The Accounts of JT International Group Holding BV 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

Report and Financial Statements

31 December 2013

Gallaher Group Limited

Report and financial statements 2013

Contents

Gallaher Group Limited

Report and financial statements 2013

Officers and professional advisers

Directors

Daniel Torras *(appointed 1 February 2014)*
John Colton *(appointed 25 March 2013)*
Gregory Donovan *(appointed 25 March 2013)*
Paul Williams
Jorge da Motta *(appointed 25 March 2013, resigned 31 January 2014)*
Martin Southgate *(resigned 25 March 2013)*
Samuel Pelichet *(resigned 25 March 2013)*

Secretary

Peter Ogden

Registered Office

Members Hill
Brooklands Road
Weybridge
Surrey
KT13 0QU

Solicitors

Slaughter and May
Freshfields Bruckhaus Deringer LLP

Auditor

Deloitte LLP
Chartered Accountants & Statutory Auditor
London
United Kingdom

Gallaher Group Limited

Strategic report

Principal activities and review of business

The strategy of Gallaher Group Limited ("the Company") is to act 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 a cash dividend in the year of £1,354,000,000 from its subsidiary Gallaher Overseas (Holdings) Limited (2012 £nil) After accounting for impairment charges, administrative expenses, exchange gains and net financing costs, the Company reported a profit before tax of £528,888,000 for the year (2012 loss of £5,949,000)

Key performance indicators

Given the nature of the business, the Company's directors believe that analysis using key performance indicators other than the results above for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business

Principal risks and uncertainties

The principal risks and uncertainties that affect the Company include interest rate risk, liquidity risk, foreign currency risk and credit risk These risks are partly managed at the Group level and partly at an individual business unit level Further information on financial risk management is contained in note 10 to these financial statements

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

John Colton
Director

31 March 2014

Gallaher Group Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2013

Results and dividends

The Company's profit and loss account set out on page 6 shows a profit on ordinary activities after taxation of £529,620,000 (2012 loss of £4,775,000) Ordinary dividends amounting to £1,205,000,000 were declared and paid during the year (2012 £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 1)

Charitable and political donations

No political or charitable donations were made in the year (2012 £nil)

Directors

A list of the directors, together with dates of appointment and resignation, 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

John Colton
Director

31 March 2014

Gallaher Group Limited

Directors' responsibilities statement

The dırectors are responsıble for preparıng the Annual Report and the financıal statements ın accordance wıth applıcable law and regulatıons

Company law requıres the dırectors to prepare financıal statements for each financıal year Under that law the dırectors have elected to prepare the financıal statements ın accordance wıth Unıted Kıngdom Generally Accepted Accountıng Practıce (Unıted Kıngdom Accountıng Standards and applıcable law) Under company law the dırectors must not approve the financıal statements unless they are satısfied that they gıve a true and faır vıew of the state of affaırs of the Company and of the profit or loss of the Company for that perıod In preparıng these financıal statements, the dırectors are requıred to

- select suıtable accountıng polıcıes and then apply them consıstently,
- make ȷudgements and accountıng estımates that are reasonable and prudent,
- state whether applıcable UK Accountıng Standards have been followed, subject to any materıal departures dısclosed and explaıned ın the financıal statements, and
- prepare the financıal statements on the goıng concern basıs unless ıt ıs ınapproprıate to presume that the Company wıll contınue ın busıness

The dırectors are responsıble for keepıng adequate accountıng records that are suffıcıent to show and explaın the Company's transactıons wıth reasonable accuracy at any tıme the financıal posıtıon of the Company and to enable them to ensure that the financıal statements comply wıth the Companıes Act 2006 They are also responsıble for safeguardıng the assets of the Company and hence for takıng reasonable steps for the preventıon and detectıon of fraud and other ırregularıtıes

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 2013 which comprise the profit and loss account, the balance sheet and the related notes 1 to 16 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditor

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

Scope of the audit of financial statements

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

Opinion on the 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 2013 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 matter prescribed in the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Anthony Morris (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
31 March 2014

Gallaher Group Limited

Profit and loss account
Year ended 31 December 2013

	Note	**2013** **£000**	2012 £000
Income from ordinary shares in subsidiary undertakings	4,7	**1,354,000**	-
Impairment of investments in subsidiary undertakings	7	**(826,000)**	-
Administrative expenses		**(1)**	-
Exchange gains/(losses)		**2,270**	(3,643)
Other income		**-**	1
Interest payable and other finance charges		**(3,801)**	(5,494)
Interest receivable and other finance income		**2,420**	3,187
Finance costs - net	5	**(1,381)**	(2,307)
Profit/(loss) on ordinary activities before taxation		**528,888**	(5,949)
Taxation	6	**732**	1,174
Profit/(loss) for the year		**529,620**	(4,775)

The results above relate to continuing operations

The Company has no recognised gains or losses other than the results above and therefore no separate statement of total recognised gains and losses has been presented

Gallaher Group Limited

Balance sheet
31 December 2013

	Note	2013 £000	2012 £000
Fixed assets			
Investments	7	**2,236,697**	3,060,427
Current assets			
Debtors	8	**2,833**	4,980
Creditors: amounts falling due within one year	9	**(276,078)**	(426,575)
Net current liabilities		**(273,245)**	(421,595)
Net assets		**1,963,452**	2,638,832
Capital and reserves			
Called up share capital	11	**65,714**	65,714
Capital contribution reserve	12	**7,504**	7,504
Share premium account	12	**-**	138,381
Revaluation reserve	12	**-**	1,756,529
Capital redemption reserve	12	**7,872**	7,872
Profit and loss account	12	**1,882,362**	662,832
Total equity shareholders' funds		**1,963,452**	2,638,832

The financial statements of Gallaher Group Limited (registered number 03299793) were approved by the Board of Directors on 31 March 2014

Signed on behalf of the Board of Directors

John Colton
Director

Gallaher Group Limited

Notes to the Financial Statements
Year ended 31 December 2013

1. Accounting policies

The financial statements are prepared in accordance with applicable United Kingdom accounting standards The particular accounting policies adopted are described below

As permitted under section 400 of the Companies Act 2006, the Company has not prepared consolidated financial statements since it is a wholly owned subsidiary undertaking of JT International Group Holding B V (formerly JT Europe Holding B V) a company registered in the Netherlands, which prepares consolidated financial statements

Going concern

The financial position of the Company, its cash flows and liquidity position are described in note 10 to the accounts This includes an explanation as to how its financial risk management and exposures to credit risk and liquidity risk are managed at the Group level The majority of the creditors classed as due with one year, whilst technically repayable on demand are not expected to be repaid within one year The amounts that are expected to be repaid over the next year are matched against amounts that are expected to be received from other group companies either as dividends or repayment of the current receivable balances

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, JTI Ireland Limited and JTI Kazakhstan LLC The latest internal business plans of these companies, together with those of the other subsidiaries, have been considered by the directors

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

Cash flow statement

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

Revenue recognition

The Company's income comprises dividends from subsidiary undertakings and interest on loans provided to Group companies Interest income is recognised on an accruals basis and dividends receivable are recognised when the company's right to receive payment has been established

Foreign currencies

Transactions in foreign currencies are translated into sterling at the exchange rates ruling at the dates of the transactions Monetary assets and liabilities denominated in foreign currencies are retranslated into sterling at the exchange rates ruling at the balance sheet date and any exchange differences are taken to the profit and loss account

Dividends

Dividend distributions to shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or, in the case of interim dividends, when they are declared

Current taxation

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

Gallaher Group Limited

Notes to the Financial Statements
Year ended 31 December 2013

1. Accounting policies (continued)

Deferred taxation

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

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

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

Fixed asset investment

Fixed asset investments comprise the Company's investments in its subsidiaries, which are carried at historical valuations, less provision for impairment where appropriate The Company's investment in euro denominated preference shares issued by a subsidiary, Gallaher Limited, are retranslated into sterling at the exchange rates ruling at the balance sheet date and any exchange differences are taken to the profit and loss account

Debtors

Debtors comprise amounts owed by group companies, prepayments and accrued income They are measured at amortised cost using the effective interest method less impairment

Creditors

Creditors are primarily related amounts owed to group companies and they are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method

Borrowings

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

2. Directors' emoluments

The remuneration of the directors of the Company is 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, other than the directors

Gallaher Group Limited

Notes to the Financial Statements
Year ended 31 December 2013

3. 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 (2012 £5,000) The auditors have received no other remuneration during the year in respect of services provided to this company

4. Income from ordinary equity shares in subsidiary undertakings

	2013 £000	2012 £000
Dividends received and credited to income in the year		
Gallaher Overseas (Holdings) Limited	**1,354,000**	-

5. Finance costs - net

	2013 £000	2012 £000
Interest payable and other finance charges		
- on loans from Group undertakings	**(3,801)**	(5,494)
	(3,801)	(5,494)
Interest receivable and other finance income		
- income from preference shares in subsidiary undertaking	**2,420**	3,187
	2,420	3,187
Finance costs - net	**(1,381)**	(2,307)

6. Tax on profit/(loss) on ordinary activities

a) Analysis of the tax charge/(credit) for the year

	2013 £000	2012 £000
UK corporation tax		
Current tax on profit/(loss) for the year	-	-
Current year group relief	**(1,498)**	(1,993)
Total current tax charge/(credit)	**(1,498)**	(1,993)
Deferred tax		
Origination and reversal of timing differences in the year	**766**	819
Tax on profit/(loss) on ordinary activities	**(732)**	(1,174)

Gallaher Group Limited

Notes to the Financial Statements
Year ended 31 December 2013

6. Tax on profit/(loss) on ordinary activities (continued)

b) Factors affecting the tax (credit)/charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK at 23 25% (2012 24 5%) The differences are explained below

	2013	2012
	£000	£000
Profit/(loss) on ordinary activities before tax	**528,888**	(5,949)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 23 25% (2012 24 5%)	**122,966**	(1,457)
Effects of		
Timing differences relating to financial instruments	**(614)**	(647)
Non-taxable income and credits recieved	**(315,895)**	(781)
Non-deductible expenditure and other items	**192,045**	892
Current tax charge/(credit) for the year	**(1,498)**	(1,993)

The corporation tax rate will decrease to 21% from 1 April 2014 and will further decrease to 20% from 1 April 2015 as enacted in the Finance Act 2013

c) Analysis of deferred tax

	2013	2012
	£000	£000
Movements during the year in the net deferred taxation asset.		
At 1 January	**1,823**	2,642
Amount charged in the profit and loss account	**(528)**	(660)
Amount charged in the profit and loss account - effect of tax rate change	**(238)**	(159)
At 31 December	**1,057**	1,823

Deferred tax assets have been recognised in respect of temporary differences arising on derivative financial instruments because it is more likely than not that these assets will be recovered There was no unprovided deferred tax at 31 December 2013 (2012 £nil)

Gallaher Group Limited

Notes to the Financial Statements
Year ended 31 December 2013

7. **Fixed asset investments**

	Ordinary shares in subsidiary undertakings £000	Preference shares in subsidiary undertakings £000	**Total £000**
At 1 January 2013	2,900,100	160,327	**3,060,427**
Exchange adjustments	-	2,270	**2,270**
Impairment	(826,000)	-	**(826,000)**
At 31 December 2013	2,074,100	162,597	**2,236,697**

In 1997, the Company acquired 100% of the ordinary share capital of Gallaher Limited The historical cost of this investment was £232,305,000 Following the acquisition, the investment was valued at £2,900,000,000 by the directors, based on external advice, the difference between the historical cost and the valuation being credited to a revaluation reserve The Company's investment in Gallaher Limited euro-denominated preference shares and its investments in other subsidiaries are carried at a director's valuation, which is comparable to historical cost

During 2008 and 2009, as part of corporate re-organisations, the Company transferred all of its investment in Gallaher Limited to another direct subsidiary, Gallaher Overseas (Holdings) Limited ("GOHL"), in exchange for ordinary shares issued by GOHL

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 In the opinion of the directors, the carrying value of the preference shares approximates their fair value

In October 2013, the Company received a cash dividend of £1,354,000,000 from a subsidiary, GOHL The dividend amount represented a surplus cash holding within an underlying subsidiary, Gallaher Limited 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 using a discount rate of 7%, cashflows over 4 years and a decline rate of 6%, the Company booked an impairment charge amounting to £826,000,000 against the carrying value of its investment in GOHL in the profit and loss account for the year ended 31 December 2013 No other impairments have been identified as part of the Directors' annual review of the carrying value of the Company's investments in subsidiaries

Gallaher Group Limited is the beneficial owner of all of the equity share capital of its direct subsidiaries The direct subsidiaries at 31 December 2013, both of which are unlisted, are shown below

Name	**Country of incorporation**	**Principal activity**
Gallaher Overseas (Holdings) Limited	Great Britain	Investment holding company
JTI (UK) Finance PLC	Great Britain	Finance company

8. Debtors

	2013	2012
	£000	£000
Amounts falling due within one year		
Amounts owed by Group undertakings - group relief	**1,498**	1,993
Amounts owed by Group undertakings - other	**278**	1,164
	1,776	3,157
Amounts falling due after more than one year		
Deferred tax assets (note 6)	**1,057**	1,823
	2,833	4,980

The carrying value of debtors approximates the fair value Amounts owed by Group undertakings are unsecured and repayable on demand There is no provision for impairment

9 Creditors

	2013	2012
	£000	£000
Amounts falling due within one year		
Amounts owed to Group undertakings - loans and interest payable	**276,078**	426,575

The carrying value of creditors approximates the fair value Amounts due to Group undertakings are unsecured and repayable on demand The amounts owed to group undertakings carry interest of 0 957% (2012 1 291%) per annum charged on the outstanding loan balances

10. Financial risk management

The Company's exposure to funding and liquidity, interest rates and foreign exchange is managed in line with JT Group's treasury policy framework These risks are partly managed at the Group level and partly at an individual business unit level

The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes

Interest rate risk management

The Company has interest bearing financial assets and liabilities

The Company's financial assets are held for short periods before being used for working capital funding and the Company does not actively manage the interest rate risk on these assets The interest rate exposure on the borrowings is managed with an appropriate mix between fixed and floating rate borrowings

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

If interest rate had been 1% higher/lower and all other variables were held constant, the impact on the profit/loss for the year ended 31 December 2013 would be a decrease/increase of £1,122,000 (2012 increase/decrease of £2,649,000) This is mainly attributable to the Company's exposure to interest rates on its variable rate cash deposits and borrowings

10. Financial risk management (continued)

Liquidity risk management

The Company manages the liquidity risk of financial liabilities by maintaining sufficient liquid financial assets and matching the maturity profiles of financial assets and liabilities At 31 December 2013 and 31 December 2012, the creditors classed as due with one year, whilst technically repayable on demand are not expected to be repaid within one year The amounts that are expected to be repaid over the next year will be matched against amounts that are expected to be received from other group companies either as dividends or repayment of current receivables balances

The Company has no derivative financial instruments Non-derivative financial liabilities at 31 December 2013 and 31 December 2012 comprise loans from Group undertakings that bear interest based on LIBOR plus a margin

Foreign currency risk management

The Company has undertaken certain transactions denominated in Euros Hence, exposures to exchange rate fluctuations arise Exchange rate gains or losses are recognised in the profit and loss account in the period they are incurred

Foreign currency sensitivity analysis

At 31 December 2013 and 31 December 2012, the Company's only foreign currency exposure relates to its Euro denominated investment in preference shares issued by Gallaher Limited, and the dividend income receivable thereon

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

	Increase/(decrease) in profit	
	2013	2012
	£000	£000
10% strengthening of sterling		
Euro	**(14,782)**	(14,575)
10% weakening of sterling		
Euro	**18,066**	17,814

Credit risk management

Credit risk relates to the risk that counterparty will default on its contractual obligations resulting in a financial loss to the Company The Company's only financial assets are receivables owed by related parties

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

Gallaher Group Limited

Notes to the Financial Statements
Year ended 31 December 2013

11 Called up share capital

	£000
Allotted, called up and fully paid	
At 1 January 2013 (657,142,748 ordinary shares of 10p each)	65,714
Issue of ordinary shares (note 12)	1,756,529
Capital reduction (note 12)	(1,756,529)
At 31 December 2013 (657,142,748 ordinary shares of 10p each)	65,714

The Company has unlimited authorised share capital

12. Reserves

	Capital contribution reserve £000	Capital redemption reserve £000	Share premium account £000	Revaluation reserve £000	Profit and loss account £000
At 1 January 2013	7,504	7,872	138,381	1,756,529	662,832
Profit for the year	-	-	-	-	529,620
Capital reduction (see below)	-	-	(138,381)	(1,756,529)	1,894,910
Dividends paid on ordinary equity shares	-	-	-	-	(1,205,000)
At 31 December 2013	7,504	7,872	-	-	1,882,362

Capital contribution reserve

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 ("SRSOS") 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

Capital redemption reserve

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

Capital reduction

In October 2013, the Company undertook a capital restructuring The Company firstly capitalised its revaluation reserve through the issue of 17,565,290,000 new ordinary shares of 10p each, reducing the revaluation reserve to nil and increasing called up share capital by £1,756,529,000

The Company then undertook a capital reduction whereby the share capital was reduced by £1,756,290,000 (17,565,290,000 ordinary share of 10p each) and the share premium was reduced by £138,381,010 to nil The profit and loss account reserve was credited with an equivalent amount (£1,894,910,010)

13. Reconciliation of movements in shareholders' funds

	2013 £000	2012 £000
Profit/(loss) for year	**529,620**	(4,775)
Dividends paid on ordinary equity shares	**(1,205,000)**	-
Net decrease in shareholders' funds	**(675,380)**	(4,775)
Shareholders' funds at 1 January	**2,638,832**	2,643,607
Shareholders' funds at 31 December	**1,963,452**	2,638,832

14. Related party transactions

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

15. Contingencies

The Company has contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business It is not anticipated that any material liabilities will arise from the contingent liabilities

At 31 December 2013, the Company had no guarantees in respect of the financial obligations of subsidiaries (2012 £nil) In addition, the Company had provided a guarantee in respect of the financial obligations of Gallaher Limited related to the performance of interest rate swaps with a notional principal of £250,000,000 which were transferred during 2009, including all future cash flows under the swap contracts The swaps matured in February 2013

At 31 December 2013, the Company had no contingent liabilities in respect of guarantees given in respect of third parties (2012 £nil).

16 Ultimate holding company and consolidation

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

The smallest group in which the results of the Company are consolidated is JT International Group Holding B V (formerly JT Europe Holding B V), registered in Netherlands Copies of the consolidated financial statements of JT International Group Holding B V may be obtained from Vreelandseweg 46, Hilversum, Noord-Holland, Netherlands 1216

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

The Accounts of JT International Group Holding BV are being filed in conjunction with the Accounts of Gallaher Group Limited under the consolidation exception under Section 400 of the Companies Act 2006

ANNUAL REPORT 2013

JT INTERNATIONAL GROUP HOLDING B.V., AMSTERDAM

THESE GROUP ACCOUNTS FORM PART OF THE ACCOUNTS OF COMPANY 3299793

Statutory seat	Amsterdam, the Netherlands
Office address:	Vreelandseweg 46 1216 CH Hilversum, The Netherlands

For identification purpose only
Related to auditor's report
dated 13-05-2014

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Managing Board Report

Financial statements 2013

Other Information

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MANAGING BOARD REPORT

General

JT International Group Holding B V (the "Company") and its subsidiaries (together referred to as the "Group" or "JTI") are a leading multinational tobacco business with a strong portfolio of brands deployed across numerous markets around the world JT International Group Holding B V is a wholly-owned subsidiary of Japan Tobacco Inc ("JT") JTI has a license agreement with JT, granting JTI the exclusive rights to use certain JT trademarks outside the United States, Japan and China

Pursuant to an amendment of Dutch law effective January 1, 2013, the Company shall pursue a policy of having at least 30% of the seats on the Managing Board held by men and at least 30% of the seats held by women Given this recent enactment, the Company was unable to meet the above-mentioned gender criterion in 2013. The JTI Group will continue to strive for an adequate and balanced composition of its Managing Board in future appointments, by taking into account all relevant selection criteria, including but not limited to gender balance and executive experience

1 Developments in the period ended December 31, 2013

The JTI Group delivered a strong performance in 2013 despite many challenges.

Full year earnings achieved double-digit growth and share of market and share of value increased in the majority of our key markets Our volume performance versus last year decreased 4 6% due to continued economic downturn in Southern Europe, the volatility in the Middle East and industry contraction across many markets Our Global Flagship Brands (GFB) decreased 0 8% compared to prior year, as Winston grew volume, exceeding its previous annual record In addition, we continued to grow our fine cut volume, increasing 18 4%

Increased share of market and share of value combined with robust pricing generated Core Revenue[1] and EBITDA[2] growth of 6.1% and 11 3%, respectively, at constant rates of exchange.

In Q1 2013 the JTI Group acquired Nakhla, one of the world's leading manufacturers of water-pipe tobacco, based in Egypt Besides its important presence in Egypt, Nakhla also exports to 85 countries where the product (Shisha) has a deep-rooted heritage.

In Q4 2013, the JTI Group entered into an agreement to acquire a 20% stake in Megapolis, Russia's leading tobacco distributor accounting for approximately 70% of the Russian cigarette distribution market In 2012 it delivered more than 260 billion sticks of cigarettes to more than 150,000 points of sale.

[1] Core revenue does not include revenue from distribution, contract manufacturing and other peripheral businesses

[2] Operating result adding bank, depreciation, impairment, amortization, restructuring gains and losses and all JT cross charges (service cross charge and royalties)

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2 Financial position as at year-end 2013

The consolidated balance sheet as at year-end 2013 includes intangible fixed assets for an amount of USD 16,428 million (2012: USD 16,579 million). Total assets amount to USD 31,149 million (2012 USD 29,829 million) Total group equity of the Company amounts to USD 21,680 million (2012: USD 20,037 million). Current liabilities at year-end amount to USD 5,937 million (2012 USD 5,460 million).

3 Result analysis

Net sales were USD 13,364 million (2012 USD 13,096 million), an increase of USD 268 million (2012 increase USD 551 million) or 2 0% (2012 4 4%) compared to the previous financial year We refer to paragraph 1 for further details on the result analysis.

4 Risk exposure

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. health concerns relating to the use of tobacco products,
2. legal or regulatory developments and changes, including, without limitation, tax increases and restrictions on the sale, marketing and usage of tobacco products, and governmental investigations and privately imposed smoking restrictions,
3. litigation and claims;
4. our ability to further diversify our business beyond the tobacco industry,
5. our ability to successfully expand internationally,
6. competition and changing consumer preferences;
7. the impact of any acquisitions or similar transactions,
8. global economic conditions, and
9. fluctuations in foreign exchange rates and the costs of raw materials

JTI conducts business on a multi-national basis in a wide variety of foreign currencies and, as such, uses derivative financial instruments to reduce cash flow volatility associated with foreign exchange rate changes In 2013 and 2012, JTI used foreign currency forwards and swaps to economically hedge its exposure to fluctuations in Euro, GBP, Swiss Francs, Russian Ruble, Turkish Lira, Taiwan Dollar, Brazilian Real and certain other currencies All foreign currency derivative contracts have maturities of twelve months or less

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JTI does not designate derivative instruments in accounting hedge relationships. Accordingly, all changes in the fair values of derivatives are recorded in the statement of income

As a result of the use of derivative instruments, JTI is exposed to the risk that counterparties to derivative contracts will fail to meet their contractual obligations. To mitigate the counterparty credit risk, the Company has a policy of only entering into contracts with carefully selected major financial institutions based upon their credit ratings and other factors, and maintains strict dollar and term limits that correspond to each institution's credit rating The Company's established policies and procedures for mitigating credit risk on principal transactions include reviewing and establishing limits for credit exposure and continually assessing the creditworthiness of counterparties At December 31, 2013 there were no significant concentrations of credit risk with any individual counterparty or groups of counterparties related to the Company's use of derivative contracts JTI's established policies and procedures for mitigating credit risk on principal transactions include reviewing and establishing limits for credit exposure and continually assessing the creditworthiness of counterparties. ISDA agreements with counterparties give JTI the option to net amounts due from JTI to a counterparty with amounts due to JTI from a counterparty reducing the maximum loss from credit risk in the event of counterparty default At December 31, 2013 there were no significant concentrations of credit risk with any individual counterparty or groups of counterparties related to JTI's use of derivative contracts.

5 Research and development

Costs incurred on development projects would be recognized as intangible fixed assets when it is probable that JTI will achieve economic benefits in the future, considering its commercial and technological feasibility, and costs can be measured reliably However, as these costs do not meet the aforementioned criteria, research and development costs are expensed as incurred For 2013, the research and development costs amount to USD 71 million (2012 USD 73 million)

6 Employee information

JTI employed an average number of 28 480 employees during 2013 (2012 26,593)

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7 Distribution of earnings

The distribution of the earnings of the Company is at the disposal of the general meeting of shareholders The Managing Board proposes that the 2013 net result is added to the retained earnings. The financial statements do not yet reflect this proposal

8 Future Outlook

Despite continued challenges from the economic and regulatory environment, the JTI Group is committed to continue delivering strong profit growth at constant rates of exchange The Company forecasts a further increase of Core Revenue and EBITDA, driven by GFB mix improvement and strong pricing

2014 capex and Research and Development investments will remain broadly consistent with 2013 Management expects that future cash flows will be sufficient to repay existing external debt upon maturity Headcount is planned at optimized levels sufficient to meet the requirements of the business as it continues to grow

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9 Others

Further information about the performance of JT can be found in the annual report 2013/2014 of Japan Tobacco Inc, Japan, the ultimate parent company of JT International Group Holding B V.

Amsterdam, May 13, 2014

Managing Board:

T A McCoy

E J L G Pirard

佐伯 明

A Saeki

M Terabatake

福地 淳一

J Fukuchi

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CONSOLIDATED BALANCE SHEET
December 31, 2013
(before proposed appropriation of result)

A s s e t s

(in millions of USD)	December 31, 2013		December 31, 2012 (restated)[1]	
Fixed assets				
Goodwill	13,085		13,306	
Trademarks, distribution agreements and software	3,343		3,273	
Intangible fixed assets (1)		**16,428**		16,579
Land, buildings and structures	884		869	
Machinery and equipment	1,813		1,769	
Fixed assets under construction	573		306 *	
Tangible fixed assets (2)		**3,270**		2,944 *
Participations in non-consolidated companies	186		242	
Deferred taxes	755		799	
Financial fixed assets (3)		**941**		1,041 *
Total fixed assets		**20,639**		**20,564**
Current assets				
Leaf tobacco and consumables	2,488		2,410	
Finished products	636		584	
Others	335		311	
Inventories (4)		**3,459**		3,305
Trade receivables	2,694		2,694	
Other receivables	211		231 *	
Prepaid expenses and excise taxes	1,926		1,780	
Accrued income and others	328		205 *	
Receivables and prepaid expenses (5)		**5,159**		4,910 *
Cash and cash equivalents (6)		**1,892**		1,050
Total current assets		**10,510**		**9,265**
Total assets		**31,149**		**29,829**

* The comparative figures have been adjusted to improve the comparability

1) Prior year amounts have been restated to reflect retrospective application of revised IAS 19

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Group equity and liabilities

(in millions of USD)	December 31, 2013		December 31, 2012 (restated)[1]	
Group equity (7)				
Equity attributable to equity holder	21,525		19,881	
Minority interest	155		156	
Total Group equity		**21,680**		20,037
Provisions (8)				
Pensions and post-retirement benefits	1,222		1,312	
Other benefit obligation	90		104	
Taxes	1,773		1,787	
Others	63		48	
		3,148		3,251
Long-term liabilities (9)				
Bonds	1		662	
Others	383		419	
		384		1,081
Current liabilities				
Current portion of long-term liabilities to third parties (9)	721		433	
Taxes and social security contributions	2,988		2,959	
Trade accounts payable	551		468	
Short-term borrowings to banks	181		237	
Amounts due to affiliates (10)	92		167	
Accrued expenses	1,126		965	
Others	278		231	
		5,937		5,460
Total equity and liabilities		**31,149**		**29,829**

1) Prior year amounts have been restated to reflect retrospective application of revised IAS 19

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CONSOLIDATED STATEMENT OF INCOME
Year ended December 31, 2013

(in millions of USD)	**2013**	2012 (restated)[1]
Gross sales	36,462	35,354
Less. excise taxes	23,098	22,258
Net sales (12)	13,364	13,096 *
Cost of sales	5,726	5,933
Gross margin	7,638	7,163
Selling and related expenses	3,457	3,338
General and administrative expenses	1,656	1,503
Total expenses	5,113	4,841
Operating result	2,525	2,322
Result of equity accounted investments	16	34
Net interest result/ expense (13)	(37)	(94)
Net foreign exchange result	(56)	(142)
Net other financial income and expenses	(5)	(2)
Net financial result	(98)	(238)
Result on ordinary activities before taxation	2,443	2,118
Income taxes (14)	(721)	(715)
Result on ordinary activities after taxation	1,722	1,403
Minority interest	(38)	(44)
Net result for the year	1,684	1,359
Foreign currency translation adjustment	(85)	(18)
Hedge of net investment losses, net of tax	-	-
Actuarial losses on post-employment benefit obligations	54	(284)
Other comprehensive income / (loss)	(31)	(302)
Comprehensive income / (loss)	**1,653**	**1,057**

* The comparative figures have been adjusted to improve the comparability

1) Prior year amounts have been restated to reflect retrospective application of revised IAS 19

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CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended December 31, 2013

(in millions of USD)

(According to the indirect method)	2013		2012 (restated)[1]	
Cash flows from operating activities				
Net result for the year		1,684		1,359
Adjustments for				
Income taxes	721		715	
Depreciation, amortization and impairments	1,740		1,589	
Result of equity accounted investments	(16)		(34)	
Unrealized foreign exchange (gain)/loss	36		101	
Other non-cash items	21		(13)	
Net interest result	(7)		43	
Minority interest	38		44	
		2,533		2,445
Changes in assets and liabilities, net of acquired companies				
Trade and other receivables	(44)		(354)	
Inventories	(142)		12	
Prepaid expenses and excise taxes	(185)		(353)	
Other assets	(55)		(22)	
Trade payables	(72)		(52)	
Taxes and social security contributions	14		357	
Other liabilities	(27)		123	
		(511)		(289)
Cash provided from operations		3,706		3,515
Dividends received from associates		24		22
Net interest paid		8		(26)
Income tax paid		(703)		(760)
Net cash provided by operating activities (carry forward)		3,035		2,751

1) Prior year amounts have been restated to reflect retrospective application of revised IAS 19

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(in millions of USD)	2013		2012 (restated)[1]	
Net cash provided by operating activities (brought forward)		3,035		2,751
Cash flows used in investing activities				
Purchase of tangible fixed assets	(728)		(546)	
Proceeds from sale of assets	18		46	
Proceeds from sale of subsidiary	-		3	
Acquisitions, net of cash received	(145)		(580)	
Investments in an associate	(856)		(12)	
Net cash used in investing activities		(1,711)		(1,089)
Cash flows used in financing activities				
Net decrease in short-term borrowings	(57)		(172)	
Repayment of borrowings	(394)		(998)	
Proceeds (repayment) of borrowing from affiliates	13		8	
Other financing	(51)		(39)	
Net cash used in financing activities		(489)		(1,201)
Net cash used in operating, investing and financing activities		835		461
Cash and cash equivalents as at January 1		1,050		801
Effect of exchange rate differences on cash and cash equivalents		7		(212)
Cash and cash equivalents as at December 31		1,892		1,050

1) Prior year amounts have been restated to reflect retrospective application of revised IAS 19

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013

General

JT International Group Holding B.V , ("the Company"), having its statutory seat in Amsterdam, the Netherlands and offices in Hilversum, the Netherlands, is a wholly-owned subsidiary of Japan Tobacco Inc ('JT'), Tokyo, Japan.

The comparative figures for 2012 have been reclassified to conform with current year's presentation

Operations

JT International Group Holding B V "(the Company") and its subsidiaries (together referred to as the "Group" or "JTI") are a leading multinational tobacco business with a strong portfolio of brands deployed across numerous markets around the world JTI has a license agreement with JT, granting JTI the exclusive rights to use certain JT trademarks outside the United States, Japan and China

The list of directly and indirectly held investments of the Company is filed with the Trade Register in line with article 2 379 sub 5 of the Netherlands Civil Code.

Basis of preparation

The financial statements have been prepared under the historical cost convention, except for certain financial instruments that have been measured at fair value, in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Section 9 of Book 2 of the Netherlands Civil Code

Application of revised Financial Reporting Standards

IAS 19 Employee Benefits (as revised in 2011)

In 2013, the Company has applied IAS 19 Employee Benefits (as revised in 2011) and the related consequential amendments for the first time.

The company has applied IAS 19 (R) retrospectively and in accordance with the transitional provisions as set out in IAS19 173 These changes have had an impact on the amounts recognized in the consolidated statement of income and in the consolidated balance sheet in 2012 In addition, IAS 19 (R) introduces certain changes in the presentation of the defined benefit pension cost, including more extensive disclosures
Specific transitional provisions are applicable to the first-time application of IAS 19 (R) The Company has applied the relevant transitional provisions and restated the comparative amounts on a retrospective basis as follows

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- Interest cost and expected return on plan assets are now replaced by a "net interest" cost, computed by applying the discount rate to the net defined benefit liability or asset,
- All prior service costs and credits are immediately recognized in the consolidated income statement; and
- Deferred tax impact of the above changes is recognized in both the consolidated income statement and the consolidated statement of comprehensive income.

Impact of IAS19(R) application

In millions of USD	31 Dec 2012	1 Jan 2012
Consolidated Balance Sheet		
Net decrease in employee benefit liabilities	6	6
Net decrease in deferred tax assets	1	1
Net increase in shareholders' equity	5	5
Consolidated Statement of Income		
Net decrease in operating income	(1)	-
Net decrease in interest expense	10	-
Net increase in deferred tax expense	(2)	-
Increase in profit for the year	7	-
Increase in actuarial loss, net of deferred tax	(7)	-

US dollar financial statements

The Company belongs to a multinational, which operates on a world-wide basis. In accordance with Article 2 362, Section 7 of the Netherlands Civil Code, the US Dollar ("USD") is the presentation currency of the Company's financial statements. All amounts in these financial statements are recorded in millions of USD, unless stated otherwise

Going concern

These financial statements have been prepared on the basis of the going concern assumption.

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General accounting principles for the preparation of the consolidated financial statements

Consolidation Principles

The consolidated financial statements include the financial data of the company, its group companies and other companies over which the company has control Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities Group companies are participating interests in which the company has a direct or indirect controlling interest In assessing whether controlling interest exists, potential voting rights that are currently exercisable are taken into account

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases

In preparing the consolidated financial statements, intra-group debts, receivables and transactions are eliminated. The group companies are consolidated in full with minority interest presented within group equity separate from parent's equity.

The financial information relating to the Company is presented in the consolidated financial statements Accordingly, in accordance with article 2 402 of the Netherlands Civil Code, the Company financial statements only contain an abridged profit and loss account

Foreign currencies

US Dollar is the functional currency of the Company and the presentation currency for these consolidated financial statements.

Foreign currency transactions are translated in the functional currency of each subsidiary at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date

Assets and liabilities of the Company's foreign operations are translated at exchange rates prevailing at the balance sheet date Income and expense items are translated at the exchange rates prevailing at the monthly average rate Exchange differences are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate)

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Financial instruments

Receivables

Trade and other receivables are stated at face value and, if applicable, less allowances for doubtful accounts

Cash and cash equivalents

Cash equivalents include all short-term, highly liquid investments that are readily convertible to known amounts of cash that have contractual maturities of three months or less at the date of purchase

Derivative instruments and hedging activities

The Company uses derivative and non-derivative financial instruments to mitigate its foreign currency and interest rate risk and not for speculative or trading purposes Derivatives are not designated as accounting hedges. All derivatives are recognized as assets or liabilities and measured at fair value in the Company's consolidated balance sheets Derivatives are classified as other current assets and other current liabilities to the extent they mature within 12 months of the balance sheet date Changes in the fair value of derivatives are included in the consolidated statement of income in the period in which they occur.

Non-derivative instruments, such as foreign-currency-denominated debt, may be designated as hedges of the net investment in a foreign operation Gains (losses) on these instruments that have been designated and have qualified as hedging instruments are included in the consolidated statement of comprehensive income on a net of tax basis The gain (loss) relating to the ineffective portion, if any, is recognized immediately in the statement of income within net financial income Gains and losses accumulated in equity are included in the statement of income when the foreign operation is disposed of or sold.

Fair Value of Financial Instruments

The Company uses fair values to measure certain financial instruments In addition, certain non-financial instruments are accounted for at fair value on a non-recurring basis.

The Dutch Accounting Standards ("DAS") 290 paragraph 524 states that the fair value of financial instruments is computed based on generally accepted measurement models and evaluation techniques DAS 290 does not prescribe a particular valuation model The Company therefore used three levels of inputs that may be used to measure fair value

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities that JTI has the ability to access at the measurement date

- Level 2 inputs are observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities. Level 2 assets and liabilities include derivative contracts whose

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value is determined using a pricing model or discounted cash flow methodologies with inputs that are observable in the market or can be derived principally from or corroborated by observable market data

- Level 3 inputs are unobservable inputs that are supported by little or no market activity Valuation of Level 3 assets and liabilities requires significant management judgment to develop estimates of fair value Estimates are not necessarily indicative of the amounts that could be realized in a current market transaction

Derivative financial instruments are recognized and measured at fair value in the Company's consolidated statement of financial position Carrying amounts of receivables, payables, accrued expenses and short-term debt approximate their fair values.

The estimated fair value of long term debt is disclosed in note 11 Fair values are estimated based on market prices (for public debt) or interest rates currently available to the Company for borrowings with similar terms and remaining maturities (for bank and related party debt)

Long-term liabilities

Interest-bearing loans and liabilities are valued at amortized cost

Inventories

Consistent with recognized industry practice, inventories of leaf tobacco that must be cured for more than 12 months are classified as current assets Inventories are stated at the lower of weighted-average cost or market value Inventory write-downs and write-offs are recorded as a component of cost of sales

Leaf tobacco inventories include the following cost elements
- Leaf purchasing and overhead costs
- Storage costs during leaf curing
- Inbound freight costs

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Tangible fixed assets

Tangible fixed assets are stated at historical cost, net of accumulated depreciation and accumulated impairment losses Costs incurred after the acquisition are recognized as assets if it is probable that additional economic benefits will flow to the Company, and the benefit can be measured reliably Other repair and maintenance costs are recognized as expense when incurred

Properties in the course of construction for production or administrative purposes are carried at cost less any recognized impairment loss Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Company's accounting policy Depreciation of these assets, commences when the assets are ready for their intended use

Depreciation charge is computed on a straight-line basis over the following estimated useful lives

Buildings	20-50 years
Leasehold improvements	10-20 years (or lease term, if shorter)
Machinery and equipment	3-15 years

Land is not depreciated

Financial fixed assets

Participating interests where significant influence is exercised over the business and financial policy are valued according to the equity method on the basis of net asset value The difference between the acquisition price and the net asset value is recognized as goodwill

Participating interests where no significant influence is exercised are stated at the lower of cost or realisable value

Business combinations and related goodwill

Most assets and liabilities of the acquired businesses are recorded at their estimated fair values at the acquisition date Goodwill represents the excess of the purchase price over the fair value of net assets, including the amount assigned to identifiable intangible assets Where applicable, the consideration includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value

Goodwill arising in a business combination is recognized as an asset at the date that control is acquired

Based on the long-established lives of JTI's global flag brands and significant support for such brands, a 20-year amortization period has been selected for goodwill.

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For goodwill an assessment is made as of each balance sheet date as to whether there are indications that the goodwill is subject to impairment. If there are such indications, the recoverable value of the goodwill is estimated

If the carrying value of an asset or a cash flow generating unit is higher than the recoverable value, an impairment loss is recorded for the difference between the carrying value and the recoverable value

Intangible assets other than goodwill

Intangible assets on the Company's balance sheet are carried at cost less accumulated amortization and impairment, and consist mainly of trademarks acquired and software

Amortization is computed on a straight-line basis over the following estimated useful lives

Trademarks	20 years
Computer software	5 years
Other intangibles	3-6 years

Impairment of long-lived assets, other than goodwill

Long-lived tangible and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or cash generating unit (CGU) may not be recoverable An impairment loss is recognized to the extent that the carrying amount exceeds the higher of the asset's or CGU's fair value less costs to sell or its value in use

At each reporting period, an assessment is made as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased due to a change in the assumptions used to determine the recoverable amount. If such indication exists, the Company estimates the asset's or CGU's recoverable amount When the recoverable amount exceeds the asset's or CGU's carrying amount, the impairment loss is reversed up to a ceiling of the lower of the estimated recoverable amount or the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years

Leases

Leases are classified as finance leases whenever substantially all the risks and rewards incidental to ownership are transferred to the Company All other leases are classified as operating leases

Assets held under finance leases are capitalized as part of the tangible fixed assets at the present value of the minimum lease payments and depreciated over their useful economic lives or the lease term, whichever is shorter The corresponding lease commitments are shown as obligations to the lessor and the interest element of lease obligations is charged to the statement of income over the lease term Rentals paid under operating leases are charged to the statement of income over the lease term on a straight-line basis

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Retirement Benefits

In alignment with the Dutch Accounting Standards ("DAS") 271, "Employee Benefits", paragraph 101, JTI elects to apply IAS 19

The Company offers both defined benefit and defined contribution plans. A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate fund and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods A defined benefit plan is a post-employment benefit plan other than a defined contribution plan

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method with actuarial valuations being carried out at each balance sheet date The net defined benefit asset or liability comprises the present value of the defined benefit obligation, less the fair value of plan assets The present value of the defined benefit obligation is computed using a discount rate based on high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension obligation. In countries where there is no deep market in corporate bonds, the discount rate reflected in this calculation is based on the market rates of government bonds

Remeasurements of the net defined benefit liability resulting from actuarial gains and losses, return on plan assets and any change in the effect of an asset ceiling relating to each plan are recognized in the statement of comprehensive income as incurred Past service costs are recognized in the income statement on a straight line basis over the average period until the benefits become vested To the extent that the benefits are vested immediately following the introduction of, or changes to, a defined benefit plan, the Company recognizes past service cost immediately in the income statement

The value of any defined benefit asset recognized is restricted to the sum of any past service costs not yet recognized and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan

Contributions to defined contribution plans are recognized as an expense when employees have rendered service entitling them to the contributions

Provisions

Provisions are recognized when the Company has a present obligation as a result of a past event, it is probable that the settlement of obligation is required, and a reliable estimate can be made of the amount of the obligation

The amounts recognized as provisions are the current best estimate of the expenditure required to settle the present obligation at the end of the reporting period by taking into consideration the risks and uncertainties relating to the obligations When the effect of the time value of money is

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material, the amount of a provision is measured at the present value of the expenditures expected to be required to settle the obligation

Restructuring provisions are recognized when the Company has a detailed formal plan for restructuring and has raised a valid expectation in those affected that the restructuring will be carried out Provisions include only the direct expenditures arising from the restructuring, which are necessarily entailed by the restructuring and not associated with the ongoing activities of the Company

Contingencies

The Company discloses contingent liabilities in the notes to consolidated financial statements if it has possible obligations at the year end, whose existence cannot be confirmed at that date, or if the obligations do not meet the recognition criteria of a provision

Revenue recognition

The Company recognizes revenue from the sale of goods when the significant risks and rewards of the goods are transferred to the buyer (usually this is upon delivery), the amount of revenue can be measured reliably and it is probable that economic benefits associated with the transaction will flow to the entity

Revenue is recognized net of VAT, excise taxes, other sales related taxes, sales and marketing incentives, including prominent display fees, payments linked to specific performance criteria (such as targeted sales volumes, ranging and stock availability) and payments to support shelf price reduction in relation to promotional activity. Obligations related to sales incentives that involve retrospective payments to customers are estimated principally by reference to the Company's historical experience with similar programs and the probability that the sales incentive will take place

Shipping and handling fees billed to customers are included in gross revenues, while shipping and handling costs incurred directly are included in cost of sales

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized in the profit and loss in the period in which they are incurred Capitalized borrowing costs were insignificant in 2013 and 2012

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Research and development

Research and development costs are expensed as incurred.

Income taxes

The tax expense for the period comprises current and deferred tax Tax is recognized in the statement of income, except to the extent that it relates to items recognized in other comprehensive income In this case, the tax is also recognized in other comprehensive income

The current income tax charge is computed on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities. The Company classifies any penalties as a component of income tax and interest as finance expense

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the parent and it is probable that the temporary difference will not reverse in the foreseeable future

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis

Use of estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the Netherlands requires management to make judgments, estimates and assumptions about the carrying amounts of assets, liabilities, revenues and expenses and related disclosures, including the disclosure of contingent assets and liabilities Actual results could differ from these estimates

The estimates and underlying assumptions are reviewed on an ongoing basis Revisions to accounting estimates are recognized 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

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The areas that require the most significant and sensitive judgments and estimates include

- Impairment of Non-financial Assets The impairment test for goodwill is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the annual plan for the following three years, and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset base of the cash generating unit being tested

- Retirement Benefits· The cost of defined benefit pension plans and other post-employment medical benefits as well as the present value of the pension obligation is determined based on actuarial valuations The actuarial valuations involve making assumptions about demographics (including mortality rates), discount and inflation rates, and future salary increases All assumptions are reviewed at each reporting date. In determining the appropriate discount rate for the Company's most significant plans, management uses high-quality corporate bond yield curves reflecting the expected timing and amount of the future benefit payments for the respective countries A consistent assumption is used across the Eurozone For the other plans, the discount rate is based on high-quality corporate or government bond yields with a duration consistent with underlying pension obligations The mortality rates are based on publicly available mortality tables for the specific country and include an allowance for future improvements in life expectancy, in all countries where this is available

- Deferred tax assets These assets are recognized for all available tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary differences can be utilized Significant judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies

- Provisions and contingencies The determination of legal and tax contingencies, and the estimation of provisions for such liabilities are subject to uncertain future events, and may extend over several years The timing and/or amount may differ from current assumptions

Statement of cash flows

The consolidated statement of cash flows has been prepared according to the indirect method

The funds in the cash flow statement consist of cash and cash equivalents Cash equivalents can be considered as highly liquid investments

Cash considerations paid for investments in subsidiaries and participations in group companies acquired are recorded as a cash flow used in investing activities net of any cash and cash equivalents acquired

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Transactions, not resulting in cash flows, such as financial leasing, are not recorded in the statement of cash flows. Payments of the financial lease installments are recorded as a cash flow used in financing activities for the redemption component and as a cash flow used in operational activities for the interest component

Differences in movements between balance sheet items from one period to another and the amount taken up in the cash flow statements is caused partly by exchange differences.

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Notes to the specific items of the consolidated balance sheet

Intangible fixed assets (1)

Movements are as follows:

(in millions of USD)	Goodwill	Trademarks, distribution agreements and software	Total
Acquisition price at historical cost	19,245	5,305	24,550
Accumulated amortization as of December 31, 2012	(5,939)	(2,032)	(7,971)
Book value as of December 31, 2012	13,306	3,273	16,579
Additions through business combinations	749	308	1,057
Additions acquired separately	-	50	50
Amortization for the year	(970)	(284)	(1,254)
Impairment loss	-	(7)	(7)
Transfers	-	1	1
Currency translation adjustments	-	2	2
Book value as of December 31, 2013	13,085	3,343	16,428
Acquisition price at historical cost	19,994	5,647	25,641
Accumulated amortization as of December 31, 2013	(6,909)	(2,304)	(9,213)
Book value as of December 31, 2013	13,085	3,343	16,428

On December 12, 2013 the Company acquired 20% of the outstanding share capital of Megapolis Distribution B V and its subsidiaries (collectively referred to as "Megapolis") for an amount of USD 856 million.

On 1 March 2013, the Company acquired Al Nakhla Tobacco Company S.A E and Al Nakhla Tobacco Company - Free Zone S.A.E (collectively referred to as "Nakhla") for an amount of USD 266 million.

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Tangible fixed assets (2)

Movements are as follows.

(in millions of USD)	Land, buildings and structures	Machinery and equipment	Assets under construction	Total
Acquisition price at historical cost	1,166	3,755	306	5,227
Accumulated depreciation as of December 31, 2012	(297)	(1,986)	-	(2,283)
Book value as of December 31, 2012	869	1,769	306	2,944
Additions through business combinations	5	11	-	16
Additions acquired separately	39	252	450	741
	913	2,032	756	3,701
Book value of the disposals	-	(11)	(1)	(12)
Depreciation for the year	(46)	(323)	(2)	(371)
Impairments	-	(4)	-	(4)
Transfers	29	144	(174)	(1)
Currency translation adjustments	(12)	(25)	(6)	(43)
Book value as of December 31, 2013	884	1,813	573	3,270
Acquisition price at historical cost	1,219	4,003	575	5,797
Accumulated depreciation as of December 31, 2013	(335)	(2,190)	(2)	(2,527)
Book value as of December 31, 2013	884	1,813	573	3,270

In 2013, down payments for machinery have been reclassified from other receivables to property, plant and equipment, assets under construction Prior year amounts have been adjusted to reflect this change

Net transfers out in 2013 and 2012 relate to assets transferred to assets held for sale and intangible assets

The present value of future minimum lease payments for assets under finance leases was USD 2 million at December 31, 2013 (2012 USD 2 million) Of that amount, USD 0 3 million is due within one year

No assets were pledged as collateral in 2013 or 2012

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Financial fixed assets (3)

Movements are as follows:

(in millions of USD)	Participations in non-consolidated companies	Deferred income taxes	Total
Book value as of December 31, 2012	242	799	1,041
Purchases and loan granted	-	-	-
Sales and redemptions	-	-	-
Additions	47	-	47
Share in result	16	-	16
Dividends received	(24)	-	(24)
Charged to Other Comprehensive income / (loss)	-	(21)	(21)
Credited to Statement of Income, net	-	(61)	(61)
Transfers and reclassifications	-	2	2
Impairments	(97)	-	(97)
Currency translation adjustments	2	36	38
Book value as of December 31, 2013	186	755	941

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Deferred income taxes

The components for the deferred income taxes are as follows

(in millions of USD)	2013	2012
Temporary differences	801	863
Tax credits and carry forward losses	255	347
	1,056	1,210
Offset deferred tax assets and liabilities	(120)	(289)
Valuation allowances	(181)	(122)
Balance as of December 31	755	799

The deferred tax assets are reflected in the balance sheet after offsetting assets and liabilities where there is a legally enforceable right to offset and where the deferred income taxes relate to the same fiscal authority

The realization of deferred tax assets is assessed on a jurisdiction-by-jurisdiction basis The assessment is based upon the weight of all available evidence, including factors such as the recent earnings history and expected future taxable income A valuation allowance is recorded to reduce deferred tax assets to a level which, more likely than not, will be realized

The deferred income taxes include an amount of USD 130 million (2012 USD 134 million) which is of a short-term nature

Inventories (4)

The carrying amounts of inventories were as follows

(in millions of USD)	2013	2012
Leaf tobacco and consumables	2,488	2,410
Finished products	636	584
Others	335	311
Balance as of December 31	3,459	3,305

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Receivables, prepaid expenses and accrued income (5)

Receivables and prepaid expenses consist of.

(in millions of USD)	**2013**	2012 *
Net trade receivables	2,694	2,694
Other receivables	211	231
Prepaid expenses and taxes	1,926	1,780
Accrued income and others	328	205
Balance as of December 31	5,159	4,910

* The comparative figures have been adjusted to improve the comparability

In 2013, down payments for machinery have been reclassified from other receivables to property, plant and equipment, assets under construction Prior year amounts have been adjusted to reflect this change

The trade receivables are stated net of allowances of USD 20 million (2012 USD 17 million)

The receivables, prepaid expenses and accrued income include an amount of USD 312 million (2012 USD 202 million) of a long-term nature

Cash and cash equivalents (6)

Included in the cash balance above as of December 31, 2013 is USD 400 million (2012· USD 172 million) held by the Iranian subsidiary JTI Pars PJS Co. Due to international sanctions imposed on Iran, the subsidiary's ability to remit funds outside of Iran is restricted Cash equivalents include USD 556 million (2012 USD 225 million) central short-term deposits and USD 300 million (2012 nil) of short-term money market funds

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Equity attributable to equity holder (7)

For the breakdown of equity attributable to equity holders, reference is made to the Company balance sheet and the notes to Company financial statements

The movement in minority interest is as follows.

(in millions of USD)	2013	2012
Balances as of January 1	156	149
Result for the year	38	44
Currency translation adjustment	(5)	3
Adjustments arising from change in non-controlling interest	(9)	3
Dividend paid to minority interest	(25)	(43)
Balances as of December 31	155	156

Provisions (8)

Provisions comprise

(in millions of USD)	2013	2012[1]
Pensions and post-retirement benefits	1,222	1,312
Other benefit obligations	90	104
Taxes	1,773	1,787
Others	63	48
Balances as of December 31	3,148	3,251

1) Prior year amounts have been restated to reflect retrospective application of revised IAS 19

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Provisions (continued)

Retirement benefit schemes

The Company sponsors funded and unfunded defined benefit plans and defined contribution plans as employee retirement benefit plans. The benefits on defined benefit plans are based on conditions, such as points that employees acquired in compensation for each year of service, the payment rate, years of service, average salary in their final year of service before retirement and others

Special termination benefits may be provided to employees on their leave before the usual retirement date under certain circumstances.

Risks

The Company's major defined benefit plans are subject to funding requirements that fluctuate based on interest rates, performance of plan assets and changes in local regulations.

The principal risks to which the plans are exposed are asset volatility, interest rate risk, inflation risk and life expectancy.

- Asset volatility - plan liabilities are estimated using a discount rate set with reference to corporate bond yields, if the plan assets underperform this yield, a deficit will be created.
- Interest rate risk - a decrease in bond yields will increase plan liabilities although this will be offset by an increase in the value of plan assets
- Inflation risk - the majority of the plan benefits are linked to inflation, higher inflation will lead to higher liabilities
- Life expectancy - the majority of the plan obligations provide benefits for the life of the member, so higher life expectancy will result in an increase in the plan liabilities

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Provisions (continued)

Matters related to actuarial assumptions

The weighted-average assumptions used to determine the results are included in the following table The assumptions are applicable to the net liability at the balance sheet date and the costs for the annual period following that balance sheet date

	31 December 2013		31 December 2012	
	Pension Benefits	Post-retirement benefits	Pension Benefits	Post-retirement benefits
Discount rate	3 89%	4 12%	3 71%	3 83%
Rate of compensation increase	3 56%	3 29%	3 30%	3 27%
Inflation rate	2 68%	1 96%	2 37%	2 06%
Health care cost trend rate for next year	n/a	5 63%	n/a	5 78%
Ultimate healthcare cost trend rates	n/a	5 02%	n/a	5 25%
Years to ultimate rate	n/a	3 years	n/a	3 years
Life expectancy, at age 65 for male currently aged 65	21 2	20 8	20 9	20 3
Life expectancy, at age 65 for female currently aged 65	23 8	23 3	23 5	22 9
Life expectancy, at age 65 for male currently aged 50	22 5	21 8	22 1	21 1
Life expectancy, at age 65 for female currently aged 50	25 1	24 2	24 8	23 7

Income statement items related to retirement benefits

Amounts recognized in the consolidated income statement in respect of the Company's defined benefit schemes are as follows

In millions of USD	Pension Benefits 2013	Post-retirement benefits 2013	Total 2013	Pension Benefits 2012 (restated)[1]	Post-retirement benefits 2012 (restated)[1]	Total 2012 (restated)[1]
Current service cost	74	5	79	59	5	64
Past service cost	27	-	27	(9)	3	(6)
Curtailments, settlements and special termination benefits	-	-	-	7	2	9
Net Interest Cost	27	12	39	27	12	39
Increase in profit for the year	128	17	145	84	22	106

1 Prior year has been restated to reflect retrospective application of revised IAS 19

Of the expense for the year, $53 million (2012 $23 million) was included in the income statement as cost of sales, $54 million (2012· $34 million) as administrative expenses, $39 million (2012· $39 million) as finance expense and $(1) million (2012 $10 million) as restructuring and impairment (income) / expense

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Provisions (continued)

Experience adjustments based on results of defined benefit obligations and plan assets

The following table contains a summary of the present value of the defined benefit obligation and the fair value of the plan assets and the experience adjustments

(in millions of USD)

	Pension benefits 2013	Post-retirement benefits 2013	**Total 2013**	Total 2012[1]
Present value of defined benefit obligations	(4,130)	(316)	(4,446)	(4,199)
Fair value of scheme assets	3,354	27	3,381	3,058
Deficit in the scheme	(776)	(289)	(1,065)	(1,141)
Experience (gains) losses on scheme liabilities	(27)	(2)	(29)	65
Experience gains on scheme assets	161	2	163	(115)

1) Prior year amounts have been restated to reflect retrospective application of revised IAS 19

Reconciliation of defined benefit obligations and plan assets

The amounts recognized in the balance sheets and the funded status at December 31, 2013 and 2012 are as follows

(in millions of USD)	Pension benefits 2013	Post-retirement benefits 2013	**Total 2013**	Total 2012[1]
Present value of funded obligations	(3,324)	(79)	(3,403)	(3,177)
Fair value of plan assets	3,354	27	3,381	3,058
Surplus / (deficit) of funded plans	30	(52)	(22)	(119)
Present value of unfunded obligations	(806)	(237)	(1,043)	(1,022)
Net liability in the balance sheets	(776)	(289)	(1,065)	(1,141)
Presented as				
Prepaid expenses and excise tax	157	-	157	171
Provision pensions and post-retirement benefits	(933)	(289)	(1,222)	(1,312)
	(776)	(289)	(1,065)	(1,141)

1) Prior year amounts have been restated to reflect retrospective application of revised IAS 19

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Provisions (continued)

Schedule of defined benefit obligations

(in millions of USD)	Pension benefits 2013	Post-retirement benefits 2013	Total 2013	Total 2012[1]
Change in defined benefit obligation				
Present value at January 1, 2013	3,871	328	4,199	3,524
Adjustments in respect of prior years			-	(5)
Present value at January 1, 2013 (restated)			4,199	3 519
Current service cost	74	5	79	64
Interest cost	140	11	151	161
Curtailments, settlements and special termination benefits	-	-	-	9
Past service cost	27	-	27	(6)
Benefit payments	(172)	(10)	(182)	(199)
Contributions by plan members	10	-	10	11
Actuarial gains and losses	101	(18)	83	504
Foreign exchange and other	74	-	79	136
Present value at December 31, 2013	4,130	316	4,446	4,199

1) Prior year amounts have been restated to reflect retrospective application of revised IAS 19

Schedule of plan assets

(in millions of USD)	Pension benefits 2013	Post-retirement benefits 2013	**Total 2013**	Total 2012
Change in plan assets				
Fair value at January 1, 2013	3,033	25	3,058	2,700
Interest on plan assets	113	1	114	122
Company contributions	121	1	122	115
Benefit payments	(135)	(2)	(137)	(136)
Contribution by plan members	10	-	10	11
Transfer in	2	-	2	23
Return on plan assets (excluding interest)	161	2	163	115
Foreign exchange and other	49	-	49	108
Fair value at December 31, 2013	3,354	27	3,381	3,058
Actual return on scheme assets	274	3	277	237

The Company expects to contribute USD 90 million to its funded defined benefit pension plans and USD 1 million to its funded post-retirement medical plans in 2014

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Provisions (continued)

The allocation of the funded pension plans' fair values of assets by asset category was as follows at December 31, 2013

Asset category	2013	2012
Equity securities	39%	41%
Debt securities	48%	46%
Real estate	2%	2%
Cash and other assets	11%	11%
	100%	100%

The Company's investment strategy for pension plan assets comprises a blend of assets that are a reasonable match for the pension liabilities and assets that are targeting long-term growth The assets targeting long-term growth are well diversified across individual securities, industry sectors and countries Plan assets are rebalanced periodically in line with the target asset allocations The Company aims to maintain adequate liquidity to enable immediate and medium-term benefit payments At December 31, 2013 and 2012, excluding any self-investment through pooled funds, none of the Company's pension plan assets had investments in JT shares, or in property occupied by or other assets used by JT International Holding BV or JT

Other benefit obligation

The provision for other employee benefits relates to former and inactive employees, not being retired, such as salary continuation, supplemental unemployment benefits, severance benefits and disability-related benefits including continuation of benefits such as health benefits and life insurance coverage.

(in millions of USD)	2013
Balance as of January 1, 2013	104
Additions	1
Withdrawals	(15)
Balance as of December 31, 2013	90

An amount of USD 15 million is considered to be of a short-term nature

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Taxes

Movements in tax provisions are as follows

(in millions of USD)	Deferred income taxes	Uncertain tax positions	Total 2013
Book value as of January 1, 2013	1,056	731	1,787
Credited / (charged) to Income Statement	(98)	4	(94)
Credited / (charged) to Other Comprehensive Income / (expense)	3	-	3
Settlements	-	(2)	(2)
Transfers and nettings	4	-	4
Currency translation adjustments	40	(6)	34
Others	48	(7)	41
Book value as of December 31, 2013	1,053	720	1,773

The provisions for deferred income taxes and uncertain tax positions can be considered to be of as short-term nature for the amounts of USD 60 million and USD 29 million, respectively.

Other provisions

The other provisions mainly relate to restructuring plans, litigation cases and jubilee plans for personnel Movements are as follows

(in millions of USD)	**2013**	2012
Balance as of January 1,	48	63
Additions	24	45
Utilization	(4)	(9)
Release of unused amounts	(4)	(14)
Transfers and reclassifications	(1)	(37)
Balance as of December 31	63	48

An amount of USD 29 million is considered to be of a short-term nature

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Long-term liabilities (9)

The long-term liabilities are as follows

(in millions of USD)	Long-term liability	Current portion	Total 2013
Bonds	1	687	688
Other bank loans	-	-	-
RGI valuation payment	-	34	34
Accrued and other liabilities	383	-	383
Total book value as of December 31, 2013	384	721	1,105

The long-term liabilities mature within a period of five years The current portion of the long term liabilities is classified as current liabilities. Substantial all of the Company's Borrowings are guaranteed by JT

Bonds
At December 31, 2013, the Company had outstanding 500 million 4 5% Eurobonds with a carrying amount of EUR 612 million (due 2014)

Syndicated credit facilities to banks
At December 31, 2013 the Company had access to unused credit facilities of approximately USD 4 2 billion (2012 USD 3 7 billion), including USD 1.4 billion available under a committed syndicated facility (2012 USD 1 3 billion)

RGI Valuation Payment
As part of 2007 Gallaher acquisition, JTI acquired a 50% interest in R J Reynolds-Gallaher International Sarl ("RGI"), a joint venture with R J Reynolds Tobacco C V The joint venture was terminated on December 31, 2007 and JTI agreed to pay a valuation payment in February 2008 The remaining liability as of December 31, 2013 amounts to USD 34 million

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Current liabilities

Amounts due to affiliates (10)

(in millions of USD)	**2013**	2012
Short-term borrowings to JT affiliates	92	26
Accounts payables	-	141
Balance as of December 31	92	167

Commitments and contingencies

Lease commitments

The Company leases various buildings, computer equipment and vehicles under non-cancellable operating leases The aggregate lease expense was USD 106 million in 2013 (2012 USD 98 million)

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows

(in millions of USD)	**2013**	2012
Within one year	75	68
Between two and five years	120	136
After five years	68	54
Balance as of December 31	263	258

Financial commitments

The Company is a party to the 2007 Cooperation Agreement with the European Commission ("EC") to combat the contraband and counterfeit of cigarettes in the European Union Payments totaling USD 400 million will be made over 15 years and used by the EC and participating Member States to support anti-contraband and anti-counterfeit initiatives The Company paid USD 15 million in 2013 and USD 15 million in 2012 as part of this Agreement. In 2013, USD 5 million was reimbursed by the Company's parent, JT The remaining amount due to EC at December 31, 2013 is USD 120 million The related expense will be recognized as incurred

In the normal course of business the bank guarantees, issued on behalf of JTI, amounted to USD 1 7 billion and USD 1 5 billion as of December 31, 2013 and 2012 respectively

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At 31 December 2013, non-cancellable commitments for purchases were as follows

In millions of USD	2013	2012
Leaf purchase commitments	360	341
Non-tobacco materials purchase commitments	85	89
Finished products purchase commitments	12	13
Capital expenditure	441	683
Other	22	13
Total	920	1,139

CONTINGENCIES

Tobacco Litigation

Various legal actions, proceedings, and claims are pending or may be instituted against JT International Holding BV ("JTIH") and its subsidiaries. JTIH is a subsidiary of the Company Claims related to smoking and health usually fall within the following categories (i) smoking and health cases alleging personal injury brought on behalf of individual plaintiffs; (ii) smoking and health cases primarily alleging personal injury and purporting to be brought on behalf of a group or a class of individual plaintiffs; (iii) smoking and health cases brought by governmental and non-governmental plaintiffs seeking recovery of health-care costs allegedly caused by cigarette smoking, and (iv) other claims alleging a defect in the product

While JTIH and its subsidiaries have a number of valid defenses and claims in these pending cases, litigation is subject to many uncertainties and it is not possible to predict with certainty their outcome JTIH and its subsidiaries could incur substantial costs in connection with litigation alleging damages resulting from the use of tobacco products or exposure to tobacco smoke or alleging loss of taxes from allegedly illegal importation of tobacco products To date, JTIH has never lost a case or paid any settlement award in connection with smoking and health-related litigation against it or any of its subsidiaries

Smoking and Health Litigation Status

There are a number of smoking and health-related actions pending against JTIH subsidiaries A case brought by an individual remains inactive in Ireland (1) Smoking and health class actions seeking collective recovery are pending in Canada (8), some of which are currently dormant (6) Health-care cost recovery actions are pending in Canada (9) and Spain (1)

Class or group actions

Canada - In February 2005, a Quebec trial court authorized two class actions against a JTIH subsidiary The actions were filed in late September 2005 The first class, comprising Quebec residents allegedly suffering from certain diseases, seeks collective recovery of approximately USD 5 billion (CAD 5 billion) from all defendants (which include two competing cigarette manufacturers) in addition to damages for individual members and punitive damages. The second

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Contingencies (continued)

class, composed of allegedly addicted smokers in Quebec, seeks collective recovery of approximately USD 17 billion (CAD 18 billion) from all defendants (which include two competing cigarette manufacturers) in addition to individual and punitive damages The joint trial began in March 2012, and is on-going. In July 2013, the Court expanded the class definitions, which may allow an increase of the amounts claimed
In July 2009, four class actions seeking unquantified damages were filed in Saskatchewan, Manitoba, Alberta and Nova Scotia against a JTIH subsidiary as well as a number of other manufacturers participating in the Canadian cigarette market The claim in Alberta expired, while the Manitoba, Saskatchewan and Nova Scotia class actions are currently dormant
In July 2010, two class actions seeking unquantified damages were filed and served in British Columbia against a JTIH subsidiary as well as a number of other manufacturers participating in the Canadian cigarette market Both class actions are currently dormant

In June 2012, a class action seeking unquantified damages was filed in Ontario against a JTIH subsidiary as well as a number of other manufacturers participating in the Canadian cigarette market It was served on a JTIH subsidiary in November 2012, but is currently dormant

Israel - In December 2005, a class in Israel purporting to be composed of smokers of certain brand categories called "Lights" named a JTIH subsidiary as a defendant in an action seeking USD 2 billion (ILS 6 billion) in total damages from all defendants, which include a number of distributors and manufacturers of competing products in the Israeli market The action was served on a distributor that may have indemnity rights against a JTIH subsidiary other than the one named in the action The action was not, however, served on the named JTIH subsidiary This action has been stayed since February 2005 pending the outcome of a request for certification of a class in a similar action against another tobacco manufacturer in the Israeli market In December 2012, the Tel Aviv District Court refused the class certification request in the other case In March 2013, the Tel Aviv District Court subsequently struck out this case The decision was not appealed and became final

Health-care cost recovery actions

Canada - In January 2001, the Province of British Columbia brought an action under its Tobacco Damages and Health-Care Costs Recovery Act against a JTIH subsidiary, as well as a number of other manufacturers and others participating in the Canadian cigarette market, seeking unquantified damages Some defendants challenged the constitutionality of the Act and the Supreme Court of Canada finally rejected that challenge in September 2005 The health-care cost recovery action remains pending at first instance The pre-trial process is ongoing, a trial date has not yet been scheduled
In August 2009, a JTIH subsidiary, together with the two other Canadian tobacco manufacturers, commenced an action in the Quebec Superior Court against the Attorney General of Quebec challenging the validity of the Tobacco-Related Damages and Health-Care Costs Recovery Act The claim is based on grounds of violation of the rule of law under the Canadian Constitution, and juridical rights and due process in relation to property rights under the Quebec Charter of Rights and Freedom In October 2013, following a hearing on the merits, the Court took under advisement the Claimants' Motion for Declaratory Judgment. In March 2014, the Court

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Contingencies (continued)

dismissed the Claimants' Motion and ruled that the bill of law provisions which were disputed by the Claimants as unconstitutional will continue to be applicable to the proceedings The period for Claimants to appeal expires in April 2014

In March 2008, the Province of New Brunswick filed a health-care cost recovery action against a JTIH subsidiary and other manufacturers under its own Tobacco Damages and Health-Care Costs Recovery Act, seeking unquantified damages These proceedings are at an early stage Pre-trial discovery is on-going

In September 2009, the Province of Ontario filed a similar health-care cost recovery action against a JTIH subsidiary and other manufacturers under its own Health-Care Costs Recovery Act, seeking USD 47 billion (CAD 50 billion) in damages Some of the defendants, whose seat is not in Canada ("international defendants"), challenged the jurisdiction of the court The trial court and the Court of Appeal dismissed their applications In December 2013, the Supreme Court of Canada dismissed those defendants' applications for leave to appeal. As a result, Ontario Courts have jurisdiction over those defendants The proceedings remain at an early stage

In February 2011, the Province of Newfoundland and Labrador filed a similar health-care cost recovery action against a JTIH subsidiary and other manufacturers under its own Health-Care Costs Recovery Act, seeking unquantified damages The proceedings are at an early stage The pre-trial process is ongoing, and a trial date is not yet scheduled

In May 2012, the Province of Manitoba filed a health-care cost recovery action against a JTIH subsidiary and other manufacturers under its own Tobacco Damages and Health-Care Costs Recovery Act, seeking an unspecified amount of damages The JTIH subsidiary was served with the claim in July 2012 The proceedings are at an early stage The pre-trial process is ongoing, and a trial date is not yet scheduled

In June 2012, the Province of Alberta filed a health-care cost recovery action against a JTIH subsidiary and other manufacturers under its own Tobacco Damages and Health-Care Costs Recovery Act, seeking USD 9 billion (CAD 10 billion) in damages The JTIH subsidiary was served with the claim in July 2012 The proceedings are at an early stage The pre-trial process is ongoing, and a trial date is not yet scheduled

In June 2012, the Province of Quebec filed a health-care cost recovery action against a JTIH subsidiary and other manufacturers under its own Tobacco Damages and Health-Care Costs Recovery Act, seeking USD 56 billion (CAD 60 billion) in damages The JTIH subsidiary was served with the claim in June 2012 The international defendants' challenge of the court's jurisdiction was dismissed. In October 2013, the Court of Appeal dismissed those defendants' leave to appeal The proceedings remain at an early stage as the pre-trial process is ongoing, and a trial date is not yet scheduled.

In June 2012, the Province of Saskatchewan filed a health-care cost recovery action against a JTIH subsidiary and other manufacturers under its own Tobacco Damages and Health-Care Costs Recovery Act, seeking an unspecified amount of damages The JTIH subsidiary was served with the claim in July 2012 The proceedings are at an early stage. The motion of the international defendants challenging jurisdiction was dismissed at first instance Those defendants sought leave to appeal this decision As a result of the Supreme Court of Canada's decision dismissing the jurisdictional challenge in Ontario, those defendants challenging jurisdiction agreed not to oppose

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Contingencies (continued)

an application dismissing their motion for leave to appeal The proceedings remain at an early stage as the pre-trial process is ongoing, and a trial date is not yet scheduled
In September 2012, the Province of Prince Edward Island filed a health-care cost recovery action against a JTIH subsidiary and other manufacturers under its own Tobacco Damages and Health-Care Costs Recovery Act, seeking an unspecified amount of damages The JTIH subsidiary was served with the claim in November 2012 The proceedings are at an early stage The pre-trial process is ongoing and a trial date is not yet scheduled

Spain - In February 2007, a JTIH subsidiary in Spain was formally joined as a defendant, along with a number of other manufacturers, in a contentious administrative proceeding brought by the Junta de Andalucia against the Spanish state (as former tobacco monopoly) to recover health-care expenditures for a number of individuals treated for alleged tobacco-related diseases The Junta's claim was dismissed at first instance in November 2007 on procedural grounds The Junta's appeal was ultimately rejected by the Supreme Court in September 2009

Following the above proceeding, in July 2008, the JTIH subsidiary in Spain was, together with the same other manufacturers, informed of the existence of a second contentious-administrative proceeding brought by the Junta de Andalucia and against the Spanish state This claim seeks recovery of the same health-care expenditure mentioned in the above proceeding and tries to remedy the procedural defects recognized by the Court in the previous proceeding In January 2009, the Court notified the JTIH subsidiary that the time for the filing of the Junta's claim was effectively suspended by their filing a procedural motion In May 2009, the Defendants were notified that the Junta filed their claim following such suspension Until early 2010, the proceedings were effectively stayed pursuant to a brief filed by the State Attorney claiming that the second case should not proceed until the appeal in the first contentious-administrative case was resolved In January 2010, the Court dismissed the brief pursuant to the Supreme Court's decision in the first contentious-administrative case, resuming the proceedings in the second case In April 2010, the State Attorney filed its defense In May 2010, the Court ordered the remaining Co-defendants to file their defenses within 20 days In May 2010, the Co-defendants filed preliminary objections and a request that the court file be completed In June 2012, the Court ordered the Claimants to file the missing evidence in order to complete the court file The Claimants failed to comply with this order, until May 2013 In June 2013, by order of the Court, Claimants filed their defense (including expert evidence) In January 2014, the Court dismissed the Junta's claim on procedural grounds The Junta did not file an appeal with the Court of Cassation thereby ending the case

Smoking and Health Litigation Claims and Defenses Generally
Plaintiffs' allegations of liability in smoking and health cases are based on various theories of recovery, including negligence, gross negligence, strict liability, fraud, misrepresentation, defective design, failure to warn, breach of express and implied warranties, breach of special duty, conspiracy, concert of action and violations of deceptive trade practice laws and consumer protection statutes
Plaintiffs in smoking and health actions seek various forms of relief, including compensatory and punitive damages, treble/multiple damages and other statutory damages and penalties, creation of medical monitoring and smoking cessation funds, disgorgement of profits and injunctive and

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Contingencies (continued)

equitable relief Defenses raised in these cases include, among other things, lack of proximate cause, assumption of the risk, comparative fault or contributory negligence, and statutes of limitations or repose.

Health-Care Cost Recovery Litigation Claims and Defenses Generally
In certain of the pending proceedings, governmental and non-governmental plaintiffs, including insurers, are seeking reimbursement of health-care cost expenditures allegedly caused by tobacco products and, in some cases, of future expenditures and damages as well. Other relief sought by some but not all plaintiffs includes punitive damages, treble/multiple damages and other statutory damages and penalties, injunction prohibiting alleged marketing and sales to minors, disclosure of research, disgorgement of profits, funding of anti-smoking programs, disclosure of nicotine yields, and payment of attorney and expert witness fees
Plaintiffs have asserted legal and equitable claims including that the defendants were "unjustly enriched" by plaintiffs' payment of health-care costs allegedly attributable to smoking, indemnity, negligence, strict liability, breach of express and implied warranty, violation of a voluntary undertaking or special duty, fraud, negligent misrepresentation, conspiracy, public nuisance, claims under statutes governing consumer fraud, antitrust, deceptive trade practices, and false advertising In nine instances in Canada, claims are asserted under a statute enacted specifically to permit such an action

Defenses raised include lack of proximate cause, remoteness of injury, failure to state a valid claim, lack of benefit, adequate remedy at law, "unclean hands" (namely, that plaintiffs cannot obtain equitable relief because they participated in, and benefited from, the sale of cigarettes), lack of antitrust injury, lack of statutory authority to bring suit and statute of limitations. In addition, defendants argue that they should be entitled to "set off" any alleged damages to the extent the plaintiff benefits economically from the sale of cigarettes through the receipt of excise taxes or otherwise Defendants also argue that these cases are improper because plaintiffs must proceed under principles of subrogation and assignment Under traditional theories of recovery, a payer of medical costs (such as an insurer) can seek recovery of health-care costs from a third party solely by "standing in the shoes" of the injured party. Defendants argue that plaintiffs should be required to bring any actions as subrogates of individual health-care recipients and should be subject to all defenses available against the alleged injured party.

Other Tobacco-Related Litigation
Canada - In April 2010, a class composed of tobacco growers in the province of Ontario served a JTIH subsidiary with an action seeking USD 47 million (CAD 50 million) for an alleged breach of contract between the Ontario Flue-Cured Tobacco Growers Marketing Board and the subsidiary Similar proceedings were issued separately against two other manufacturers participating in the Canadian cigarette market The proceedings are on-going

Rest of world - In 2006, a JTIH subsidiary in Spain was sued under a criminal procedure on smuggling-related allegations after a tax inspection by the Spanish authorities The subsidiary

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Contingencies (continued)

was required to establish a guarantee for its maximum potential liability of approximately USD 8 million (EUR 6 million), which was delivered to the Court in July 2008. The trial hearing scheduled for April 2013 was deferred to December 2013 Following an additional postponement, the trial hearing is currently scheduled to begin in May 2014

A JTIH subsidiary has disputed the Turkish Ministry of Finance's assessment of corporate tax for 2009 The amount of alleged tax due was assessed at USD 7 million (TRY 14 million) plus default interest In November 2011, the subsidiary filed a claim for the cancellation of the assessment after the introduction of the Turkish Tax Amnesty Law In February 2013, the Court of First Instance ruled in favor of JTI and the corporate tax assessment was cancelled In March 2013, the Tax Directorate appealed the decision The ruling of the Appellate Court is awaited

Litigation is subject to many uncertainties and it is possible that some of the tobacco-related legal actions, proceedings, or claims could be decided against JTIH or its subsidiaries Determinations of liability or adverse rulings against other cigarette manufacturers that are defendants in similar actions, even if such rulings are not final, could adversely affect the litigation against JTIH or its subsidiaries or indemnitees and could encourage and increase the number of such claims There have been a number of political, legislative, regulatory and other developments relating to the tobacco industry and cigarette smoking that have received wide media attention, such as the various litigation settlements in the United States and the release and wide availability of various industry documents These developments may negatively affect the perception of potential tiers of fact with respect to the tobacco industry, possibly to the detriment of certain pending litigation, and may prompt the commencement of additional similar litigation

Although it is impossible to predict the outcome of such events on pending litigation and the rate at which new lawsuits are filed against JTIH or its subsidiaries, a significant increase in litigation or adverse outcomes for tobacco defendants could have a material adverse effect on JTIH JTIH and its subsidiaries believe that they have a number of valid defenses to any such actions and intend to defend such actions vigorously.

Management is unable to make a meaningful estimate of the amount or range of loss that could result from an unfavorable outcome of pending tobacco-related litigation, and JTIH has not provided any amounts in its consolidated financial statements for unfavorable outcomes, if any

Other Litigation

A JTIH subsidiary in the United Kingdom terminated a distribution contract in March 2005, and commenced an action before the English High Court for damages and a declaration that the termination was valid because of numerous material breaches The former distributor counterclaimed for unlawful termination, ultimately seeking around USD 500 million in unparticularized damages from the termination The High Court dismissed the counterclaim and entered judgment for the subsidiary in April 2008

In distantly related litigation, a business partner of the former distributor filed an action in Cyprus against the former distributor and the subsidiary, seeking more than USD 25 million in unparticularized damages for alleged breach of an exclusive distribution agreement for Yemen An order permitting service on the subsidiary was set aside in February 2008

In June 2008, a JTIH subsidiary received from the Tanzania Fair Competition Commission ("FCC") a complaint concerning a transaction in 2005 involving the purchase of manufacturing equipment and trademarks from another company The complaint alleges the misuse of a

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Contingencies (continued)

dominant position and seeks a penalty of 7% of the subsidiary's 2005 turnover of USD 56 million (TZS 88 billion) In a decision dated 31 March 2009, the FCC issued its findings and proposed penalties against the subsidiary, to which the subsidiary objected and requested a full hearing In October 2009, the FCC held that it has jurisdiction to hear and determine the complaint against the subsidiary The subsidiary thereafter filed a petition with the Tanzanian High Court to seek a determination of all the preliminary issues raised before the FCC In September 2012, the petition of the JTIH subsidiary was struck out with costs by the High Court, which held that the subsidiary did not exhaust all remedies prior to coming before the court. In December 2012, the JTIH subsidiary appealed the High Court decision and the outcome is pending at the Tanzanian Court of Appeal

JTIH and its subsidiaries are also subject to other claims and suits which arise periodically relating to contracts, income and other taxes, advertising regulation, and other matters JTIH and its subsidiaries believe that, notwithstanding the quality of defenses available to it in litigation matters, it is possible that the results of its operations or cash flows or its financial position could be materially affected by the ultimate outcome of certain pending litigation matters Management is unable to predict the outcome of the litigation

Related party transactions (10)

The Company and its subsidiaries have the following related party arrangements with its parent JT

- Royalty agreement that requires JTI to pay royalties to JT for the use of certain tobacco brands, a product cost sharing agreement under which JTI is reimbursed for certain product development costs,
- Cost sharing agreement under which JT partially reimburses JTI for payments made under the EC anti-contraband and anti-counterfeit agreement (see Note 9, financial commitment paragraph);
- Service agreement that entitles JTI to receive from JT fees for certain accounting and administrative services

JTI's operating income includes the following related-party transactions with JT and other related parties

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Related party transactions (continued)

(in millions of USD)	**2013**	2012
Sale of leaf inventory and finished goods to		
• *JT*	379	389
• *Other related parties*	1,269	968
• *Others*	14	22
	1,662	1,379

Included in JTI's operating expenses are the following related-party transactions with JT

(in millions of USD)	**2013**	2012
Royalties to JT	359	355
Purchases of tobacco material, non-tobacco material and finished goods from JT		
• JT	190	257
• Other related parties	54	69
	603	681

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Financial Instruments (11)

Foreign currency arrangements
The Company conducts business on a multinational basis in a wide variety of foreign currencies and is therefore exposed to the following risks due to foreign exchange fluctuations

- The risk that the profit or loss and cash flow in each functional currency is affected by foreign exchange fluctuations as a result of external transactions and intercompany transactions in currencies that are different from that functional currency
- The risk that the equity of the Company is affected by foreign exchange fluctuations when equity balances denominated in each functional currency is translated into US Dollars on consolidation
- The risk that the profit or loss of the Company is affected by foreign exchange fluctuations when profit or loss denominated in each functional currency of the group is translated into US Dollars on consolidation

The Company uses derivatives to reduce cash flow volatility associated with foreign exchange rate changes In 2013 and 2012, the Company used foreign exchange forwards and swaps to economically hedge its exposure to fluctuations in Russian Ruble, Euro, Sterling, Swiss Francs, Turkish Lira, Taiwan Dollars, Brazilian Real and certain other currencies All foreign currency derivative contracts have maturities of twelve months or less

The Company does not designate derivative instruments in accounting hedge relationships Accordingly, all changes in the fair value of derivatives are recorded in the income statement

Interest rate risk

Interest rate risk is the risk that the Company's interest expense will fluctuate because of changes in market interest rates The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's short-term debt obligations (including bonds). In connection with the acquisition of Gallaher in 2007, the Company incurred floating-rate indebtedness and assumed the acquiree's fixed-rate debt obligations To reduce its cost of borrowing and to manage its risk related to interest rate fluctuations, the Company uses fixed-to-floating interest rate swaps maturing through 2013.

At December 31, 2013 after taking into account the effect of interest rate swaps, approximately 88% (2012 58%) of the Company's borrowings are at a fixed rate of interest

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Financial instruments (Continued)

Credit risk

Credit risk relates to the risk that a counter-party will default on its contractual obligations resulting in financial loss to the Company The Company is exposed to credit risk from its trade receivables due from customers, as well as from cash and cash deposits and derivative financial instruments transacted with financial institutions

The Company performs appropriate credit checks on customers before sales commence The process for monitoring and managing credit risk once sales to the customer have been established varies depending on local practices in the countries concerned Certain territories have bank guarantees, other guarantees and credit insurance provided in the Company's favor in respect of trade receivables The issuance and terms of insurance and guarantees are dependent on local practices Apart from Megapolis group, Palmer & Harvey, and Logista Group (the largest customers of the Company), the Company does not have any significant credit risk exposure to any single counterparty

Cash deposits and other financial instruments give rise to credit risk on the amounts due from counterparties To mitigate the counterparty credit risk, the Company has a policy of only entering into contracts with carefully selected major financial institutions based upon their credit ratings and other factors, and maintains strict dollar and term limits that correspond to each institution's credit rating Generally, the Company targets a long-term counterparty credit rating of at least A/A2 Counterparty credit risk is managed on a global basis by limiting the aggregate amount and duration of exposure to any one counterparty, taking into account its credit rating The credit ratings of all counterparties are reviewed regularly At December 31, 2013 the Company holds an amount of $300 million (2012 nil) in short-term money market funds (AAA rated)

Fair Value of Financial Instruments

As of December 31, 2013, the fair value of the long-term portion of the bonds, issued by the Company, amounted to USD (nil) million (2012 USD 717 million) and a corresponding carrying amount of USD (nil) (2012 USD 662)

The fair value of the short-term portion of the bonds, issued by the Company, amounted to USD 718 million (2012 USD 402 million) and a corresponding carrying amount of USD 687 (2012 USD 402)

Financial assets and liabilities measured at fair value subsequent to initial recognition are as follows

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Financial instruments (Continued)

(in millions of USD)	December 31, 2013			
	Level 1	Level 2	Level 3	**Total**
Assets				
Derivative assets	-	35	-	**35**
Liabilities				
Derivative liabilities		48		**48**

(in millions of USD)	December 31, 2012			
	Level 1	Level 2	Level 3	**Total**
Assets				
Derivative assets	-	41	-	**41**
Liabilities				
Derivative liabilities		47		**47**

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Financial instruments (Continued)

The aggregate notional amounts and fair values of the Company's outstanding foreign exchange and interest rate derivative contracts were as follows

Asset Derivatives (in millions of USD)	Balance Sheet location	Fair Value	Notional Value
Foreign exchange swaps	Accrued income and others	35	2,651

Liability Derivatives (in millions of USD)	Balance Sheet location	Fair Value	Notional Value
Foreign exchange swaps	Other current liabilities	46	3,797

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Notes to the specific items of the consolidated statement of income

Net sales (12)

All sales are generated with tobacco products, mainly being cigarettes

Net sales per geographical areas are as follows

(in millions of USD)	2013	2012*
Europe	5,667	5,637
CIS	4,113	3,851
Asia Pacific	1,245	1,082
Americas	388	385
Meneat	1,715	1,917
Others	236	224
Total	13,364	13,096

* The comparative figures have been adjusted to improve the comparability

Cost of sales

In 2013 USD 53 million (2012 USD 57 million) was recognized as an expense within cost of sales related to write down of inventories

Salaries, social security charges and pension costs

The costs for wages and salaries, social security charges and pension costs are included in cost of sales, selling expenses and general and administrative expenses, and total as follows:

(in millions of USD)	2013	2012
Wages and salaries	1,620	1,603
Social security charges	237	227
Pension cost	47	187
	1,904	2,017

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Amortization and depreciation expenses

Amortization expenses related to intangible fixed assets and depreciation expenses related to tangible fixed assets are included in costs of sales, selling and related expenses and general and administrative expenses, and totaled as follows·

(in millions of USD)	**2013**	2012
Amortization for the year	1,254	1,245
Depreciation for the year	371	343
	1,625	1,588

Auditor fees

Total fees charged by Deloitte to the Group were as follows

(in millions of USD)	**2013**	2012
Audit fees	8	9
Tax fees	2	2
All other fees	2	2
	12	13

The fees paid for the audit of the statutory financial statements of JT International Group Holding B V , rendered by Deloitte Accountants B V , Amsterdam, amounted to USD 111 thousands for the years 2013 and 2012, respectively.

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Employee information

The average number of personnel employed by JTI during the year was:

	2013	2012*
The Netherlands	114	110
Europe	10,789	10,691
CIS	7,746	7,955
Americas	2,179	1,955
Asia Pacific	1,872	1,800
Others	5.780	4,082
	28,480	26,593

* The comparative figures have been adjusted to improve the comparability

Net interest result (13)

(in millions of USD)	2013	2012[1]
Interest income from third parties	82	56
Interest expenses to third parties	(119)	(150)
	(37)	(94)

1) Prior year amounts have been restated to reflect retrospective application of revised IAS 19

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Income taxes (14)

The differences between the provision (benefit) for income taxes and income taxes computed at statutory Dutch income tax rates are explained as follows

(in millions of USD)	**2013**	2012[1]
Result on ordinary activities before taxation	2,443	2,118
Income taxes computed at statutory Dutch tax rates (25%)	611	530
Valuation allowance on deferred tax positions	(103)	75
Non-deductible expenses, net of non-taxable income	431	307
Uncertain tax positions, net	(8)	(55)
Cost of earnings repatriation	113	93
Foreign tax rate differential	(279)	(223)
Change in substantively enacted or enacted tax rates	(34)	(27)
Others	(10)	15
Provisions for income taxes	721	715
Effective tax rate in %	29 5	33 8

At December 31, 2013 and 2012, JTI had net operating losses (NOL) of USD 0 9 billion and USD 1 3 billion respectively, which are available to reduce future taxable income of JTI and certain international subsidiaries Approximately USD 336 million of NOL expires within 15 years, with the remainder having no expiration date under current laws. Deferred taxes of USD 123 million were recognized in respect of these losses (2012 USD 161 million).

At December 31, 2013 JTI had tax credits carried forward of USD 6 million (2012: USD 12 million) having an expiry date within 15 years and USD 33 million (2012 USD 33 million) having no expiry date Deferred taxes of USD 33 million were recognized in respect of these credits (2012. USD nil).

The provisions for income taxes on items of other comprehensive gains and losses amounted to a loss of USD 21 million (2012 USD 95 million gains)

1) Prior year amounts have been restated to reflect retrospective application of revised IAS 19

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COMPANY BALANCE SHEET
December 31, 2013
(before proposed appropriation of the result)

Assets
(in millions of USD)

	December, 31, 2013	December, 31, 2012[1]
Fixed assets		
Financial fixed assets (1)	21,501	19,857
Current assets		
Receivables from group companies	24	24
Total assets	21,525	19,881

Shareholder's equity and liabilities
(in millions of USD)

	December, 31, 2013	December, 31, 2012[1]
Equity attributable to equity holder (2)		
Share capital	1,800	1,800
Share premium	14,314	14,314
Retained earnings	4,660	3,256
Currency translation adjustment	(933)	(848)
Unappropriated result	1,684	1,359
	21,525	19,881
Total equity and liabilities	21,525	19,881

1) Prior year amounts have been restated to reflect retrospective application of revised IAS 19

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COMPANY STATEMENT OF INCOME
Year ended December 31, 2013

(in millions of USD)	**2013**	2012[1]
Share in net result of subsidiaries, net of tax	1,684	1,359
Other results	-	-
Net result for the year	1,684	1,359

1) Prior year amounts have been restated to reflect retrospective application of revised IAS 19

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NOTES TO THE COMPANY FINANCIAL STATEMENTS
December 31, 2013

Accounting principles

The company financial statements have been prepared according with Title 9, Book 2 of the Netherlands Civil Code

General accounting principles for the preparation of the financial statements

For the general principles for the preparation of the financial statements, the principles for valuation of assets and liabilities and determination of the result, as well as for the notes to the specific assets and liabilities and the results, reference is made to the notes to the consolidated financial statements, if not presented otherwise here after

Company statement of income

Since the results of the Company are included in the consolidated statement of income, the Company financial statements only contain an abridged statement of income in accordance with article 2 402 of the Netherlands Civil Code

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Notes to the specific items of the balance sheet

Financial fixed assets (1)

The financial fixed assets consist of participations in group companies. The movements in financial fixed assets were as follows

(in millions of USD)	**2013**	2012[1]
Balance as of December 31	19,857	18,820
Share in net result of subsidiaries, net of tax	1,684	1,359
Currency translation adjustments	(85)	(18)
Hedge net investment, net of tax	-	-
Additional minimum pension liability, net of tax	54	(284)
Adjustment arising from change in non-controlling interest	(9)	-
Dividends received	-	(16)
Disposal of participation in a subsidiary	-	(3)
Others	-	(1)
Balance as of December 31	21,501	19,857

The list of directly and indirectly held investments of the Company is filed with the Trade Register in line with article 2 379 sub 5 of the Netherlands Civil Code.

1) Prior year amounts have been restated to reflect retrospective application of revised IAS 19

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Equity attributable to equity holder (2)

Movements are as follows

(in millions of USD)	Share capital	Share premium	Retained earnings	Currency translation adjustments	Unappropriated result	**Total 2013**	Total 2012[1]
Balance as of January 1,	1,800	14,314	3,256	(848)	1,359	19,881	18,824
Adjustment opening balance IAS 19 adjustments			5		(5)	–	–
Appropriation of net result prior year	–	–	1,354	–	(1,354)	–	–
Hedge of net investment losses, net of tax	–	–	–	–	–	–	–
Foreign currency translation adjustments	–	–	–	(85)	–	(85)	(18)
Actuarial losses on post-employment benefit obligations	–	–	54	–	–	54	(284)
Adjustment arising from change in non-controlling interest	–	–	(9)	–	–	(9)	–
Foreign currency translation adjustment on share capital							–
Net result for the year	–	–	–	–	1,684	1,684	1,359
Balance as of December 31	1,800	14,314	4,660	(933)	1,684	21,525	19,881

The share capital and share premium are treated as paid-in capital for tax purposes, therefore repayments are not subject to dividend withholding tax

Share capital issued

The share capital amounts to USD 1,800,372 (thousands) and consists of 1,800,372,005 shares of USD 1 each

1) Prior year amounts have been restated to reflect retrospective application of revised IAS 19

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Other notes and signing of the financial statements

Personnel

In 2013 the Company employed no employees (2012· 0).

Remuneration of the Managing Board

In 2013, the Managing Board of the Company received remuneration for their services to the Company and its subsidiaries amounting to USD 70.2 million (2012 7 5 million) The Managing Board members were not subject to the so-called crisis tax.

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Signing of the financial statements

Amsterdam, May 13, 2014

Managing Board:

T A McCoy

E J L G Pirard

A Saeki

M Terabatake

J Fukuchi

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Other information

Independent auditor's report

Reference is made to the independent auditors' report as included hereinafter

Statutory rules concerning appropriation of result

In accordance with the Articles of Association of the Company the result for the year is at the disposal of the General Meeting. Dutch law stipulates that distributions may only be made to the extent the company's equity is in excess of the reserves it is required to maintain by law and its Articles of Association Moreover, no distributions may be made if the Managing Board is of the opinion that, by such distribution, the Company will not be able to fulfill its financial obligations in the foreseeable future

Appropriation of result for the financial year 2012

The annual report 2012 was adopted, by the shareholder, by means of a shareholder's resolution, on May 14, 2013 The shareholders determined the appropriation of result in accordance with the proposal being made to that end

Proposed appropriation of result for the financial year 2013

Pending the decision of the General Meeting of Shareholders, the net result for the year 2013 is presented as unappropriated result in equity Management proposes to add the result for the year to the retained earnings

The financial statements do not yet reflect this proposal

Subsequent events

There were no subsequent events to be reported

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Deloitte.

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Independent auditor's report

To The Shareholder of JT International Group Holding B V

Report on the financial statements

We have audited the accompanying financial statements 2013 of JT International Group Holding B V , Amsterdam, which comprise the consolidated and company balance sheet as per December 31, 2013, the consolidated and company profit and loss account for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information

Management's responsibility

Management is responsible for the preparation and fair presentation of these financial statements and for the preparation of the managing board report, both in accordance with Part 9 of Book 2 of the Dutch Civil Code Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the 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 financial statements based on our audit We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements

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

Deloitte.

Opinion with respect to the financial statements

In our opinion, the financial statements give a true and fair view of the financial position of JT International Group Holding B V. as at December 31, 2013 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2 393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the managing board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2.392 sub 1 at b-h has been annexed Further we report that the managing board report, to the extent we can assess, is consistent with the financial statements as required by Section 2 391 sub 4 of the Dutch Civil Code

Amsterdam, May 13, 2014

Deloitte Accountants B V

W Keulers