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

Securities Code: 2914
February 27, 2015

To Our Shareholders

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

NOTICE OF CONVOCATION OF

THE 30TH ORDINARY GENERAL MEETING OF SHAREHOLDERS

You are cordially invited to attend the 30th ordinary general meeting of shareholders of Japan Tobacco Inc. ("JT" or the "Company") to be held as set forth below.

If you cannot attend the meeting, you may exercise your voting rights in written form or by electromagnetic means including the Internet. Please see the "Reference Documents for the General Meeting of Shareholders" hereinafter described and exercise your voting rights by 6:00 p.m., on Thursday, March 19, 2015, by returning to us by that time the Voting Rights Exercise Form enclosed herewith indicating whether you are for or against each of the items, or by accessing the web-site designated by us for the exercise of voting rights (http://www.evote.jp/).

Particulars

1. **Date and Time of the Meeting:** Friday, March 20, 2015 at 10:00 a.m.
The reason the date of the meeting is at a different time of the year from the date of the 29th Ordinary General Meeting of Shareholders is that the closing date of the Company's business term has been changed from March 31 to December 31.

2. **Place of the Meeting:** The Prince Park Tower Tokyo
Second basement, Ball Room
8-1, Shibakoen 4-chome, Minato-ku, Tokyo
(The place of the meeting is different from that of last year's meeting.)

3. **Purpose of the Meeting:**

Matters to be Reported:

1. Report on the Business Report, the Consolidated Financial Statements, and the Accounting Auditors' Report and JT's Audit & Supervisory Board Report on the Consolidated Financial Statements for the 30th Business Term (From April 1, 2014 to December 31, 2014)

2. Report on the Non-Consolidated Financial Statements for the 30th Business Term (From April 1, 2014 to December 31, 2014)

Matters to be Resolved:

Company's Proposals (Item 1 to Item 3)

Item 1: Distribution of Surplus
Item 2: Election of Four (4) Audit & Supervisory Board Members
Item 3: Election of One (1) Substitute Audit & Supervisory Board Member

Shareholder's Proposals (Item 4 and Item 5)

Item 4:	Dividend Proposal
Item 5:	Share Buy-back

4. Other Decisions on the Convocation of the Meeting

(1) If the voting right is exercised both by return of the Voting Rights Exercise Form and via the Internet, only the exercise of the voting right via the Internet shall be valid.

(2) If the voting right is exercised more than once via the Internet, only the last exercise of the voting right shall be valid.

Information on Matters Posted on JT's Web-site

1. Notes to Consolidated and Non-Consolidated Financial Statements are posted on our web-site (http://www.jti.co.jp/) in accordance with laws and regulations, and the provision in Article 17 of the Articles of Incorporation. Therefore, they are not included in this Notice of Convocation of the 30th Ordinary General Meeting of Shareholders.

   In addition to documents stated in the reference documents attached to the Notice of Convocation of the 30th Ordinary General Meeting of Shareholders, Notes to Consolidated and Non-Consolidated Financial Statements posted on the Company's web-site are included in Consolidated and Non-Consolidated Financial Statements audited by Audit & Supervisory Board Members and the Accounting Auditors in the course of preparing Audit Report and Accounting Auditors' Report respectively.

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

JT's web-site ▶ http://www.jti.co.jp/

Guidance to our shareholders attending the General Meeting of Shareholders

* The place of the meeting on this occasion (30th Ordinary General Meeting of Shareholders) will be "The Prince Park Tower Tokyo." Please note that this place is different from the "Tokyo Prince Hotel," which was the place on the previous occasion (29th Ordinary General Meeting of Shareholders).
* For those attending, please bring this Notice of Convocation of the 30th Ordinary General Meeting of Shareholders with you.
* It is expected to be crowded immediately before the meeting begins. If meeting room No.1 becomes full, you will be ushered to meeting room No.2. We ask that you come to the meeting at your earliest convenience.
* In case an agent attends the meeting, your agent must bring a letter of attorney along with the Voting Rights Exercise Form. Only one other shareholder who can exercise the voting rights at the 30th Ordinary General Meeting of Shareholders is supposed to be eligible to serve as your agent.
* Please note that the meeting will be conducted in Japanese only. An interpreter, including a sign language interpreter, may accompany you. If you would like to have an interpreter accompany you, please tell so at the reception desk. It is also possible for us to arrange a Japanese sign language interpreter for you. If you are in need of this service, please inquire us in writing by March 13 (your letter of inquiry must reach us by this date).
* The Company plans to give gifts to the shareholders who attend on the day. Please note, however, shareholders will receive just one package, regardless of how many Voting Rights Exercise Forms are held.

Instructions for Exercising Your Voting Rights

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

Relation between Item 1, company’s proposal, and Item 4, shareholder’s proposal:
Item 4 “Dividend Proposal,” which is a shareholder’s proposal, is a counter proposal against Item 1 “Distribution of Surplus,” which is the Company’s proposal. Therefore, <u>Item 1 and Item 4 are incompatible. In addition, if there is no indication of “for” or “against” on each proposal, it shall be deemed that you have voted “for” the Company’s proposal and “against” the shareholder’s proposal.</u> Accordingly, please note that, <u>in cases where you exercise your voting rights to vote “for” both Item 1 and Item 4 in written form or by electromagnetic means, or to vote neither “for” nor “against” Item 1 and to vote “for” Item 4</u> in written form, <u>the exercise of the voting rights concerning Item 1 and Item 4 will be invalid.</u>

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

A.	In case of attending the meeting	Please present the Voting Rights Exercise Form at the reception desk on arrival at the meeting. (Not required to place a seal.)
B.	In case of exercising the Voting Rights by post	Please post the Voting Rights Exercise Form indicating whether you are for or against each of the items so as to be returned to us by 6:00 p.m., on Thursday, March 19, 2015.
C.	In case of exercising the Voting Rights via the Internet	See the next page.

To institutional investors	JT participates in the voting rights exercise platform operated and administered by ICJ, Inc.

Instructions for Exercise of the Voting Rights via the Internet

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

If you have any inquiries, please contact "Inquiries on systems, etc. (Help Desk)" provided below.

For those attending, procedures for exercising your voting rights by post (return of the Voting Rights Exercise Form) or via the Internet are unnecessary.

Particulars

1. Voting Rights Exercise Web-site

Voting Rights Exercise Web-site	http://www.evote.jp/

(1) The exercise of the voting rights via the Internet is available only by accessing the Voting Rights Exercise Web-site from your computer or smartphone. (However, you will not be able to access the web-site from 2:00 a.m. to 5:00 a.m. each day during the exercise period.)

(2) If you use firewalls, etc. for the Internet connection, antivirus programs or a proxy server, you may not be able to access the web-site depending on your Internet environment.

(3) The exercise of the voting rights via the Internet is only available until 6:00 p.m. on Thursday, March 19, 2015. We appreciate it if you exercise your voting rights at your earliest convenience.

2. Exercise of the Voting Rights via the Internet

(1) On the Voting Rights Exercise Web-site, please indicate whether you are for or against each of the items following the directions on the web-site using the "Log-in ID" and "Temporary Password" described in the Voting Rights Exercise Form.

(2) In order to prevent unauthorized access (web spoofing) or alteration of the voting by non-shareholders, you will be asked to change your "Temporary Password" on the Voting Rights Exercise Web-site.

(3) JT will notify you of the new "Log-in ID" and "Temporary Password" at each convocation of the General Meeting of Shareholders.

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

(1) If the voting right is exercised both by return of the Voting Rights Exercise Form and via the Internet, only the exercise of the voting right via the Internet shall be valid.

(2) If the voting right is exercised more than once via the Internet, only the last exercise of the voting right shall be valid.

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

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

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

Inquiries on systems, etc.	Mitsubishi UFJ Trust and Banking Corporation Corporate Agency Division Help Desk Tel: 0120-173-027 (Japanese-language only) (Business hours: 9:00 to 21:00, Toll-free)

REFERENCE DOCUMENTS
FOR THE GENERAL MEETING OF SHAREHOLDERS

Company's Proposals (Item 1 to Item 3)

<u>Company's Proposal</u>

Item 1: Distribution of Surplus

The Company prioritizes business investments for sustainable future profit growth in the mid- to long-term, in line with its management principles, and seeks to improve the attractiveness of our shareholder returns at the same time by benchmarking global FMCG* companies in a variety of sectors.

In accordance with this policy, year-end dividends for the 30th Business Term will be paid as described below.

(1) Type of assets to be paid as dividends:

Cash

(2) Allotment of assets to be paid as dividends and their aggregate amount:

¥50 per share of Common Stock of JT Aggregate amount: ¥90,877,830,600

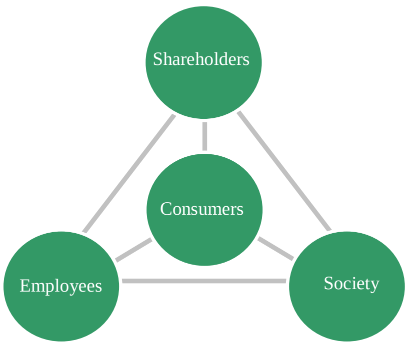
Together with the interim dividends of ¥50 per share paid in December 2014, the annual dividends for the 30th Business Term will be ¥100 per share, a ¥4 increase year-on-year.

(3) Effective date for distribution of surplus:

March 23, 2015

*FMCG: Fast Moving Consumer Goods (daily consumer goods)

Reference



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

In the Business Plan 2015, the Company set out targets for the adjusted operating profit (*1) growth rate (at constant rates of exchange), the consolidated dividend payout ratio and the adjusted EPS (*2) growth rate (at constant rates of exchange) as follows.

Group Profit Target

Adjusted Operating Profit Growth Rate (at constant rates of exchange)	Mid to high single-digit annual average growth rate over the mid- to long-term

Shareholder Return Target

Consolidated Dividend Payout Ratio	In order to be on par with global players in the FMCG business, aim for at least 50%. Achieve 50% in the fiscal year ending December 31, 2015.
Adjusted EPS Growth Rate (at constant rates of exchange)	High single-digit annual average growth rate over the mid- to long-term

*1 Effective from the fiscal year ended December 31, 2014, the profit target measurement has been changed to adjusted operating profit (at constant rates of exchange). Adjusted operating profit is calculated by deducting amortization of intangible assets associated with acquisitions and adjustment items (income and costs) from operating profit (loss). Adjustment items (income and costs) are impairment losses on goodwill, restructuring-related income and costs, and others.

In addition, adjusted operating profit (at constant rates of exchange) growth rate in the consolidated performance is a financial measurement that excludes foreign exchange effects by translating and calculating adjusted operating profit for the current period in the international tobacco business using the foreign exchange rates of the same period of the previous fiscal year.

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

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

<u>Company's Proposal</u>

Item 2: Election of Four (4) Audit & Supervisory Board Members

The terms of office of all four (4) present Audit & Supervisory Board Members will expire at the conclusion of this ordinary general meeting of shareholders. Accordingly, the election of four (4) Audit & Supervisory Board Members is proposed.

The Audit & Supervisory Board has approved this proposition.

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

Candidate Number

1	Futoshi Nakamura	(Born November 23, 1957)	Number of the Company's Shares Held	4,800

	Brief Personal History, Positions in the Company, and Significant Concurrent Positions outside the Company	
Reappointed	April 1981	Joined the Company (Japan Tobacco and Salt Public Corporation)
	July 2004	Head of Procurement Planning Division
	September 2005	Senior Manager of Operational Review and Business Assurance Division Vice President, JT International Holding B.V.
	July 2009	Senior Manager of Accounting Division
	July 2010	Head of Operational Review and Business Assurance Division
	June 2012	Standing Audit & Supervisory Board Member (Current position)

Candidate Number

2	Tomotaka Kojima	(Born December 19, 1953)	Number of the Company's Shares Held	0

	Brief Personal History, Positions in the Company, and Significant Concurrent Positions outside the Company	
Reappointed	April 1976	Entered Ministry of Finance
	July 2000	Director-General of the Fukuoka Local Finance Branch Bureau
	July 2002	Deputy Head of Finance Group of the Company
	July 2004	Deputy Director-General of Employee Welfare Bureau, General Secretariat, National Personnel Authority
	April 2007	Deputy Director-General of General Secretariat, National Personnel Authority
	January 2008	Director-General of Equity and Investigation Bureau, General Secretariat, National Personnel Authority
	August 2009	Commissioner, National Hospital Organization
	November 2010	Executive Secretary, Japan Association of Corporate Directors
	June 2013	Standing Audit & Supervisory Board Member (Current position)

Candidate Number		
3 Yoshinori Imai (Born December 3, 1944)	Number of the Company's Shares Held	700
	Number of years as Audit & Supervisory Board Member (at the conclusion of this ordinary general meeting of shareholders)	3 years and 9 months
	Attendance at meetings of the Board of Directors	Attended 11 out of 11 meetings held
	Attendance at meetings of Audit & Supervisory Board	Attended 10 out of 10 meetings held

Reappointed

Candidate for Outside Audit & Supervisory Board Member

Independent Auditor

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

April 1968	Joined Japan Broadcasting Corporation
June 1995	Bureau Chief of General Bureau for Europe, Japan Broadcasting Corporation
May 2000	Director General, Planning & Broadcasting Department, Japan Broadcasting Corporation
June 2003	Executive Editor and Programme Host, Japan Broadcasting Corporation
January 2008	Executive Vice President, Japan Broadcasting Corporation
January 2011	Retired from Executive Vice President, Japan Broadcasting Corporation
April 2011	Visiting Professor, Ritsumeikan University (Current position)
June 2011	Outside Audit & Supervisory Board Member (Current position)

Reasons for nomination as a candidate for Outside Audit & Supervisory Board Member

We comprehensively judged that he is suitable to be an Outside Audit & Supervisory Board Member considering his abundant experiences and broad insights into global politics and economics gained from performing responsibilities as Executive Vice President of Japan Broadcasting Corporation (NHK). While he has not been involved in corporate management, it is judged that he would be able to appropriately execute his duty as Outside Audit & Supervisory Board Member for the above-mentioned reasons and based on the fact that he has sufficiently performed his duty as the Company's Audit & Supervisory Board Member.

Candidate Number

4 Hiroshi Obayashi (Born June 17, 1947) Number of the Company's Shares Held 0

Newly appointed

Candidate for Outside Audit & Supervisory Board Member

Independent Auditor

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

April 1970	Judicial Apprentice
April 1972	Appointed as Public Prosecutor
May 2001	Director-General of the Rehabilitation Bureau, Ministry of Justice
January 2002	Deputy Vice-Minister of Justice, Ministry of Justice
June 2004	Director-General of the Criminal Affairs Bureau, Ministry of Justice
June 2006	Vice-Minister of Justice, Ministry of Justice
July 2007	Superintending Prosecutor, Sapporo High Public Prosecutors' Office
July 2008	Superintending Prosecutor, Tokyo High Public Prosecutors Office
June 2010	Prosecutor-General
December 2010	Retired from the office of Prosecutor-General
March 2011	Registered as Attorney at Law (Current position)

Reasons for nomination as a candidate for Outside Audit & Supervisory Board Member

We comprehensively judged that he is suitable to be an Outside Audit & Supervisory Board Member considering his abundant experiences and broad insights in the legal circles.
While he has not been involved in corporate management, it is judged that he would be able to appropriately execute his duty as Outside Audit & Supervisory Board Member for the

(Significant Concurrent Positions outside the Company)

Attorney at Law, Obayashi Law Office

Outside Audit & Supervisory Board Member, Daiwa Securities Co., Ltd.

Outside Director, Mitsubishi Electric Corporation

Outside Audit & Supervisory Board Member, NIPPON STEEL & SUMITOMO METAL CORPORATION

(Notes)
1. No conflict of interest exists between the Company and the above candidates.
2. The Company has entered into an agreement with Yoshinori Imai to limit his liabilities stipulated in Article 423, Paragraph 1 of the Companies Act to the extent permitted by the laws and ordinances. Should his election be approved, the Company intends to extend the agreement. The Company intends to enter into an agreement with Hiroshi Obayashi to limit his liabilities stipulated in Article 423, Paragraph 1 of the Companies Act to the extent permitted by the laws and ordinances, should his election be approved.
3. The Company has designated Yoshinori Imai as an independent director as prescribed by the Tokyo Stock Exchange, Inc. and intends to designate him as such again, should his election be approved. The Company intends to designate Hiroshi Obayashi as an independent director as prescribed by the Tokyo Stock Exchange, Inc., should his election be approved.

<u>Company's Proposal</u>

Item 3: Election of One (1) Substitute Audit & Supervisory Board Member

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

The Audit & Supervisory Board has approved this proposition.

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

Michio Masaki	(Born February 20, 1961)	Number of the Company's Shares Held	0

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

April 1987	Judicial Apprentice
April 1989	Appointed as Public Prosecutor
July 2003	Head of Takasaki Branch, Maebashi District Public Prosecutors Office
April 2004	Registered as Attorney at Law City-Yuwa Partners (Current Position)

(Significant Concurrent Positions outside the Company)

Attorney at Law, City-Yuwa Partners

Outside Director, Hamai Co., Ltd.

Reasons for nomination as a candidate for Substitute Outside Audit & Supervisory Board Member

He is deemed able to perform the duties as the Company's Outside Audit & Supervisory Board Member based on his abundant experience and extensive insight in the legal circles. While he has not been involved in corporate management, it is judged that he would be able to appropriately execute his duty as Outside Audit & Supervisory Board Member for the above-mentioned reasons.

(Notes) 1. No conflict of interest exists between the Company and the above candidate.

2. Should Michio Masaki assume the position of Audit & Supervisory Board Member, the Company intends to enter into an agreement with him to limit his liabilities stipulated in Article 423, Paragraph 1 of the Companies Act to the extent permitted by the laws and ordinances.

3. Michio Masaki satisfies the requirements of an independent auditor prescribed by the Tokyo Stock Exchange, Inc.

Shareholder’s Proposals (Item 4 and Item 5)

The proposals of Item 4 and Item 5 were made by a shareholder.

<u>The Board of Directors’ general view on the shareholder’s proposals</u>

The Board of Directors is opposed to both two proposals from the proposing shareholder.

The Board of Directors believes that it is in the best interests of all shareholders to achieve sustainable profit growth in the mid- to long-term through business investments for future profit growth and to increase the Company’s value thereby.

As well as the proposals that were rejected each time at the General Meeting for Shareholders in the last three years from June 2012, the proposals from the proposing shareholder are based upon the premise that a return to shareholders should be the Company’s top priority. However, the proposals are against the Company’s management principle, the “4S model”—which balances the interests of consumers, shareholders, employees and wider society, and fulfills the Company’s responsibilities towards them, aiming to exceed their expectations.

Further, the proposals from the proposing shareholder are based upon a short-term view that is focused on the premise that the Company should return all free cash flow as of December 31, 2014 to shareholders, without taking into account changes in the business environment in the future and the necessities for future business investments. If the proposals were approved, they would restrict business investments which have led our profit growth so far and become an obstacle to increasing corporate value.

The Board of Directors recommends all shareholders of the Company to oppose all of the shareholder’s proposals.

The agenda and reasons for the proposals made by the shareholder which are stated as presented, together with the Board of Directors' view on each of them, are as follows.

Shareholder Proposal

Item 4: Dividend Proposal

1. Proposal

The year-end dividends on shares of Common Stock for the 30th fiscal year shall be paid in the amount of JPY150 per share of Common Stock.

2. Reason for Proposal

As long term shareholders we believe that the Company would create more long term value for all shareholders if they would return all Free Cash Flow to shareholders through a higher dividend payout and share buy backs. We estimate that the Company's Free Cash Flow for the year ending 31 December 2014 to be JPY425bn, close to JPY230 per share, which is more than sufficient to pay JPY150 per share. The Company generates insignificant returns on any excess cash that it holds. The Company has no net debt and does not need to invest in new capacity as cigarette volumes are shrinking. Future acquisitions and participation in dilution of the Government's stake can be financed by raising debt as the company has sufficient room to increase its leverage.

The Board of Directors' view on Item 4

The Board of Directors is opposed to this proposal.

The Board of Directors has prioritized business investments for sustainable profit growth in the mid- to long-term, while at the same time pursuing a competitive level of return to shareholders in comparison to global FMCG players. (*1)

The Company has achieved a compound average profit growth rate of 11.7% (*2) (*3) during the fiscal years 2000 to 2014 through business investments which include the acquisitions of RJR International and Gallaher. In the international tobacco business that we have focused on in particular so far, the Company has achieved a compound average US dollar based EBITDA (*4) growth rate of 20.1% during the period of 2000 to 2014.

Further, the Company has steadily enhanced the amount of return to shareholders with a compound average growth rate of 24.4% in dividend per share (*5) during the past six years through profit growth and a continuous increase in the dividend payout ratio (*6).

The dividend per share at the end of the fiscal year 2014 (a transitional period covering April to December) is expected to be ¥50 according to the Company's proposal Item 1. As a result, the total dividend per share for the fiscal year is expected to be ¥100, which increases the dividend per share from the fiscal year 2013, while the fiscal year 2014 is a transitional period covering only nine months from April to December 2014.

In the Business Plan 2015 announced on February 5, 2015, the Board of Directors expects that dividend per share for the fiscal year 2015 (from January to December 2015) to be ¥108 (consolidated dividend payout ratio: 50.7%), while setting out a target rate for the consolidated dividend payout ratio of 50%, which is comparable to global FMCG players. The Company will continue to provide a steady return to shareholders.

In the meantime, the proposing shareholder argues that “the Company does not need to invest in new capacity as cigarette volumes are shrinking.” However, for the development of more compelling products that suit the tastes of consumers in each market, the Board of Directors considers it appropriate to maintain investments in the tobacco business, which is the Company’s core business, for the following purposes:

- Enhancement of the brand equity, for instance, quality enhancement or the packaging improvement of the Company’s products centered on GFB (*7);
- Expansion of geographic footprint and product portfolio including not only conventional cigarettes but also emerging tobacco products.

If the proposing shareholder’s proposal for return were approved, the total amount of annual dividend per share in the fiscal year 2014 would be ¥200 (including interim dividend), which amounts to a consolidated dividend payout ratio of 100.2% and total dividend amount of ¥363.5 billion. The Board of Directors believes that the proposal, which is based upon the premise that the Company should return all free cash flow to shareholders, is focused on the short-term and if approved, it would restrict business investments for future sustainable profit growth and become an obstacle to the improvement of corporate value.

*1 FMCG: Fast Moving Consumer Goods

*2 FY2000-FY2009: Operating profit based on J-GAAP, FY2010-FY2012: Operating profit based on IFRS, FY2013-FY2014: Adjusted operating profit based on IFRS
(The Company refers to FY2014 as a full calendar year from January 1 to December 31 due to a change in the accounting period. Also, the Company has come to use Adjusted operating profit as one of its key performance indicators since FY2014.)

*3 Adjusted operating profit = Operating profit + Amortization of acquired intangibles ± Adjusted items (income and costs)
Adjusted items (income and costs) = Impairment losses on goodwill ± Restructuring income and costs ± Others

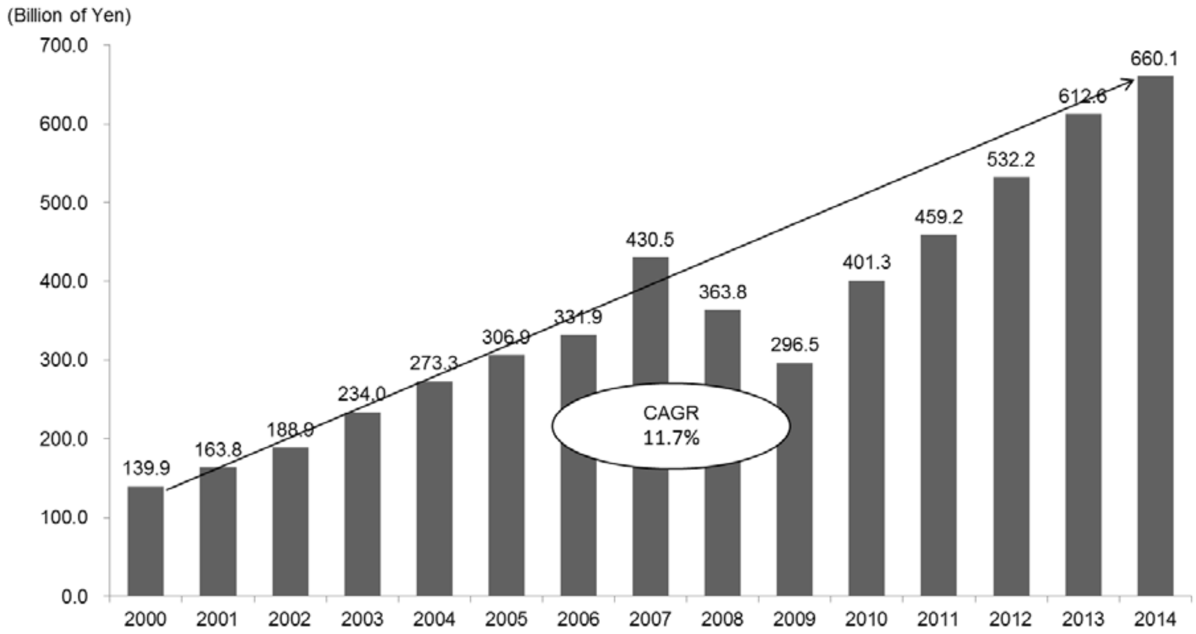
*4 EBITDA = Operating profit + Depreciation and amortization
(2000-2009: EBITDA based on US-GAPP, 2010: EBITDA based on IFRS, 2011-2014: Adjusted EBITDA based on IFRS)

*5 A 200 for 1 share split was effectuated as of July 1, 2012. The above numbers are calculated on the assumption that the share split was retroactively effective.

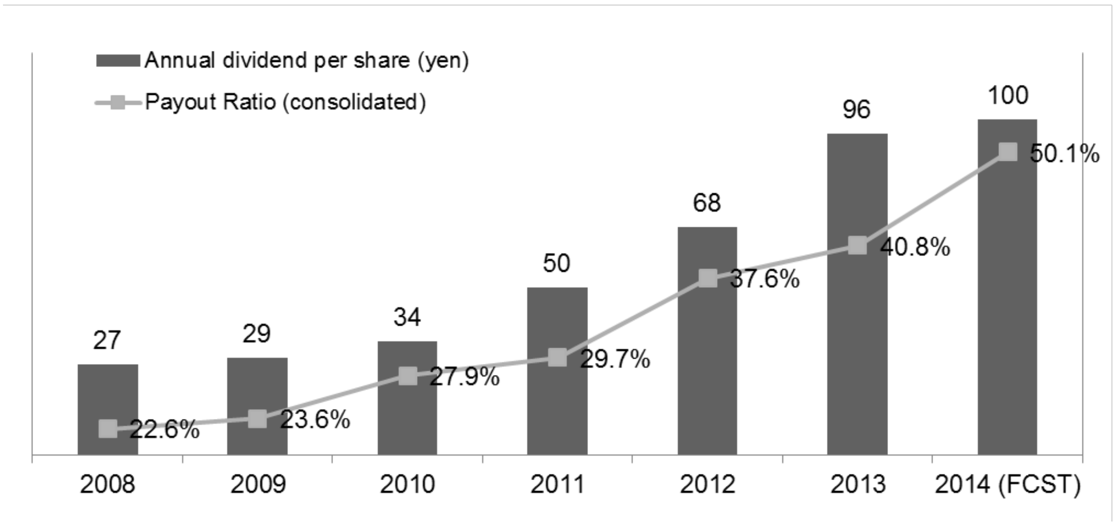
*6 Consolidated dividend payout ratio for FY2010 and prior fiscal years are calculated in J-GAAP based on earning before goodwill amortization. FY2011 and fiscal years thereafter are calculated in IFRS.
(Consolidated dividend payout ratio for FY2014, a transitional period, is based on the nine month period from April 1 to December 31)

*7 GFB: The eight brands that play the central role in the brand portfolio of the Company’s group—“Winston,” “Camel,” “Mevius,” “Benson and Hedges,” “Silk Cut,” “LD,” “Sobranie,” and “Glamour”

Reference: JT Group's profit growth



Reference: Dividend payment per share and consolidated dividend payout ratio



Shareholder Proposal

Item 5: Share Buy-back

1. Proposal

Pursuant to Article 156.1 of the Companies Act, the Company will acquire its shares of Common Stock in exchange for cash as follows:

- Shares to be acquired: 40,000,000;
- Total aggregate amount for acquisition: JPY150,000,000,000 (the "Proposed Amount"); provided that, if the total aggregate amount for acquisition as permitted under the Companies Act (the "Distributable Amount" as set forth in Article 461 of the Companies Act) is less than the Proposed Amount, it shall be reduced to such amount as permitted under the Companies Act; and
- Period for the acquisition: Within 1 year from the end of this general shareholders meeting.

2. Reason for Proposal

The capital structure of the Company is underleveraged and the Shares are undervalued. The Company should use its excess cash resources to buy back shares and to raise its dividend payout. This will ensure the Board delivers on its pledge to prioritize the return of profits to shareholders and to deliver a competitive shareholder return with balance sheet leverage closer to its competitors. We propose that the Company returns all Free Cash Flow to shareholders in the form of dividends and share buy backs. The Company's measure of Free Cash Flow should be earnings before depreciation, amortization, interest payments and tax, less capital expenditure, less net interest payments and less tax.

The Board of Directors' view on Item 5

The Board of Directors is opposed to this proposal.

The Board of Directors has prioritized business investments for sustainable profit growth in the mid- to long-term, and is also pursuing a competitive level of return to shareholders in comparison to global FMCG players.

The Board of Directors aims for high single digit growth of adjusted EPS (*8) (at constant rates of exchange), which we set as the key performance indicator regarding return to shareholders, in the mid- to long-term and will consider the share buy-back as a supplemental measure for EPS growth.

The Board of Directors believes that it is the best that it will determine the share buy-back, including authorizing a share buy-back and its timing, upon its own responsibility and discretion so that the Company can buy back its shares in a timely and appropriate manner in accordance with necessities for business investments, financial conditions, or others, based upon the Company's business principles and capital strategy. The Company has determined the share buy-back of 36,000,000 shares at a total amount of ¥100,000,000,000 at a maximum as of February 5, 2015.

In the meantime, the proposing shareholder argues in its proposal that "share buy-back will ensure the Board delivers on its pledge to prioritize the return of profits to shareholders and to deliver a competitive shareholder return with balance sheet leverage closer to its competitors." The Company, however, has announced its strategy to pursue a competitive return to shareholders in comparison to global FMCG players based upon the business principles of the "4S model," aiming at balancing business investments and returns to shareholders.

The proposal is based upon the premise that the Company should return all free cash flow to shareholders, and is short-term focused. If the proposal were approved, it would restrict business investments for future sustainable profit growth and become an obstacle to the improvement of corporate value.

*8 Adjusted EPS = (Profit or loss attributable to owners of the parent company ± Adjusted items (income and costs) ± Tax and minority interests adjustments) / (Weighted-average common shares + Increased number of common shares under subscription rights to shares)

*Adjusted items (income and costs): Impairment losses on goodwill ± Restructuring income and costs ± Others

[Attached Documents]

Business Report

(From April 1, 2014 to December 31, 2014)

Effective from the current fiscal year, the Company and those of its consolidated subsidiaries with fiscal year ends other than December 31 have changed their fiscal year ends to December 31.

As a result of this change, the consolidated fiscal year end date has been changed from March 31 to December 31, and the current fiscal year is the 9-month period from April 1, 2014, through December 31, 2014.

In addition, the fiscal year end date of JT International Holding B.V. and its subsidiaries, which operate the Group's International Tobacco Business, is already December 31. Consequently, the financial results of these companies for the 12-month period from January 1, 2014, through December 31, 2014, have been consolidated into the Group's consolidated financial results for the current fiscal year.

As a result of the above, year-on-year comparisons of results other than those of the International Tobacco Business have been omitted from the Business Report for the current fiscal year.

Figures calculated on the assumption that the Group's accounting periods for both the previous fiscal year and the fiscal year ended December 31, 2014, were the periods from January 1 to December 31 are provided as reference figures for the purpose of making comparisons.

I. Matters Concerning Present State of the Corporate Group

1. Overview and results of operations

General summary
Revenue

Revenue for the fiscal year ended December 31, 2014 (from April 1 to December 31) was ¥2,154.0 billion. This was mainly the result of favorable pricing in the International Tobacco Business and depreciation in the yen.

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

Adjusted operating profit (Note) for the fiscal year ended December 31, 2014 (from April 1 to December 31) was ¥588.6 billion. This was mainly the result of favorable pricing in the International Tobacco Business and depreciation in the yen. Operating profit was ¥499.8 billion, mainly due to recording of costs associated with measures to strengthen the competitiveness of the Domestic Tobacco Business and restructuring of manufacturing facilities in Europe in the International Tobacco Business.

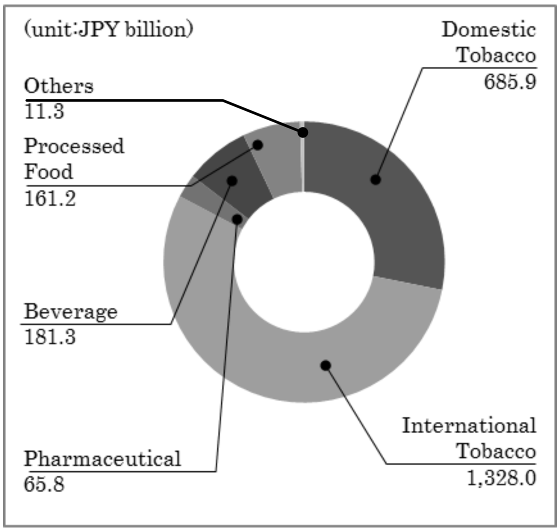
Profit attributable to owners of the parent company was ¥362.9 billion.

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

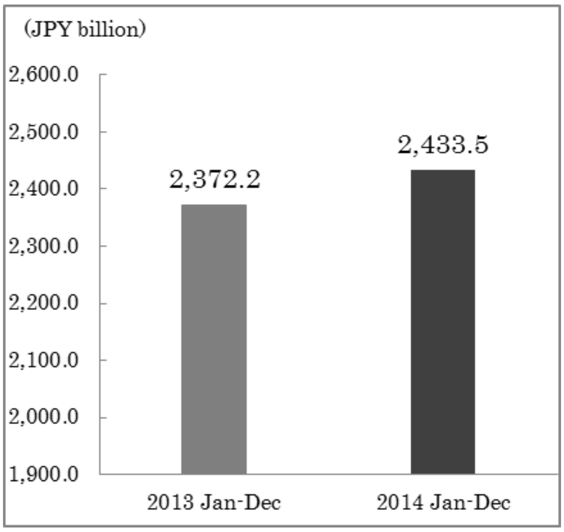
【Reference】

Figures calculated on the assumption that the Group’s accounting periods for both the previous fiscal year and the fiscal year ended December 31, 2014, were the periods from January 1 to December 31 are provided as below.

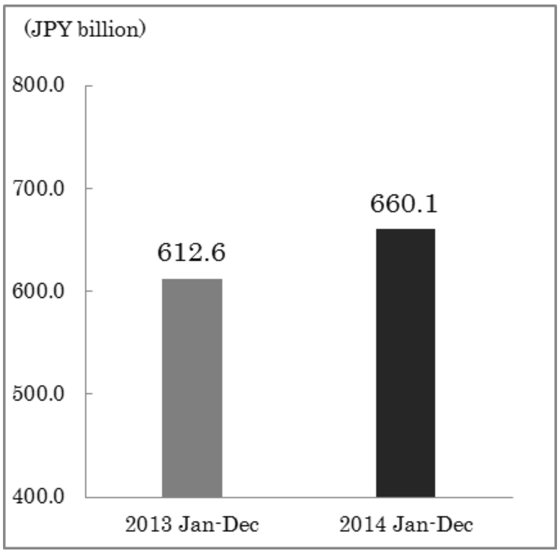
・Breakdown of Revenue



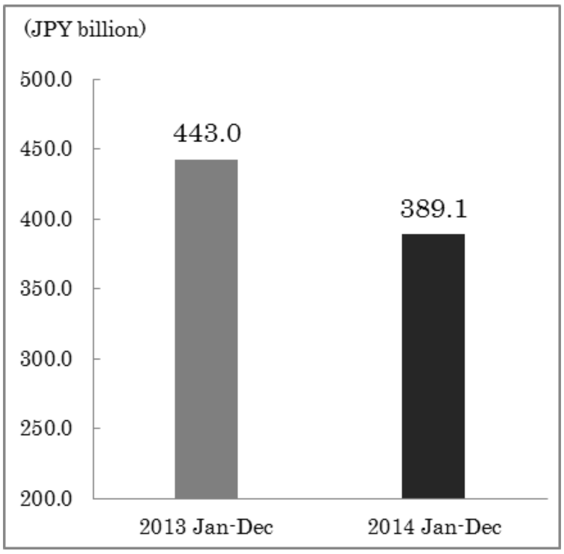
・Revenue



・Adjusted operating profit



・Profit(attributable to owners of parent company)



Review of operations by business segment

Domestic Tobacco Business 30th term (From April 1, 2014 to December 31, 2014)

	[Billions of yen]
Revenue	505.6
Core revenue(Note 1)	478.7
Adjusted operating profit	172.2

In the fiscal year ended December 31, 2014 (from April 1 to December 31), despite our continuing efforts to further strengthen brand equity in order to achieve customer retention, sales volume(Note 2) was 82.0 billion cigarettes due to a decline in total demand following the consumption tax hike and an intensification of competition.

In addition, although market share fell as low as 59.1% in April after the consumption tax hike, it has been firm since May owing to traction from Mevius and other focus brands, and our market share for the fiscal year ended December 31, 2014 (from April 1 to December 31) ended at 59.9%.

The impact from the decline in sales volume caused by a demand decline resulting from a rush in demand ahead of the consumption tax hike was partially offset by favorable pricing through customer retention, and core revenue was ¥478.7 billion. Domestic cigarette revenue per 1,000 cigarettes was ¥5,666.

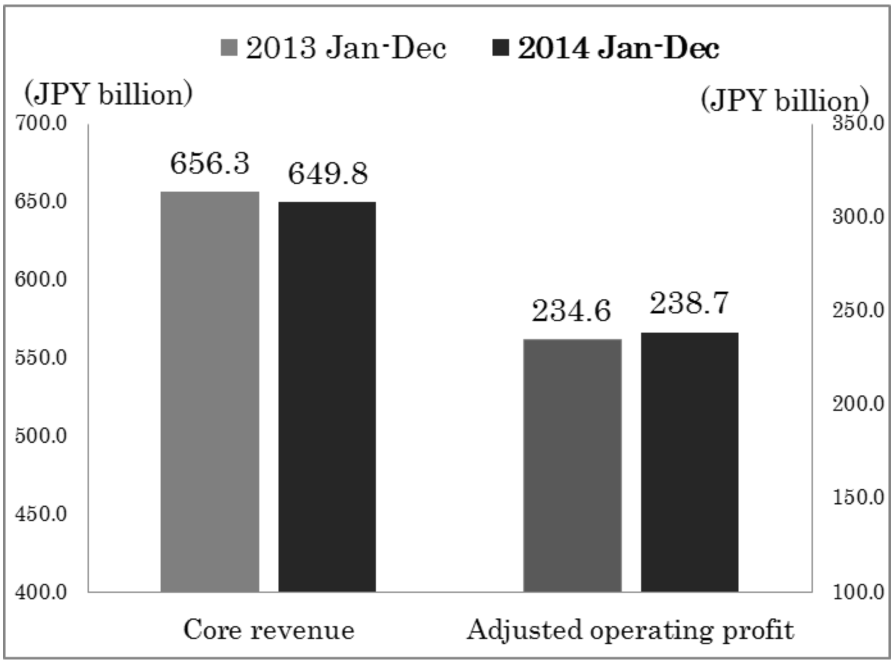
On the other hand, the adjusted operating profit was ¥172.2 billion as a result of decrease in the sales volume.

(Notes)
1. Core revenue in the Domestic Tobacco Business is calculated by deducting revenue pertaining to imported tobacco delivery charges, among others, from the revenue.
2. In addition to the figure stated above, during the current fiscal year (From April 1, 2014 to December 31, 2014), 2.5 billion cigarettes were sold at duty-free shops in Japan, as well as at markets in China, Hong Kong and Macau that are under the control of JT's China Division.

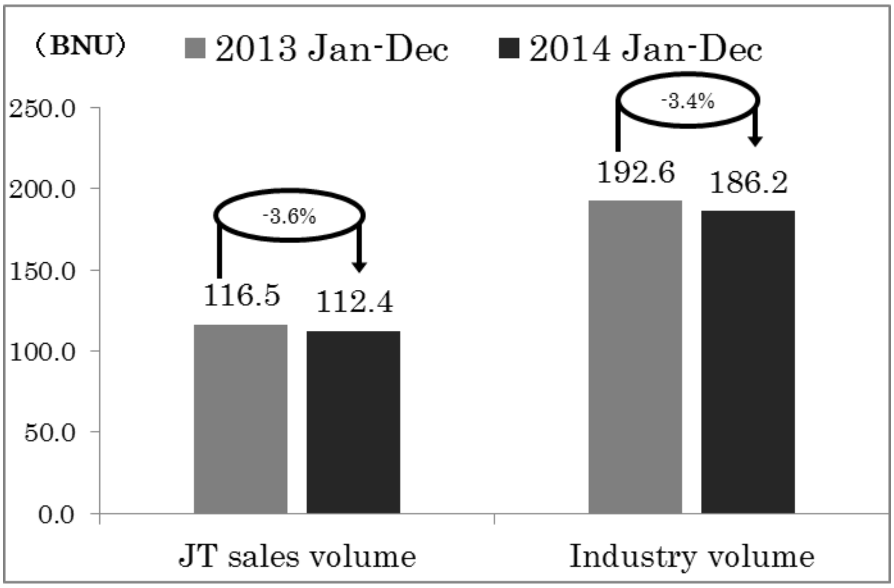
【Reference to Domestic Tobacco Business】

Figures calculated on the assumption that the Group's accounting periods for both the previous fiscal year and the fiscal year ended December 31, 2014, were the periods from January 1 to December 31 are provided as below.

・Core revenue / Adjusted operating profit



・JT sales volume / Industry volume



International Tobacco Business 30th term (From January 1, 2014 to December 31, 2014)

	[Billions of yen]	Change [%]
Revenue	1,328.0	4.6
Core revenue(Note 1)	1,258.2	4.8
Adjusted operating profit	447.1	8.8

The fiscal year end date of JT International Holding B.V. and its subsidiaries, which operate the Group's International Tobacco Business, is already December 31. Consequently, the financial results of these companies for the 12-month period from January 1, 2014, through December 31, 2014, have been consolidated into the Group's consolidated financial results for the current fiscal year.

In the fiscal year ended December 31, 2014 (from January 1 to December 31), although there were increases in market share in several key markets such as the U.K. and Spain, there was also an impact from a decline in total demand mainly in Russia. As a result, total shipment volume(Note 2) decreased by 19.5 billion cigarettes, or 4.7%, from the previous fiscal year (from January 1 to December 31, 2013) to 398.0 billion cigarettes, while GFB(Note 3) shipment volume(Note 2) decreased by 5.3 billion cigarettes, or 2.0%, from the previous fiscal year to 262.2 billion cigarettes.

In addition to the impact from the decrease in shipment volume, there were impacts from unfavorable foreign exchange effects on some local currencies, particularly the ruble. Despite this, dollar-based core revenue declined by $363 million, or 3.0%, from the previous fiscal year to $11,911 million, and adjusted operating profit increased by $47 million, or 1.1%, to $4,253 million, partly due to favorable pricing. Adjusted operating profit at constant rates of exchange increased by 13.1%.

As a result of the effects of a weaker yen when making conversions to that currency, yen-based core revenue increased by ¥57.5 billion, or 4.8%, from the previous fiscal year to ¥1,258.2 billion, and adjusted operating profit increased by ¥36.2 billion, or 8.8%, to ¥447.1 billion.

(Notes)

1. Core revenue in the International Tobacco Business is calculated by deducting revenue pertaining to distribution business and contract manufacturing, among others, from the revenue.
2. In the calculation of shipment volume, the translation method for RYO/MYO was partially amended.

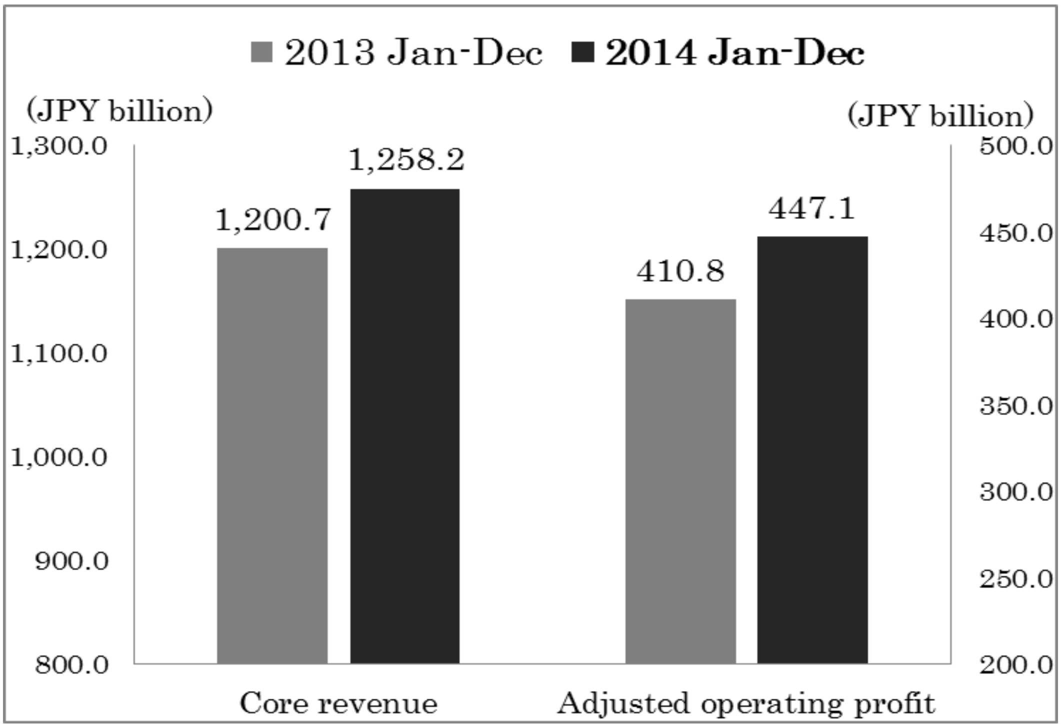
   RYO, which is an abbreviation of Roll Your Own, signifies fine cut tobacco to be used by a customer to roll a cigarette by hand, using rolling paper. MYO, which is an abbreviation of Make Your Own, signifies fine cut tobacco to be used by a customer to make a cigarette, using a specialized tool and cigarette tubes.
3. We have identified eight brands which serve as flagships of the JT Group's brand portfolio, Winston, Camel, Mevius, Benson & Hedges, Silk Cut, LD, Sobranie and Glamour, which we collectively call the Global Flagship Brands (GFBs).

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

Foreign exchange rate per U.S. dollar	29th term From January 1, 2013 to December 31, 2013	30th term From January 1, 2014 to December 31, 2014
Yen	97.73 yen	105.79 yen
Ruble	31.84 rubles	38.40 rubles
Pounds sterling	0.64 pounds sterling	0.61 pounds sterling
Euro	0.75 euros	0.75 euros

【Reference to International Tobacco Business】

・Core revenue / Adjusted operating profit



Pharmaceutical Business 30th term (From April 1, 2014 to December 31, 2014)

	[Billions of yen]
Revenue	47.6
Adjusted operating profit	(6.9)

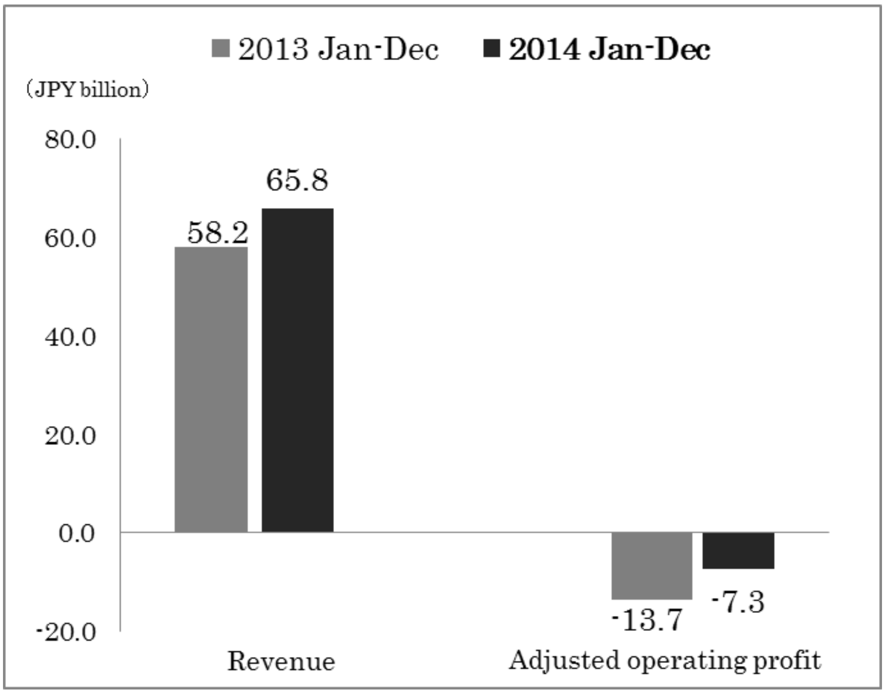
In the pharmaceutical business, we are striving to establish a stronger profit platform by maximizing the value of each product and promoting R&D on next-generation strategic products. In the area of product development, the number of compounds developed in-house that are under clinical development is now 10.

In the fiscal year ended December 31, 2014 (from April 1 to December 31), in November 2014 the JAK inhibitor JTE-052 was out-licensed to LEO Pharma for development and commercialization globally excluding Japan for topical treatment of skin conditions. As for original JT compounds that have been out-licensed, Gilead Sciences, Inc., which is the licensee for JTK-303, has filed marketing applications for the anti-HIV drug "elvitegravir (JTK-303)/cobicistat/emtricitabine/tenofovir alafenamide tablets" to the US Food and Drug Administration (FDA) and European Medicines Agency (EMA). JT Group company Torii Pharmaceutical Co., Ltd. started sales in Japan of hyperphosphatemia treatment Riona® Tablets 250mg in May 2014 and of CEDARTOLEN® SUBLINGUAL DROP - Japanese Cedar Pollen, a sublingual immunotherapy drug for Japanese cedar pollinosis, in October 2014. In addition, an application for manufacturing and marketing approval in Japan was filed in January 2015 for TO-203, an allergen immunotherapy drug for patients with house dust mite allergies, for the indication of allergic rhinitis.

Revenue for the fiscal year ended December 31, 2014 (from April 1 to December 31) was ¥47.6 billion. Adjusted operating loss was ¥6.9 billion.

【Reference to Pharmaceutical Business】

Figures calculated on the assumption that the Group's accounting periods for both the previous fiscal year and the fiscal year ended December 31, 2014, were the periods from January 1 to December 31 are provided as below.



Beverage Business 30th term (From April 1, 2014 to December 31, 2014)

	[Billions of yen]
Revenue	139.5
Adjusted operating profit	0.2

In the Beverage Business, we continued striving to improve profitability. To this end, we not only implemented product launches centered on the flagship coffee brand “Roots,” but also enhanced expenditure execution efficiency throughout the business and continued to implement productivity improvement measures centered on Japan Beverage Holdings Inc., a Group company that operates vending machines.

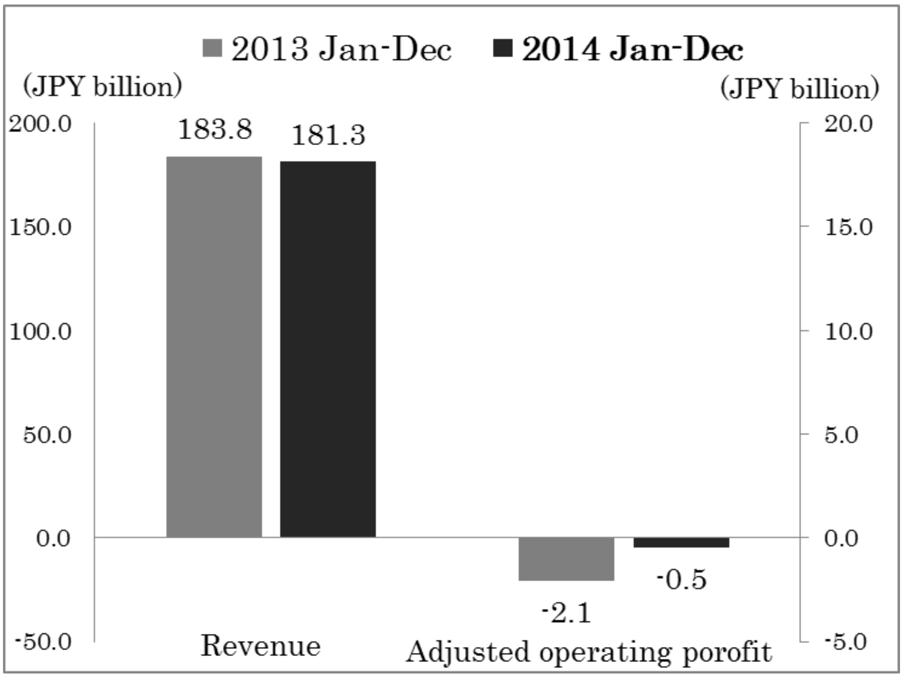
In the fiscal year ended December 31, 2014 (from April 1 to December 31), in the flagship coffee brand “Roots,” we actively implemented product launches including the new launch of “Aroma Gold Low Sugar,” which contains a luxurious blend of high-quality beans (Brazil No. 2), and the launch of a renewal of “Aroma Black Hot Blend,” for which we adopted the most aromatic roasting method in the history of “Roots.”

Revenue for the fiscal year ended December 31, 2014 (from April 1 to December 31) was ¥139.5 billion, due to the effect of unseasonable weather patterns over the summer and intensification of competition in store sales channels. Adjusted operating profit was ¥0.2 billion due mainly to efficient execution of expenditure and a reduction in raw material costs.

*After carefully considering the growth strategy for the manufacture and sale of JT beverage products, the Company concluded that it would be difficult for this business to make a profitable contribution to the JT Group in the mid- to long term. Thus, from the perspective of total optimization in areas such as the Group’s resource allocation, a resolution was made to withdraw from manufacture and sale of JT beverage products in the Beverage Business at a meeting of the Board of Directors held on February 4, 2015, targeting the withdrawal by the end of September 2015. The vending machine operation business will continue to operate as before. Going forward, the Company will consider various options for this business.

【Reference to Beverage Business】

Figures calculated on the assumption that the Group’s accounting periods for both the previous fiscal year and the fiscal year ended December 31, 2014, were the periods from January 1 to December 31 are provided as below.



Processed Food Business　30th term (From April 1, 2014 to December 31, 2014)

	[Billions of yen]
Revenue	122.9
Adjusted operating profit	1.3

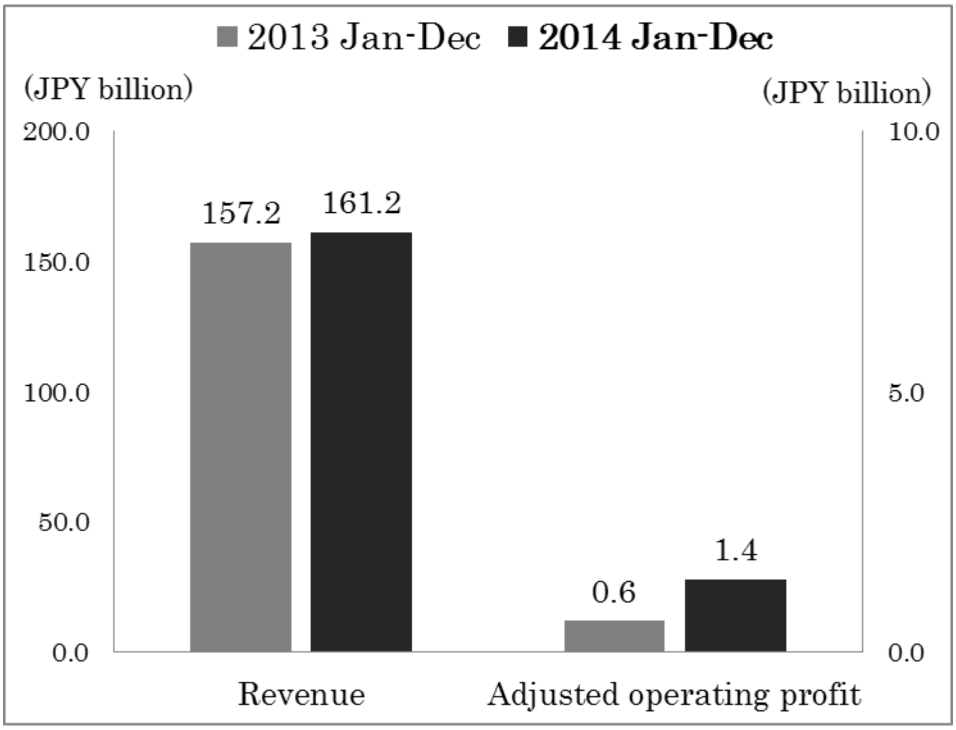
With Group company TableMark Co., Ltd. taking a central role, the Processed Food Business is primarily engaged in business concerning frozen and room temperature processed food, mainly staple food products such as frozen noodles, frozen rice, packed rice and baked frozen bread, bakery chain outlets in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

In the fiscal year ended December 31, 2014 (from April 1 to December 31), we continued working to expand product sales with an emphasis on staple food products. Specifically, we conducted vigorous sales promotions by such means as launching 30 new products and 28 renewed products in the areas of frozen home-use products and room temperature home-use products. These included vigorous sales promotions for products including “Sanuki Udon Noodles 5 packs” and “Tannen-jikomi Authentic Sanuki Udon Noodles 3 packs,” and “Using 1/3 of Recommended Daily Serving of Vegetables” series, which targets consumer health consciousness.

Revenue for the fiscal year ended December 31, 2014 (from April 1 to December 31) was ¥122.9 billion, due mainly to sales growth in staple food products. Adjusted operating profit was ¥1.3 billion.

【Reference to Processed Food Business】

Figures calculated on the assumption that the Group’s accounting periods for both the previous fiscal year and the fiscal year ended December 31, 2014, were the periods from January 1 to December 31 are provided as below.



2. Status of capital expenditures

In this fiscal year, we made capital expenditures totaling ¥120.8 billion.

In the Domestic Tobacco Business, we spent ¥27.9 billion, mainly on measures to streamline manufacturing processes; strengthen our ability to respond flexibly to supply and demand fluctuations with regard to an increasingly diverse range of products; and develop new products. In the International Tobacco Business, we invested ¥74.2 billion mainly for improvements in product specifications in addition to improvement, maintenance and renewals of production capability. In the Pharmaceutical Business, we spent ¥2.9 billion on enhancing and strengthening research and development structures and the like. In the Beverage Business, we invested ¥8.3 billion for maintenance and renewals of vending machines. In the Processed Food Business, we invested ¥3.6 billion in improvement, maintenance and renewals of production capability.

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

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

3. Status of financing

No items to report.

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

No items to report.

5. Business transfers from other companies

No items to report.

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

No items to report.

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

No items to report.

8. Trends in assets and operating results

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

	27th term FY2011	28th term FY2012	29th term FY2013	30th term From April 1, 2014 to December 31, 2014
Revenue (Millions of yen)	2,033,825	2,120,196	2,399,841	2,153,970
Profit before income taxes (Millions of yen)	441,355	509,355	636,203	502,299
Profit attributable to owners of the parent company (Millions of yen)	320,883	343,596	427,987	362,919
Basic earnings per share (Yen)	33,701	181.07	235.48	199.67
Total assets (Millions of yen)	3,667,007	3,852,567	4,616,766	4,704,706
Total equity (Millions of yen)	1,714,626	1,892,431	2,596,091	2,622,503

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

2. Consolidated financial statements of the JT Group are prepared based on IFRS.
3. JT conducted a share split at a ratio of 200 to 1 with July 1, 2012 as effective date. Consequently, .basic earnings per share are calculated on the assumption that this share split was conducted at the beginning of the 28th term.
4. All the financial figures for the 29th term have been retrospectively adjusted due to application of IFRIC21: "Levies" in the fiscal year ended December 31, 2014.

Reference: Profit and Loss (year-on-year comparisons)

Profit and loss calculated on the assumption that the fiscal period was January 1 to December 31in both the previous fiscal year and the fiscal year ended December 31, 2014, are as follows.

	From January 1, 2013 to December 31, 2013	From January 1, 2013 to December 31, 2013
Revenue (Millions of yen)	2,372,179	2,433,463
Profit before income taxes (Millions of yen)	630,465	573,565
Profit attributable to owners of the parent company (Millions of yen)	443,027	389,065
Basic earnings per share (Yen)	241.80	214.06

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

	27th term FY2011	28th term FY2012	29th term FY2013	30th term From April 1, 2014 to December 31, 2014
Net sales (Millions of yen)	734,902	781,067	809,967	572,323
Ordinary income (Millions of yen)	198,071	210,568	230,900	159,746
Net income (Millions of yen)	142,726	149,773	168,779	108,656
Net income per share (Yen)	14,990	78.93	92.86	59.78
Total assets (Millions of yen)	3,016,651	2,784,914	2,732,637	2,729,270
Net assets (Millions of yen)	1,924,739	1,714,529	1,734,379	1,649,151

(Notes) 1. Effective from the current fiscal year, the Company has changed its fiscal year end to December 31. As a result of this change, the current fiscal year is the 9-month period from April 1, 2014, through December 31, 2014.

2. The figures were prepared based on Japanese GAAP.

3. JT conducted a share split at a ratio of 200 to 1, with July 1, 2012 as effective date. Consequently, net income per share is calculated on the assumption that this share split was conducted at the beginning of the 28th term.

9. Issues to be addressed

(1) Basic management policy

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

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

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

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

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

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

Information provided in (2) Mid- to long-term management strategy and issues has been calculated on the assumption that the fiscal period of the Group was January through December.

The JT Group formulated its business plan, a three-year plan that is renewed each year on a rolling basis in order to speed up the Group’s ability to respond appropriately to unexpected changes in accordance with its recognition that strengthening its “adaptability to a changing environment” is an important theme. Through the plan, the Group intends to carry on strategies that have hitherto been implemented for the Group’s long-term vision of becoming a “Company committed to global growth that provides consumers diversified value uniquely available from JT” while also taking them to a higher level.

In the “Business Plan 2013,” in accordance with the “4S” model concept, which constitutes the JT Group’s management principles, the Group stated its intention to carry out mid- to long-term allocation of management resources with a high priority attached to business investment that contributes to sustainable mid- to long-term profit growth.

“Business Plan 2014” Targets

- Adjusted operating profit growth rate (at constant rates of exchange)(Note 1): Mid- to high single-digit annual average growth rate over the mid- to long term.
- Consolidated dividend payout ratio(Note 2): In order to be on par with global players in the FMCG business, aim for at least 50%. Aim for 50% in the fiscal year ending December 31, 2015.
- Adjusted EPS(Note 4) growth rate (at constant rates of exchange): High single-digit annual average growth rate over the mid- to long term.

In the period from January through December 2014, the adjusted operating profit growth rate (at constant rates of exchange) was 10.6% over the same period of the previous fiscal year, mainly reflecting strong momentum in the International Tobacco Business. The adjusted EPS growth rate (at constant rates of exchange) was 11.1% over the same period of the previous fiscal year.

In the “Business Plan 2015,” which has been formulated in accordance with the Group’s rolling business plan schedule, the Group has maintained its commitment to achieving sustainable profit growth through business investment.

“Business Plan 2015” Targets

- Adjusted operating profit growth rate (at constant rates of exchange): Mid to high single-digit annual average growth rate over the mid- to long term.
- Consolidated dividend payout ratio: In order to be on par with global players in the FMCG business, aim for at least 50%. Realize a ratio of 50% in the fiscal year ending December 31, 2015.
- Adjusted EPS growth rate (at constant rates of exchange): High single-digit annual average growth rate over the mid- to long term.

*At a meeting of the Board of Directors held on February 5, 2015 with the aim of supplementing mid- to long-term adjusted EPS (at constant rates of exchange) growth as part of JT’s efforts to increase shareholder returns, a resolution was made to acquire treasury shares at a maximum of either 36,000,000 shares or ¥100,000 million.

The Group will not only prioritize investment that contributes to strengthening competitiveness in the tobacco business, but also steadily make investments in business foundations to facilitate profit contributions to the Group from the pharmaceutical and food businesses as well. By these means, the Group will work toward sustainable profit growth over the mid- to long term.

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

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

The Company decided to withdraw from manufacture and sale of JT beverage products in the Beverage Business at a meeting of the Board of Directors held on February 4, 2015, targeting the withdrawal for the end of September 2015.

The vending machine operation business will continue to operate as before. Going forward, the Company will consider various options for this business.

In order to achieve the consolidated mid- to long-term profit targets, our strategic focus across all businesses is to achieve quality top line growth by striving in accordance with each target and role. For each business, our strategic focus is to improve cost competitiveness and business foundations that support these efforts, thereby achieving sustainable profit growth.
We will work to strengthen our CSR initiatives further with an emphasis on the pursuit of high-level, well-balanced stakeholder satisfaction based on the “4S” model, which constitutes JT’s management principles.

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

(Notes) 1. Adjusted operating profit (at constant rates of exchange) is a financial measurement that excludes foreign exchange effects by translating and calculating adjusted operating profit for the current period in the International Tobacco Business using the foreign exchange rates of the same period of the previous fiscal year.

2. Consolidated dividend payout ratio is obtained by dividing annual dividend per share by basic earnings per share.
3. FMCG: Fast Moving Consumer Goods (daily consumer durables)
4. Adjusted EPS = (Profit or loss attributable to owners of the parent company ± adjustment items (income and costs)* ± tax and minority interests adjustments) / (weighted-average common shares during the period + increased number of common shares under subscription rights to shares)
   * Adjustment items (income and costs): Impairment losses on goodwill ± restructuring income and costs ± others

10. Main business contents

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

11. Status of important subsidiaries

Company name	Capital	Equity ownership (%)	Main business
TS Network Co., Ltd.	(Millions of yen) 460	74.5	Distribution of tobacco products
Japan Filter Technology Co., Ltd.	(Millions of yen) 461	87.6	Manufacture and sale of filters for tobacco products
JT International S.A.	(Thousand of CHF) 1,215,425	(100.0)	Manufacture and sale of tobacco products
Gallaher Ltd.	(Thousand of GBP) 172,495	(100.0)	Manufacture and sale of tobacco products
Torii Pharmaceutical Co., Ltd.	(Millions of yen) 5,190	53.5	Manufacture and sale of prescription drugs
JT Beverage Inc.	(Millions of yen) 90	100.0	Sale of beverages
Japan Beverage Holdings Inc.	(Millions of yen) 500	70.5	Sale of beverages by vending machine
TableMark Co., Ltd.	(Millions of yen) 22,500	(100.0)	Manufacture and sale of processed foods

(Notes) 1. Figures in parentheses in the “Equity ownership” column indicate indirect holding rates.

2. There were 215 consolidated subsidiaries in this fiscal year, including 8 above-mentioned important subsidiaries, as well as 12 affiliates accounted for by the equity method. In addition, consolidated revenue for the fiscal year ended December 31, 2014 (from April 1 to December 31) amounted to ¥2,154.0 billion with profit attributable to owners of the parent company at ¥362.9 billion.
3. TableMark Co., Ltd. conducted a company split with an effective date of April 1, 2014, in which TableMark Co., Ltd. is the company conducting business operations and TableMark Holdings Co., Ltd. is a pure holding company.

12. Major lenders

Lender	Outstanding balance (Millions of yen)
Mizuho Bank, Ltd.	39,785

13. Major sales offices and factories

(1) JT

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

Sales Office: Hokkaido (Hokkaido), Sendai (Miyagi), Tokyo (Tokyo), Nagoya (Aichi), Osaka (Osaka), Hiroshima (Hiroshima), Shikoku (Kagawa), Fukuoka (Fukuoka), and other 17 sales offices

Factories: Kita-Kanto (Tochigi), Tokai (Shizuoka), Kansai (Kyoto), Kyushu (Fukuoka), and other 5 factories

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

(2) Subsidiaries

TS Network Co., Ltd. (Tokyo)

Japan Filter Technology Co., Ltd. (Tokyo)

JT International S.A. (Switzerland)

Gallaher Ltd. (U.K.)

Torii Pharmaceutical Co., Ltd. (Tokyo)

JT Beverage Inc. (Tokyo)

Japan Beverage Holdings Inc. (Tokyo)

TableMark Co., Ltd. (Tokyo)

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

14. Status of employees

(1) Employees of the JT Group

Business segment	Number of employees (Person)
Domestic Tobacco Business	11,648
International Tobacco Business	26,829
Pharmaceutical Business	1,840
Beverage Business	5,122
Processed Food Business	5,968
Common company-wide services within JT	943
Total	51,341

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

(2) Employees of JT

Male/Female	Number of employees (Person)	Year on year increase (decrease) (Person)	Average age (Year old)	Average years of service (Year)
Male	7,763	70	45.3	22.8
Female	1,152	71	38.4	15.2
Total or average	8,915	141	44.4	21.8

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

II. Matters Concerning Shares of JT

1. Total number of shares authorized: 8,000,000,000 shares

2. Total number of shares issued: 2,000,000,000 shares
(Including treasury shares 182,443,388 shares)

3. Number of shareholders: 147,546

4. Major shareholders

Name of shareholders	Number of shares held (Share)	Equity ownership (%)
The Minister of Finance	666,930,000	36.69
The Master Trust Bank of Japan, Ltd. (Trust Account)	48,016,600	2.64
Japan Trustee Services Bank, Ltd. (Trust Account)	44,042,200	2.42
JPMorgan Chase Bank 380055	40,614,441	2.23
State Street Bank and Trust Company	37,725,319	2.08
State Street Bank and Trust Company 505223	37,079,564	2.04
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	33,800,000	1.86
State Street Bank and Trust Company	33,575,126	1.85
HSBC BANK PLC A/C THE CHILDRENS INVESTMENT MASTER FUND	28,362,300	1.56
JPMorgan Chase Bank 385632	16,560,688	0.91

(Note) Equity ownership is calculated after deducting treasury stock (182,443,388 shares).

5. Other significant matters concerning shares

At a meeting of the Board of Directors held on February 5, 2015 with the aim of supplementing mid- to long-term adjusted EPS (at constant rates of exchange) growth as part of JT's efforts to increase shareholder returns, a resolution was made to acquire treasury shares at a maximum of either 36,000,000 shares or ¥100,000 million.

III. Matters Concerning Subscription Rights to Shares

1. Total number and others of subscription rights to shares as of December 31, 2014

(1) Total number of subscription rights to shares:

5,355 units

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

Common shares 1,071,000 shares

(200 shares per subscription right to shares)

2. Status of subscription rights to shares held by Directors and Audit & Supervisory Board Members of JT as of December 31, 2014

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

Common shares 275,800 shares

(200 shares per subscription right to shares)

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

¥1 per share

(3) Assignment of subscription rights to shares

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

(4) Conditions for exercising subscription rights to shares

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

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

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

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

3. Status of subscription rights to shares granted to employees of JT from April 1, 2014 to December 31, 2014

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

Common shares 33,200 shares

(200 share per subscription right to shares)

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

¥483,200 per share

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

¥1 per share

(4) Exercise period of subscription rights to shares

From October 7, 2014 to October 6, 2044

(5) Assignment of subscription rights to shares

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

(6) Conditions for exercising subscription rights to shares

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

(7) Status of granting to employees of JT

166 subscription rights to shares were granted to 19 Executive Officers *(sikkoyakuin)* (excluding persons serving as Directors) of JT.

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

1. Directors and Audit & Supervisory Board Members

Position	Name	Responsibility	Significant concurrent positions outside the Company
Chairman of the Board*	Yasutake Tango		
President, Chief Executive Officer and Representative Director	Mitsuomi Koizumi		
Representative Director and Executive Deputy President	Yasushi Shingai	Assistant to CEO in Compliance, Strategy, HR, General Administration, Legal and Operational Review & Business Assurance	Recruit Holdings Co., Ltd. Outside Director
Representative Director and Executive Deputy President	Noriaki Okubo	Assistant to CEO in Pharmaceutical Business, Beverage Business and Processed Food Business	
Representative Director and Executive Deputy President	Akira Saeki	President, Tobacco Business	JT International Group Holding B.V. Chairman
Member of the Board and Executive Deputy President	Hideki Miyazaki	Assistant to CEO in CSR, Finance and Communications	
Member of the Board	Motoyuki Oka		NEC Corporation Outside Director
Member of the Board	Main Kohda		Novelist LIXIL Group Corporation Outside Director
Standing Audit & Supervisory Board Member	Futoshi Nakamura		
Standing Audit & Supervisory Board Member	Tomotaka Kojima		
Audit & Supervisory Board Member	Koichi Ueda		Koichi Ueda Law Office Attorney at Law Japan Racing Association Member of the Board of Governors
Audit & Supervisory Board Member	Yoshinori Imai		

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

2. Audit & Supervisory Board Members Koichi Ueda and Yoshinori Imai are Outside Audit & Supervisory Board Members.

3. Members of the Board, Motoyuki Oka and Main Kohda, and Audit & Supervisory Board Members, Koichi Ueda and Yoshinori Imai, were designated as independent officers (directors and auditors) as prescribed by the Tokyo Stock Exchange, Inc.
4. Audit & Supervisory Board Member Futoshi Nakamura and Audit & Supervisory Board Member Tomotaka Kojima have relevant knowledge about financing and accounting as they were the Senior Manager of the Accounting Division of JT and Deputy Head of Finance Group of JT, respectively.
5. The Member of the Board denoted with the asterisk * has assumed his office on June 24, 2014.
6. Chairman of the Board Hiroshi Kimura and Member of the Board Masamichi Terabatake resigned on June 24, 2014.

2. Remunerations for Directors and Audit & Supervisory Board Members

(1) Total remunerations for Directors and Audit & Supervisory Board Members

Category	Directors		Audit & Supervisory Board Members		Total	
	Number to be paid (Person)	Amount to be paid (Millions of yen)	Number to be paid (Person)	Amount to be paid (Millions of yen)	Number to be paid (Person)	Amount to be paid (Millions of yen)
Basic remuneration	10	257	4	72	14	329
Directors' bonus	5	102	-	-	5	102
Stock option grants	6	86	-	-	6	86
Total	-	445	-	72	-	517

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

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

(2) Policy concerning the remuneration amount for Directors and Audit & Supervisory Board Members or the remuneration calculation method thereof and the method of determining the policy

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

Outside members of Compensation Advisory Panel

Outside Director Motoyuki Oka
Outside Director Main Kohda
Outside Audit & Supervisory Board Member Koichi Ueda
Outside Audit & Supervisory Board Member Yoshinori Imai

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

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

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

The composition of the remuneration for Directors is as follows:

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

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

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

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

The upper limit of remuneration for the Company’s Directors and Audit & Supervisory Board Members, which was approved at the 22nd Ordinary General Meeting of Shareholders (held in June 2007), is ¥870 million per year for all Directors and ¥190 million per year for all Audit & Supervisory Board Members. In addition, the upper limit of “stock option” that may be granted to Directors separately to the remuneration mentioned above is 800 units and ¥200 million per year. This was also approved at the 22nd Ordinary General Meeting of Shareholders. The number of units allocated for each term, including the number allocated to Executive Officers *(sikkoyakuin)* who are not also Directors, is decided by resolution of the Board of Directors.

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

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

(1) Significant concurrent positions outside the Company

<table>
<tr><th>Category</th><th>Name</th><th>Organizations where concurrent positions are held</th><th>Position</th></tr>
<tr><td rowspan="3">Director</td><td>Motoyuki Oka</td><td>NEC Corporation</td><td>Outside Director</td></tr>
<tr><td rowspan="2">Main Kohda</td><td>Novelist</td><td></td></tr>
<tr><td>LIXIL Group Corporation</td><td>Outside Director</td></tr>
<tr><td rowspan="2">Audit & Supervisory Board Member</td><td rowspan="2">Koichi Ueda</td><td>Koichi Ueda Law Office</td><td>Attorney at Law</td></tr>
<tr><td>Japan Racing Association</td><td>Member of the Board of Governors</td></tr>
</table>

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

(2) Major activities during this fiscal year

Category	Name	Status of main activities
Director	Motoyuki Oka	Attended 10 out of 11 meetings of the Board of Directors held during this fiscal year. Mr. Oka asked questions and made remarks where necessary at these meetings, as a director.
	Main Kohda	Attended all 11 meetings of the Board of Directors held during this fiscal year. Ms. Kohda asked questions and made remarks where necessary at these meetings, as a director.
Audit & Supervisory Board Member	Koichi Ueda	Attended 10 out of 11 meetings of the Board of Directors, as well as all 10 meetings of the Audit & Supervisory Board held during this fiscal year. Mr. Ueda asked questions and made remarks where necessary at these meetings, as an Audit & Supervisory Board Member.
	Yoshinori Imai	Attended all 11 meetings of the Board of Directors, as well as all 10 meetings of the Audit & Supervisory Board held during this fiscal year. Mr. Imai asked questions and made remarks where necessary at these meetings, as an Audit & Supervisory Board Member.

(3) Outline of limited liability agreements

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

(4) Total amount of remunerations

Category	Outside Director		Outside Audit & Supervisory Board Member		Total	
	Number to be paid (Person)	Amount to be paid (Millions of yen)	Number to be paid (Person)	Amount to be paid (Millions of yen)	Number to be paid (Person)	Amount to be paid (Millions of yen)
Basic remuneration	2	23	2	18	4	41

V. Matters Relating to Independent Auditor

1. Name of Independent Auditor: Deloitte Touche Tohmatsu LLC

2. Fees for Independent Auditor relating to this fiscal year

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

i)	Fees for audit attestation based on Article 2, paragraph 1 of the Certified Public Accountants Act:	¥266 million
ii)	Fees for tasks other than audit attestation based on Article 2, paragraph 1 of the Certified Public Accountants Act:	¥13 million

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

¥439 million

(Notes) 1. Fees paid under the terms of the audit contract concluded between Deloitte Touche Tohmatsu LLC and JT in relation to audit attestation based on the Companies Act and the Financial Instruments and Exchange Act are not clearly classified and, since they cannot be effectively classified, their total is indicated in the amount in “i)” above.

2. JT retain Deloitte Touche Tohmatsu LLC for tasks other than audit attestation based on Article 2, Paragraph 1 of the Certified Public Accountants Act, which consist of the preparation of comfort letters, and for which a consideration is paid to the same.

3. Among the important subsidiaries of JT, JT International S.A. and Gallaher Ltd. are audited by Deloitte & Touche LLP. None of these subsidiaries are audited by Deloitte Touche Tohmatsu LLC, the Independent Auditor of JT.

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

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

VI. Overview of the Resolutions on the Development of Systems Necessary to Ensure the Properness of Operations

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

(1) Systems to ensure that Directors and employees perform their duties in accordance with laws, regulations and JT's Articles of Incorporation

i) Compliance system

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

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

The Compliance Office distributes to all Directors and employees the "JT Group Code of Conduct", which explains the Code of Conduct and enhances the effectiveness of the compliance system by enlightening Directors and employees about compliance through various compliance education programs.

(Internal reporting system)

JT establishes a counter where employees may report any conduct they have detected which is suspected to breach laws and regulations. The Compliance Office is charged with investigating reported cases, establishing necessary measures and implementing company-wide precautions to prevent recurrences after holding consultations with the departments and divisions concerned. Matters of particular importance shall be referred to the JT Group Compliance Committee for deliberation.

(System for excluding anti-social elements)

JT is resolved to fight against, not to comply with, an unreasonable demand and not to have any relations with anti-social elements.

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

In addition, the "prohibition of involvement with anti-social elements" has been provided for in the "JT Group Code of Conduct" and fully communicated to all officers and employees. At the same time, an awareness raising program for excluding antisocial elements is to be consistently administered for all officers and employees, including those working for its affiliates, by providing relevant training as necessary.

ii) System to ensure the reliability of financial reporting

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

iii) Internal audit system

The Operational Review and Business Assurance Division oversees the internal audit system and examines and evaluates systems for supervising and managing the overall operations and the status of business execution from the viewpoints of legality and rationality, in order to protect JT's assets and improve management efficiency.

(2) Procedures and arrangements for storage and management of information on the performance of duties by the Directors

i) Storage and management of minutes

JT makes sure to properly stores and manages the minutes of General Meetings of Shareholders and meetings of the Board of Directors, in line with laws and regulations.

ii) Storage and management of other information

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

(3) Rules on management of risk of loss and procedures/arrangements for other matters

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

JT has established internal policies, rules and manuals for the management of risk of loss relating to monetary and financial affairs, and ensures that relevant reports are made to the President and the Board of Directors on a quarterly basis via Chief Financial Officer.
With regard to identifying and reporting the risk of loss relating to other affairs, in accordance with authority delegated to each department and division as per the Responsibilities/Authorities Allocation Rules, responsible departments and divisions take on a supervisory role creating all types of committees to conduct proper management and, depending on the level of importance, report risks to the President and obtain approval for countermeasures.

JT has assigned sufficient staff to the Operational Review and Business Assurance Division, which functions as JT's internal audit organization. This division examines and evaluates the internal control systems of JT and the JT Group companies in light of the level of importance and the risks involved from an objective viewpoint that is independent of the organizations responsible for business execution, and reports its findings and presents proposals to the President, as well as reports to the Board of Directors.

ii) Preparedness for possible emergencies

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

(4) System to ensure that Directors perform their duties efficiently

i) Board of Directors

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

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

ii) Proper delegation of authority and system of responsibilities

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

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

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

(5) Systems necessary to ensure the properness of operations in the business group which consists of a stock company, its parent company and subsidiaries

i) Mission of the JT Group

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

ii) Group management

The JT Group has specified the functions and rules common for all group companies based on a group management policy to effectuate group management that optimizes the operations of the entire JT Group as a whole.

JT has put in place systems for compliance (including the internal reporting system), internal audits, financial affairs management, etc. in cooperation with the JT Group companies.

(6) System for employees assisting Audit & Supervisory Board Members in their duties in the event such employees were requested by Audit & Supervisory Board Members

i) Establishment of Auditor's Office

JT has created an Auditor's Office as an organization supporting the Audit & Supervisory Board Members in performing their duties.

ii) Allocation of staff

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

(7) Matters relating to the independence of employees mentioned in “(6)” above from Directors

i) Management of employees affiliated with the Auditor’s Office

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

ii) Prohibition of concurrent assignments

Employees assigned to the Auditor’s Office shall not be designated in other concurrent positions relating to business execution of JT.

(8) System for reporting by Directors or employees to the Audit & Supervisory Board and Audit & Supervisory Board Members and other systems for reporting to the Audit & Supervisory Board and Audit & Supervisory Board Members

i) Reporting to the Audit & Supervisory Board

When Directors and Executive Officers *(sikkoyakuin)* detect any matter that may cause substantial damage to JT, they are due to report it to the Audit & Supervisory Board. Moreover, when Directors and employees detect any evidence of malfeasance in financial documents or serious breaches of laws or regulations or JT’s Articles of Incorporation, they are due to report them to the Audit & Supervisory Board, along with other relevant matters that could affect JT’s management.

ii) Attendance at important meetings

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

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

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

i) Cooperation with audits and auditing expenses

Directors are due to cooperate with audits effectuated by Audit & Supervisory Board Members and establish a budget for covering audit-related expenses so as to secure the effectiveness of audits.

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

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

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

Consolidated Statement of Financial Position

(As of December 31, 2014)

(Millions of yen)

Account title	Amount	Account title	Amount
Current assets		**Current liabilities**	
Cash and cash equivalents	385,820	Trade and other payables	419,764
Trade and other receivables	448,402	Bonds and borrowings	107,562
Inventories	587,849	Income tax payables	54,942
Other financial assets	43,907	Other financial liabilities	14,463
Other current assets	230,530	Provisions	9,200
Subtotal	1,696,507	Other current liabilities	754,169
Non-current assets held-for-sale	367	Total current liabilities	1,360,098
Total current assets	1,696,874		
		Non-current liabilities	
Non-current assets			
Property, plant and equipment	756,127	Bonds and borrowings	101,001
Goodwill	1,539,376	Other financial liabilities	18,617
Intangible assets	364,912	Retirement benefit liabilities	351,915
Investment property	17,870	Provisions	25,425
Retirement benefit assets	35,402	Other non-current liabilities	121,792
Investments accounted for using the equity method	76,825	Deferred tax liabilities	103,356
Other financial assets	91,959	Total non-current liabilities	722,106
Deferred tax assets	125,361	**Total liabilities**	2,082,204
Total non-current assets	3,007,832	**Equity**	
		Share capital	100,000
		Capital surplus	736,400
		Treasury shares	(344, 447)
		Other components of equity	142,425
		Retained earnings	1,902,460
		Equity attributable to owners of the parent company	2,536,838
		Non-controlling interests	85,665
		Total equity	2,622,503
Total assets	4,704,706	**Total liabilities and equity**	4,704,706

Consolidated Statement of Income

(Nine months ended December 31, 2014)

(Millions of yen)

Account title	Amount
Revenue	2,153,970
Cost of sales	(886,267)
Gross profit	1,267,703
Other operating income	47,651
Share of profit in investments accounted for using the equity method	7,812
Selling, general and administrative expenses	(823,410)
Operating profit	499,757
Financial income	13,847
Financial costs	(11,304)
Profit before income taxes	502,299
Income taxes	(133,673)
Profit for the period	368,626
Attributable to:	
Owners of the parent company	362,919
Non-controlling interests	5,708

Consolidated Statement of Changes in Equity

(Nine months ended December 31, 2014)

(Millions of yen)

	Equity attributable to owners of the parent company						
				Other components of equity			
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income
As of April 1, 2014	100,000	736,400	(344,463)	1,443	229,990	293	19,380
Profit for the period	–	–	–	–	–	–	–
Other comprehensive income (loss)	–	–	–	–	(112,972)	922	3,753
Comprehensive income (loss) for the period	–	–	–	–	(112,972)	922	3,753
Disposal of treasury shares	–	–	16	(14)	–	–	–
Share-based payments	–	–	–	202	–	–	–
Dividends	–	–	–	–	–	–	–
Changes in the ownership interest in a subsidiary without a loss of control	–	–	–	–	(597)	–	–
Transfer from other components of equity to retained earnings	–	–	–	–	–	–	23
Other increase (decrease)	–	–	–	–	–	–	–
Total transactions with the owners	–	–	16	188	(597)	–	23
As of December 31, 2014	100,000	736,400	(344,447)	1,631	116,421	1,215	23,156

(Millions of yen)

	Equity attributable to owners of the parent company				Non-controlling interests	Total equity
	Other components of equity		Retained earnings	Total		
	Remeasure-ments of defined benefit plans	Total				
As of April 1, 2014	―	251,107	1,762,566	2,505,610	90,481	2,596,091
Profit for the period	―	―	362,919	362,919	5,708	368,626
Other comprehensive income (loss)	(14,259)	(122,556)	―	(122,556)	(1,203)	(123,759)
Comprehensive income (loss) for the period	(14,259)	(122,556)	362,919	240,363	4,505	244,868
Disposal of treasury shares	―	(14)	(3)	0	―	0
Share-based payments	―	202	―	202	―	202
Dividends	―	―	(181,755)	(181,755)	(2,736)	(184,491)
Changes in the ownership interest in a subsidiary without a loss of control	―	(597)	(26,985)	(27,581)	(7,623)	(35,204)
Transfer from other components of equity to retained earnings	14,259	14,282	(14,282)	―	―	―
Other increase (decrease)	―	―	―	―	1,039	1,039
Total transactions with the owners	14,259	13,874	(223,025)	(209,135)	(9,321)	(218,455)
As of December 31, 2014	―	142,425	1,902,460	2,536,838	85,665	2,622,503

Nonconsolidated Balance Sheet

(As of December 31, 2014)

(Millions of yen)

Account title	Amount	Account title	Amount
ASSETS		**LIABILITIES**	
Current assets	429,031	**Current liabilities**	834,135
Cash and deposits	44,231	Accounts payable–trade	13,218
Accounts receivable–trade	63,296	Current portion of bonds	40,000
Securities	72,220	Current portion of long-term loans payable	30,000
Merchandise and finished goods	31,768	Lease obligations	5,595
Semi-finished goods	54,635	Accounts payable–other	123,390
Work in process	2,924	National tobacco excise taxes payable	95,426
Raw materials and supplies	38,721	National tobacco special excise taxes payable	14,758
Advance payments–trade	2,052	Local tobacco excise taxes payable	110,414
Prepaid expenses	7,477	Income taxes payable	33,966
Deferred tax assets	37,248	Accrued consumption taxes	53,078
Short-term loans receivable from subsidiaries and affiliates	47,190	Cash management system deposits received	297,060
Other	27,294	Provision for bonuses	5,424
Allowance for doubtful accounts	(24)	Other	11,807
Noncurrent assets	2,300,239	**Noncurrent liabilities**	245,983
Property, plant and equipment	286,369	Bonds payable	96,572
Buildings	96,800	Lease obligations	11,075
Structures	2,851	Provision for retirement benefits	132,344
Machinery and equipment	70,710	Other	5,993
Vehicles	1,794	**Total liabilities**	1,080,118
Tools, furniture and fixtures	29,507	**NET ASSETS**	
Land	80,340	**Shareholders' equity**	1,636,730
Construction in progress	4,367	**Capital stock**	100,000
Intangible assets	24,672	**Capital surplus**	736,400
Patent right	558	Legal capital surplus	736,400
Right of trademark	3,794	**Retained earnings**	1,144,777
Software	17,973	Legal retained earnings	18,776
Other	2,347	Other retained earnings	1,126,001
Investments and other assets	1,989,198	Reserve for reduction entry	44,531
Investment securities	50,464	Special account for reduction entry	17,043
Stocks of subsidiaries and affiliates	1,906,853	General reserve	955,300
Investments in capital of subsidiaries and affiliates	782	Retained earnings brought forward	109,126
		Treasury stock	(344,447)
Long-term loans receivable from subsidiaries and affiliates	7,656	**Valuation and translation adjustments**	10,790
Long-term prepaid expenses	7,407	Valuation difference on available-for-sale securities	21,087
Deferred tax assets	6,270	Deferred gains or losses on hedges	(10,298)
Other	10,169	**Subscription rights to shares**	1,631
Allowance for doubtful accounts	(402)	**Total net assets**	1,649,151
Total assets	2,729,270	**Total liabilities and net assets**	2,729,270

Nonconsolidated Statement of Income

(Nine months ended December 31, 2014)

(Millions of yen)

Account title	Amount	
Net sales		572,323
Cost of sales		185,407
Gross profit		386,916
Selling, general and administrative expenses		229,203
Operating income		157,712
Non-operating income		
Interest income	220	
Dividends income	2,615	
Other	2,663	5,498
Non-operating expenses		
Interest expenses	821	
Interest on bonds	1,296	
Other	1,348	3,465
Ordinary income		159,746
Extraordinary income		
Gain on sales of noncurrent assets	68,995	
Other	6	69,001
Extraordinary loss		
Loss on sales of noncurrent assets	752	
Loss on retirement of noncurrent assets	7,293	
Business restructuring costs	56,726	
Other	427	65,198
Income before income taxes		163,549
Income taxes–current	73,800	
Income taxes–deferred	(18,908)	54,893
Net income		108,656

Nonconsolidated Statement of Changes in Net Assets

(Nine months ended December 31, 2014)

(Millions of yen)

	Shareholders' equity										
	Capital stock	Capital surplus		Retained earnings						Treasury stock	Total shareholders' equity
		Legal capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings				Total retained earnings		
					Reserve for reduction entry	Special account for reduction entry	General reserve	Retained earnings brought forward			
As of April 1, 2014	100,000	736,400	736,400	18,776	48,211	14,440	955,300	187,349	1,224,077	(344,463)	1,716,013
Cumulative effects of changes in accounting policies	–	–	–	–	–	–	–	(6,198)	(6,198)	–	(6,198)
As of April 1, 2014 after cumulative effects of changes in accounting policies	100,000	736,400	736,400	18,776	48,211	14,440	955,300	181,151	1,217,879	(344,463)	1,709,816
Changes of items during the period											
Provision of reserve for reduction entry	–	–	–	–	5,094	–	–	(5,094)	–	–	–
Reversal of reserve for reduction entry	–	–	–	–	(8,773)	–	–	8,773	–	–	–
Provision of reserve for special account for reduction entry	–	–	–	–	–	7,696	–	(7,696)	–	–	–
Reversal of reserve for special account for reduction entry	–	–	–	–	–	(5,094)	–	5,094	–	–	–
Dividends from surplus	–	–	–	–	–	–	–	(181,755)	(181,755)	–	(181,755)
Net income	–	–	–	–	–	–	–	108,656	108,656	–	108,656
Disposal of treasury stock	–	–	–	–	–	–	–	(3)	(3)	16	14
Net changes of items other than shareholders' equity	–	–	–	–	–	–	–	–	–	–	–
Total changes of items during the period	–	–	–	–	(3,680)	2,603	–	(72,025)	(73,102)	16	(73,086)
As of December 31, 2014	100,000	736,400	736,400	18,776	44,531	17,043	955,300	109,126	1,144,777	(344,447)	1,636,730

(Millions of yen)

	Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
As of April 1, 2014	17,786	(863)	16,922	1,443	1,734,379
Cumulative effects of changes in accounting policies	–	–	–	–	(6,198)
As of April 1, 2014 after cumulative effects of changes in accounting policies	17,786	(863)	16,922	1,443	1,728,181
Changes of items during the period					
Provision of reserve for reduction entry	–	–	–	–	–
Reversal of reserve for reduction entry	–	–	–	–	–
Provision of reserve for special account for reduction entry	–	–	–	–	–
Reversal of reserve for special account for reduction entry	–	–	–	–	–
Dividends from surplus	–	–	–	–	(181,755)
Net income	–	–	–	–	108,656
Disposal of treasury stock	–	–	–	–	14
Net changes of items other than shareholders' equity	3,302	(9,434)	(6,133)	188	(5,945)
Total changes of items during the period	3,302	(9,434)	(6,133)	188	(79,030)
As of December 31, 2014	21,087	(10,298)	10,790	1,631	1,649,151

(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

February 6, 2015

To the Board of Directors of
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Yasuyuki Miyasaka (Seal)

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Koji Ishikawa (Seal)

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Takenao Ohashi (Seal)

Pursuant to the fourth paragraph of Article 444 of the Companies Act, we have audited the consolidated financial statements, namely, the consolidated statement of financial position as of December 31, 2014 of Japan Tobacco Inc. (the "Company") and its consolidated subsidiaries, and the related consolidated statements of income and changes in equity for the fiscal year from April 1, 2014 to December 31, 2014, and the related notes of significant matters for preparing consolidated financial statements and other related notes to consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Audit Opinion

In our opinion, the consolidated financial statements referred to above, prepared with the omission of a part of the disclosures required under IFRS pursuant to the provisions of the second sentence of the first paragraph of Article 120 of the Ordinance on Company Accounting, present fairly, in all material respects, the financial position of Japan Tobacco Inc. and its consolidated subsidiaries as of December 31, 2014, and the results of their operations for the fiscal year then ended.

Emphasis of Matter

As discussed in "1. Significant matters for preparing consolidated financial statements—(5) Change of fiscal year end," the Company has changed its fiscal year end from March 31 to December 31. Our opinion is not qualified in respect of this matter.

Interest

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

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

(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

February 6, 2015

To the Board of Directors of
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Yasuyuki Miyasaka (Seal)

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Koji Ishikawa (Seal)

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Takenao Ohashi (Seal)

Pursuant to the first item, second paragraph of Article 436 of the Companies Act, we have audited the nonconsolidated financial statements, namely, the nonconsolidated balance sheet as of December 31, 2014 of Japan Tobacco Inc. (the "Company"), and the related nonconsolidated statements of income and changes in net assets for the 30th fiscal year from April 1, 2014 to December 31, 2014, and the related notes of significant accounting policies and other related notes to nonconsolidated financial statements, and the accompanying supplemental schedules.

Management's Responsibility for the Nonconsolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Audit Opinion

In our opinion, the nonconsolidated financial statements and the accompanying supplemental schedules referred to above present fairly, in all material respects, the nonconsolidated financial position of Japan Tobacco Inc. as of December 31, 2014, and the results of its operations for the fiscal year then ended in accordance with accounting principles generally accepted in Japan.

Interest

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

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

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

Audit Report of the Audit & Supervisory Board

AUDIT REPORT

Regarding the performance of duties by the Directors for the 30th business year from April 1, 2014 to December 31, 2014, the Audit & Supervisory Board hereby submits its audit report, which has been prepared through discussions based on the audit report prepared by each Audit & Supervisory Board Member.

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

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

Each Audit & Supervisory Board Member complied with the auditing standards of Audit & Supervisory Board Members established by the Audit & Supervisory Board, followed the auditing policies, allocation of duties, and other relevant matters, communicated with the Directors, and any other relevant personnel, and made efforts to optimize the environment for information collection and audit, and participated in the Board of Directors' Meetings and other important meetings, received reports from the Directors, and other relevant personnel regarding performance of their duties, sought explanations as necessary, examined important documents, and studied the operations and financial positions at the head office and principal offices. We monitored and verified the details of the resolution of the Board of Directors related to the system that ensures Directors are carrying out their duties in compliance with laws and regulations and the Articles of Incorporation, and other systems that ensure the propriety of the operations of a stock company, which are described in paragraphs 1 and 3 of Article 100 of the Ordinance for Enforcement of the Companies Act. We also monitored and verified the condition of the system (internal control system) put in place in accordance with the aforesaid resolution. With respect to subsidiaries, we communicated and exchanged information with Directors, Audit & Supervisory Board Members, and other relevant personnel of the subsidiaries, and received business reports from subsidiaries as necessary. Based on the above methods, we examined the business report and the accompanying supplemental schedules related to the relevant business year.

Furthermore, we monitored and verified whether the Independent Auditors maintained their independence and implemented appropriate audits, and we received reports from the Independent Auditors regarding the performance of their duties and sought explanations as necessary. In addition, we received notice from the Independent Auditors that "the system for ensuring that duties are performed properly" (matters set forth in each item of Article 131 of the Ordinance on Accounting of Companies) is organized in accordance with the "Quality Management Standards Regarding Audits" (Business Accounting Council, October 28, 2005) and other relevant regulations, and sought explanations as necessary. Based on the above methods, we examined the non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of income, and non-consolidated statement of changes in net assets) and the accompanying supplemental schedules, as well as consolidated financial statements (consolidated statement of financial position, consolidated statement of income, and consolidated statement of changes in equity, which omit some disclosure items required under International Financial Reporting Standards (IFRS) in accordance with the provision of the second sentence of Article 120, paragraph 1 of the Ordinance on Accounting of Companies) related to the relevant business year.

2. Audit Results

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

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

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

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

(3) Results of Audit of Consolidated Financial Statements

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

February 12, 2015

The Audit & Supervisory Board, Japan Tobacco Inc.

Standing Audit & Supervisory Board Member	Futoshi Nakamura	(seal)
Standing Audit & Supervisory Board Member	Tomotaka Kojima	(seal)
Audit & Supervisory Board Member	Koichi Ueda	(seal)
Audit & Supervisory Board Member	Yoshinori Imai	(seal)

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