé)*

This class action was brought in November 1998 against three Canadian tobacco manufacturers including JTI-Mac. Plaintiffs are seeking a total of approximately ¥1,084.3 billion (approximately CAD 12.4 billion) in compensatory damages, an amount for which all the defendants are jointly and severally liable. Plaintiffs are seeking an additional amount of approximately ¥70.7 billion (approximately CAD 0.8 billion) in punitive damages, to be divided among all the defendants based on their respective market shares. The class was certified by the court in February 2005, and the trial was conducted from March 2012 through December 2014.

The Quebec Superior Court rendered the first instance judgment in May 2015, ordering a compensatory damage award jointly and severally against the defendants of approximately ¥1,351.3 billion (CAD 15.5 billion), in which the share of the total damage award against JTI-Mac is approximately ¥175.7 billion (CAD 2.015 billion). Given the enormity of the damage award, the Court granted a symbolic amount of punitive damages of approximately ¥3 million (CAD 30,000) per defendant. In June 2015, JTI-Mac appealed the judgment to the Quebec Court of Appeal, and the defendants' appeal on the merits is scheduled to be heard in November 2016.

*Canada Saskatchewan Class Action (Adams)*

This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2009. Plaintiffs are seeking unspecified compensatory and punitive damages on behalf of class members who allege to be or have been addicted to nicotine contained in cigarettes manufactured by the defendants. The preliminary motions are pending. The case is currently dormant.

*Canada Manitoba Class Action (Kunta)*

This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2009. Plaintiffs are seeking unspecified compensatory and punitive damages on behalf of class members who allege to be or have been addicted to nicotine contained in cigarettes manufactured by the defendants. The statement of claim was served on the Company's indemnitees but not on JTI-Mac. The class action is currently dormant.

*Canada Nova Scotia Class Action (Semple)*

This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2009. Plaintiffs are seeking unspecified compensatory and punitive damages on behalf of class members who allege to be or have been addicted to nicotine contained in cigarettes manufactured by the

defendants. The statement of claim was served on the Company's indemnitees but not on JTI-Mac. The class action is currently dormant.

*Canada British Columbia Class Action (Bourassa)*

This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2010. Plaintiffs are seeking unspecified compensatory and punitive damages for class members. The preliminary motions are pending. The pre-trial process is ongoing. A trial date is not yet scheduled.

*Canada British Columbia Class Action (McDermid)*

This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2010. Plaintiffs are seeking unspecified compensatory and punitive damages for class members. The preliminary motions are pending. The case is currently dormant.

*Canada Ontario Class Action (Jacklin)*

This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2012. Plaintiffs are seeking unspecified compensatory and punitive damages for class members. The preliminary motions are pending. The case is currently dormant.

**c. Health-Care Cost Recovery Litigation**

There are 10 ongoing health-care cost recovery cases in Canada pending against the Company's subsidiary and indemnitees brought by all the Canadian provinces (except three Canadian territories).

These provinces filed lawsuits under their own provincial legislation which was enacted exclusively for the purpose of authorizing the provincial government to file a direct action against tobacco manufacturers to recoup the health-care costs the government has allegedly incurred and will incur, resulting from 'tobacco related wrongs.'

*Canada British Columbia Health-Care Cost Recovery Litigation*

This health-care cost recovery litigation was filed by the Province of British Columbia in January 2001 against tobacco industry members including JTI-Mac and the Company's indemnitees based on its provincial legislation, the Tobacco Damages and Health-Care Costs Recovery Act. The claim amount is unspecified. In 2001, several defendants challenged the legislation's constitutionality, which was ultimately rejected by the Supreme Court of Canada in September 2005. The action remains pending in the first instance. The pre-trial process is ongoing. A trial date is not yet scheduled.

*Canada New Brunswick Health-Care Cost Recovery Litigation*

This health-care cost recovery litigation was filed by the Province of New Brunswick in March 2008 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The pre-trial process is ongoing. A trial date is not yet scheduled.

*Canada Ontario Health-Care Cost Recovery Litigation*

This health-care cost recovery litigation was filed by the Province of Ontario in September 2009 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The statement of claim contains allegations of joint and several



liabilities among all the defendants but does not specify any individual amount or percentages within the total claimed amount of ¥4 359 billion (CAD 50 0 billion). The pre-trial process is ongoing. A trial date is not yet scheduled.

*Canada Newfoundland and Labrador Health-Care Cost Recovery Litigation*

This health-care cost recovery litigation was filed by the Province of Newfoundland and Labrador in February 2011 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The pre-trial process is ongoing. A trial date is not yet scheduled.

*Canada Manitoba Health-Care Cost Recovery Litigation*

This health-care cost recovery litigation was filed by the Province of Manitoba in May 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The pre-trial process is ongoing. A trial date is not yet scheduled.

*Canada Quebec Health-Care Cost Recovery Litigation*

This health-care cost recovery litigation was filed by the Province of Quebec in June 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The statement of claim contains allegations of joint and several liabilities among all the defendants but does not specify any individual amount or percentages within the total amount of the claim approximately ¥5,288.1 billion (approximately CAD 60.7 billion). The pre-trial process is ongoing. A trial date is not yet scheduled.

*Canada Alberta Health-Care Cost Recovery Litigation*

This health-care cost recovery litigation was filed by the Province of Alberta in June 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The statement of claim contains allegations of joint and several liabilities among all the defendants but does not specify any individual amount or percentages within the total claimed amount of at least ¥871.8 billion (CAD 10.0 billion). The pre-trial process is ongoing. A trial date is not yet scheduled.

*Canada Saskatchewan Health-Care Cost Recovery Litigation*

This health-care cost recovery litigation was filed by the Province of Saskatchewan in June 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The pre-trial process is ongoing. A trial date is not yet scheduled.

*Canada Prince Edward Island Health-Care Cost Recovery Litigation*

This health-care cost recovery litigation was filed by the Province of Prince Edward Island in September 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The pre-trial process is ongoing. A trial date is not yet scheduled.

*Canada Nova Scotia Health-Care Cost Recovery Litigation*

This health-care cost recovery litigation was filed by the Province of Nova Scotia in January 2015 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The pre-trial process is ongoing. A trial date is not yet scheduled.

**(2) Other Litigation**

The Company and some of its subsidiaries are also named as defendants in other litigation such as commercial and tax disputes. One major case is pending.

**Commercial Litigation**

*Japan Compensatory Damages Claim*

In February 2010, a former President & CEO of Katokichi Co., Ltd. filed a claim against TableMark Holdings Co., Ltd. (renamed after acquisition of Katokichi Co., Ltd. by the Company) and its subsidiary seeking damages allegedly incurred by the plaintiff from an asset purchase agreement between the plaintiff and Katokichi Co., Ltd. and a joint and several guarantee provided by the plaintiff. The plaintiff argues the invalidity of the asset purchase agreement.

(Note) The amount of damages sought denominated in foreign currencies is translated into Japanese yen at the rates as of 31 December 2015.

## 41 Subsequent Events

### (1) Acquisition of the Natural American Spirit Business outside the United States

On September 29, 2015, the Group entered into an agreement with the Reynolds American Inc. group ( "RAI" ) to acquire the Natural American Spirit business outside the United States which included the non-U.S. trademarks and all outstanding shares of RAI's subsidiaries outside the U.S. which sold the brand.

Based on the agreement, the Group completed the acquisition on January 13, 2016. The acquisition price is approximately \$5.0 billion (approximately ¥592.2 billion).

### (2) Borrowings

The Group entered into loan agreements with banks as follows:

1 Lenders	Mizuho Bank, Ltd., Sumitomo Mitsui Banking Corporation and The Bank of Tokyo-Mitsubishi UFJ, Ltd.
2 Aggregate amount of borrowings	\$3.5 billion (approximately ¥412.6 billion)
3 Interest rates	Floating rates (Based on LIBOR plus spread)
4 Execution dates	January 12 and 13, 2016
5 Repayment dates	April 13, 2016, July 13, 2016, January 12 and 13, 2017
6 Collateral/Guarantee	None
7 Use of proceeds	The funds to acquire the Natural American Spirit business outside the United States by the Company

## 42. Consolidated Statement of Income (2014 January–December)

Consolidated statement of income assuming that the previous fiscal year of the Group had been the twelve-month period from January 1 2014 to December 31 2014 is as follows

	Millions of yen 2014 (January–December)
<b>Continuing operations</b>	
Revenue	¥2,259,240
Cost of sales	(904,901)
Gross profit	1,354,339
Other operating income	50,075
Share of profit in investments accounted for using the equity method	7,812
Selling, general and administrative expenses	(839,604)
Operating profit	572,622
Financial income	14,734
Financial costs	(12,784)
Profit before income taxes	574,572
Income taxes	(177,112)
Profit for the period from continuing operations	397,460
<b>Discontinued operations</b>	
Profit (loss) for the period from discontinued operations	(1,752)
Profit for the period	¥ 395,708
<b>Attributable to</b>	
Owners of the parent company	¥ 389,065
Non-controlling interests	6,643
Profit for the period	¥ 395,708
<b>Earnings per share</b>	
Basic (Yen)	
Continuing operations	¥ 215.36
Discontinued operations	(1.30)
Total basic earnings per share for the period	¥ 214.06
Diluted (Yen)	
Continuing operations	¥ 215.24
Discontinued operations	(1.30)
Total diluted earnings per share for the period	¥ 213.94

### Reconciliation from “Operating profit” to “Adjusted operating profit”

	Millions of yen 2014 (January–December)
<b>Continuing operations</b>	
Operating profit	¥572,622
Amortization cost of acquired intangibles	29,465
Adjustment items (income)	(46,113)
Adjustment items (costs)	104,980
Adjusted operating profit	¥660,954

## Consolidated Supplementary Information

### A Quarterly Information for the Year ended December 31, 2015

Millions of yen

	Q1 From January 1, 2015 to March 31, 2015	Q2 From January 1, 2015 to June 30, 2015	Q3 From January 1, 2015 to September 30, 2015	FY2015 From January 1, 2015 to December 31, 2015
Revenue	¥554,893	¥1,171,718	¥1,688,468	¥2,252,884
Profit before income taxes for the period (year)	145,293	291,305	457,340	565,113
Profit for the period (year)	105,036	213,677	407,872	490,242
Basic earnings per share for the period (year) (yen)	57.59	117.49	225.07	270.54

	Q1 From January 1, 2015 to March 31, 2015	Q2 From April 1, 2015 to June 30, 2015	Q3 From July 1, 2015 to September 30, 2015	Q4 From October 1, 2015 to December 31, 2015
Basic earnings per share for the quarter (yen)	¥57.59	¥59.91	¥107.74	¥45.40

(Note) "Beverage Business" has been classified as discontinued operations from the nine months ended September 30, 2015. Accordingly, for the nine months ended September 30, 2015 and for the year ended December 31, 2015, Revenue and Profit before income taxes for the period (year) have been presented the amount from continuing operations.

### B Significant Lawsuits

The significant lawsuits of the Group are as stated in "40 Contingencies" in the notes to consolidated financial statements.

# Deloitte.

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Japan Tobacco Inc

We have audited the accompanying consolidated statement of financial position of Japan Tobacco Inc and its consolidated subsidiaries as of December 31, 2015, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the fiscal year from January 1, 2015 to December 31, 2015, and notes to consolidated financial statements

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Japan Tobacco Inc and its consolidated subsidiaries as of December 31, 2015, and the consolidated results of their operations and their cash flows for the fiscal year then ended in accordance with International Financial Reporting Standards.



March 23, 2016

Member of  
Deloitte Touche Tohmatsu Limited

# Glossary of Terms

Unless otherwise stated, terms and numbers reported in this glossary are in accordance with IFRS

**Adjusted Operating Profit:** Operating profit + Amortization cost of acquired intangibles + Adjusted items (income and costs)\*

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

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

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

**Adjusted Profit:** Profit for the year (profit attributable to owners of the parent company) ± adjustment items (income and costs)\* ± (tax and minority interests adjustments)

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

**BnU** Billion Units

**CAGR** Compound annual growth rate

**Contraband:** Genuine products smuggled from abroad  
Genuine products diverted from the legitimate supply chain and sold in a country different from the intended market of retail sale and without domestic duty paid in that country

**Constant Exchange Rates** Constant exchange rates measures are computed by restating current year results at the previous year's foreign currency exchange rate. Results at constant rates of exchange should be considered in addition to, not as a substitute for, results reported in accordance with IFRS

**Core revenue (International Tobacco Business):** Includes revenues from waterpipe tobacco and emerging products, but excludes revenues from distribution, contract manufacturing and other peripheral businesses

**Core Revenue (Japanese Domestic Tobacco Business)** Excludes revenue from the distribution business of imported tobacco in the Japanese domestic tobacco business, among others

**Counterfeit:** Fake products appearing to be a genuine brand. Products protected by intellectual property rights which are manufactured without authorization from the rights' owners and with the intent to copy the genuine brand to deceive the consumer, also sold without duties being paid

**FCF (Free Cash Flow)** The sum of cash flows from operating activities and investing activities but excluding the following items

- Cash flows from operating activities interest received, dividends received, interest paid and the tax effect related to these items
- Cash flows from investing activities purchase of investment securities (for both short-term and long-term), payments into time deposits, proceeds from sale or redemption of investment securities (for both short-term and long-term), proceeds from withdrawal of time deposits and other investing activities not for business operation purposes

**GFB:** Global Flagship Brands (Winston, Camel, MEVIUS, LD, Benson & Hedges, Glamour, Silk Cut and Sobranie)

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

In FY2014, the Company and its subsidiaries with fiscal year ends other than December 31 have changed their fiscal year ends to December 31

The fiscal year end for international business continues to be December 31 as before, hence the Group consolidates financial results of international business for the twelve-month period from January 1, 2014 to December 31, 2014 into the Group's consolidated financial results for the nine months ended December 31, 2014 (Reported basis)

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

**Results for Nine months ended December 31, 2014 (Reported basis):** For domestic businesses consolidated nine-month results from April 1 to December 31, 2014

For international business consolidated twelve-month results from January 1 to December 31, 2014

**Results of Jan-Dec 2014 (Like-for-Like basis)** For the purpose of fair comparison of business performance, we are providing figures with regard to all business segments in continuing operations for January to December, 2014

- Revenue, operating profit, adjusted operating profit from continuing operations and profit attributed to owners of the parent company from continuing and discontinued operations combined for January to December, 2014 were disclosed in the Annual Securities Report, which was audited

**Illicit whites** Legitimately manufactured brands intentionally sold on the illicit market. Brands manufactured legitimately in one country but smuggled into another country to provide consumers with cheap brands, also without duties being paid

**IFRS.** International Financial Reporting Standards

**JPY BN** Billion Japanese Yen

**Restated:** See 'Constant Exchange Rates'

**Revenue** Excluding tobacco excise taxes and revenue from agent transactions

**Profit:** Profit attributable to owners of the Parent

**TableMark.** References to "TableMark" are to TableMark Holdings Co., Ltd., TableMark Co., Ltd.

**Total Shipment Volume (International Tobacco Business)** Includes fine cut, cigars, pipe tobacco and snus but excludes contract manufactured products, waterpipe tobacco and emerging products

**Total Sales Volume (Japanese Domestic Tobacco Business):** Excludes sales volume of domestic duty free and the China business

**US\$ MM** Million US dollars

	Jan Mar	Apr Jun	Jul Sep	Oct Dec	Jan Mar	Apr Jun	Jul Sep	Oct Dec
<b>Domestic</b>								
<b>International</b>								
	<b>FY2014</b>				<b>FY2015</b>			

	Jan Mar	Apr Jun	Jul Sep	Oct Dec	Jan Mar	Apr Jun	Jul Sep	Oct Dec
<b>Domestic</b>								
<b>International</b>								
	<b>2014 Jan - Dec</b>				<b>FY2015</b>			








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ink that contains less than 1% Volatile  
Organic Compounds (VOCs)

Printed in Japan