[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.]

# [Cover]

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|---|---|
| Document to be filed: | Quarterly Securities Report |
| Provisions to base upon: | Article 24-4-7, paragraph 1 of the Financial Instruments and Exchange Act |
| Filing to: | Director-General of the Kanto Local Finance Bureau |
| Date of filing: | May 1, 2015 |
| Quarterly accounting period: | First quarter of the 31st term (from January 1, 2015 to March 31, 2015) |
| Company name (Japanese): | 日本たばこ産業株式会社 (*Nihon Tabako Sangyo Kabushiki-Kaisha*) |
| Company name (English): | JAPAN TOBACCO INC. |
| Title and name of representative: | Mitsuomi Koizumi, President, Chief Executive Officer and Representative Director |
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# A. Company Information

# I. Overview of the Group

## 1. Trends in principal management benchmarks

| Term | Three months ended June 30, 2014 | Three months ended March 31, 2015 | 30th term |
|---|---|---|---|
| Accounting period | From April 1, 2014 to June 30, 2014 | From January 1, 2015 to March 31, 2015 | From April 1, 2014 to December 31, 2014 |
| Revenue (Millions of yen) | 556,448 | 554,893 | 2,153,970 |
| Profit before income taxes (Millions of yen) | 147,516 | 145,293 | 502,299 |
| Profit for the period (Millions of yen) | 107,796 | 105,036 | 368,626 |
| Profit attributable to owners of the parent company (Millions of yen) | 106,181 | 104,195 | 362,919 |
| Comprehensive income (loss) for the period (Millions of yen) | 3,465 | (73,087) | 244,868 |
| Total equity (Millions of yen) | 2,480,969 | 2,356,900 | 2,622,503 |
| Total assets (Millions of yen) | 4,399,198 | 4,342,002 | 4,704,706 |
| Basic earnings per share (Yen) | 58.42 | 57.59 | 199.67 |
| Diluted earnings per share (Yen) | 58.39 | 57.56 | 199.56 |
| Ratio of equity attributable to owners of the parent company to total assets (%) | 54.47 | 52.33 | 53.92 |
| Net cash flows from (used in) operating activities (Millions of yen) | (27,111) | (140,326) | 543,696 |
| Net cash flows from (used in) investing activities (Millions of yen) | (27,437) | (34,910) | (49,110) |
| Net cash flows from (used in) financing activities (Millions of yen) | (51,938) | (12,230) | (388,859) |
| Cash and cash equivalents at the end of the period (Millions of yen) | 138,659 | 195,182 | 385,820 |

Notes: 1. The Group prepares the consolidated financial statements in accordance with International Financial Reporting Standards (hereinafter, "IFRS").

2. Filing company's trends in principal management benchmarks are not disclosed as JT prepares quarterly consolidated financial statements.
3. The yen amounts are rounded to the nearest million.
4. Revenue does not include consumption taxes.
5. JT changed its fiscal year end from March 31 to December 31 effective from the 30th term. The same change was made to consolidated subsidiaries with fiscal year ends other than December 31. As a consequence of this change, the period of consolidation of the 30th term was the period from April 1, 2014, to December 31, 2014, for JT and its main consolidated subsidiaries that do not belong to the international tobacco business segment. For consolidated subsidiaries that belong to the international tobacco business segment, the period of consolidation was the period from January 1, 2014, to December 31, 2014.
6. Owing to the change in the fiscal year end in the 30th term, the first three months of the 30th term comprised the period from April 1, 2014, to June 30, 2014, and the first three months of the 31st term comprised the period from January 1, 2015, to March 31, 2015 (for the first three months of the 30th term, the period of consolidation was April 1, 2014, to June 30, 2014, for JT and its main consolidated subsidiaries that do not belong to the international tobacco business segment. For consolidated subsidiaries that belong to the international tobacco business segment, the period of consolidation was January 1, 2014, to March 31, 2014).

## 2. Business description

During the three months ended March 31, 2015, there were neither material changes in the business of the Group (JT, 212 consolidated subsidiaries and 11 companies accounted for by the equity method) mentioned in the previous fiscal year's Annual Securities Report nor changes in principal subsidiaries and affiliates.

As announced on February 4, 2015, we decided to withdraw from manufacture and sale of JT beverage products in the Beverage Business, targeting the withdrawal by the end of September 2015.

# II. Review of operations

## 1. Business and other risks

During the three months ended March 31, 2015, there were no new businesses or other risks.

There were no material changes to the items regarding business and other risks mentioned in the previous fiscal year's Annual Securities Report.

## 2. Important operational contracts

No important operational contracts were decided or entered into during the first quarter ended March 31, 2015.

## 3. Analysis of financial position, operating results and cash flow position

JT changed its fiscal year end from March 31 to December 31 from the previous fiscal year. The same change was made to consolidated subsidiaries with fiscal year ends other than December 31.
As a consequence of this change, the first quarter of the fiscal year ended December 31, 2014, was the period from April 1, 2014, to June 30, 2014, for JT and its main consolidated subsidiaries that do not belong to the international tobacco business segment. For consolidated subsidiaries that belong to the international tobacco business segment, the fiscal year was the period from January 1, 2014, to March 31, 2014.
In the following information, in order to provide a basis to enable comparisons that contribute to investment decisions, some figures provided may have been calculated on the assumption that the accounting period for comparisons for JT and all of its consolidated subsidiaries is the 3-month period from January 2014 through March 2014. However, in cases where there is no statement to that effect, the figures provided are based on the accounting periods and accounting period ends under the accounting system.

Revenue, operating profit, adjusted operating profit and profit attributable to owners of the parent company for all companies in the period from January through March 2014 will be provided in IV. Accounting.

Matters concerning the future in this document were determined by the Group as of March 31, 2015.

(Non-GAAP financial measures)

The Group also discloses certain additional financial measures that are not required or defined under IFRS, which is the accounting standard JT applies. These financial measures are used internally to manage each of our business operations to understand their underlying performance, in view of our target for med- to long-term sustainable growth, and we believe that they provide useful information for users of our financial statements to assess the Group's performance.

**Core revenue**

For tobacco business, core revenue is disclosed additionally as a breakdown of revenue. Specifically, the revenue for the domestic tobacco business is presented after deducting imported tobacco delivery charges, among others, while the revenue for the international tobacco business is presented after deducting the revenue accounted for in distribution business and contract manufacturing, among others.

**Adjusted operating profit**

In order to provide useful comparative information on our performance, adjusted operating profit comprised of operating profit less amortization cost of acquired intangibles and adjustment items (income and costs) is presented. Adjustment items (income and costs) are impairment losses on goodwill, restructuring income and costs, and other items.

Furthermore, adjusted operating profit (at constant rates of exchange) growth rate in the consolidated performance is also presented as additional information. This 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.

### (1) Operating results

In "(1) Operating results," figures have been calculated on the assumption that the accounting period for comparisons for JT and all of its consolidated subsidiaries is the 3-month period from January 2014 through March 2014.

**<Revenue>**

Revenue decreased by ¥32.1 billion or 5.5%, from the same period of the previous year to ¥554.9 billion. This was mainly the result of a sales volume decline in the Domestic Tobacco Business including the impact of a consumption tax hike.

(Billions of yen)

| | January through March 2014 | Three months ended March 31, 2015 | Change | |
|---|---|---|---|---|
| Revenue | 587.0 | 554.9 | (32.1) | (5.5)% |
| Domestic Tobacco Business | 180.3 | 157.6 | (22.7) | (12.6)% |
| Of which, core revenue | 171.1 | 149.6 | (21.5) | (12.6)% |
| International Tobacco Business | 305.1 | 299.9 | (5.3) | (1.7)% |
| Of which, core revenue | 283.7 | 282.3 | (1.5) | (0.5)% |
| Pharmaceutical Business | 18.2 | 16.6 | (1.6) | (8.8)% |
| Beverage Business | 38.4 | 38.8 | 0.4 | 0.9% |
| Processed Food Business | 41.8 | 39.9 | (1.9) | (4.5)% |

* Figures exclude intersegment revenue.

* Revenue includes rent received from leased properties in addition to items relating to the segments shown above.

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

Mainly as a result of the sales volume decline in the Domestic Tobacco Business, adjusted operating profit decreased by ¥4.7 billion or 2.9%, from the same period of the previous year to ¥158.6 billion. Adjusted operating profit at constant rates of exchange increased by 5.6% from the same period of the previous fiscal year. Operating profit decreased by ¥13.1 billion, or 8.4%, from the same period of the previous fiscal year to ¥143.4 billion.

Profit attributable to owners of the parent company increased by ¥14.9 billion, or 16.7%, from the same period of the previous fiscal year to ¥104.2 billion, due mainly to a decrease in income taxes.

(Billions of yen)

| | January through March 2014 | Three months ended March 31, 2015 | Change | |
|---|---|---|---|---|
| Adjusted operating profit | 163.3 | 158.6 | (4.7) | (2.9)% |
| Domestic Tobacco Business | 66.5 | 57.0 | (9.5) | (14.3)% |
| International Tobacco Business | 105.1 | 105.0 | (0.1) | (0.1)% |
| Pharmaceutical Business | (0.4) | (0.8) | (0.5) | – |
| Processed Food Business | 0.1 | 0.9 | 0.8 | 568.2% |
| Beverage Business | (0.6) | (0.5) | 0.1 | – |
| Operating profit | 156.6 | 143.4 | (13.1) | (8.4)% |
| Profit attributable to owners of the parent company | 89.3 | 104.2 | 14.9 | 16.7% |

* Operating profit and adjusted operating profit include business activities relating to rent of real estate and corporate expenses relating to corporate communication and operation of the head office in addition to operating profit and adjusted operating profit relating to factors other than the segments shown above.

Operating results by segment are as follows.

**Domestic Tobacco Business**

Sales volume in the three months ended March 31, 2015, decreased by 16.2% from the same period of the previous year. This mainly reflected the occurrence of a rush in demand in the same period of the previous year ahead of the consumption tax hike implemented in April 2014 and a decline in total demand due to a trend toward decline and the impact of the consumption tax hike.
Furthermore, market share was 59.9% (compared with a share of 60.4% in January through December 2014). Amid intensifying competition reflecting such factors as new product launches by competitor companies, market share for Mevius was firm due mainly to the launches of three products in the "Mevius Premium Menthol Option Yellow" lineup. Going forward, JT will continue to proactively launch new products in Mevius and other focus brands and work to further strengthen brand equity.

(Billions of cigarettes)

| Domestic Tobacco Business | January through March 2014 | Three months ended March 31, 2015 | Change | |
|---|---|---|---|---|
| Sales volume | 30.4 | 25.5 | (4.9) | (16.2)% |

* In addition to the figure stated above, during the three months ended March 31, 2015, 0.9 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 (0.8 billion cigarettes in the same period of the previous fiscal year).

The decline in sales volume was partially offset by favorable pricing, and core revenue decreased by 12.6% from the same period of the previous year. Domestic cigarette revenue per 1,000 cigarettes was ¥5,671.

Furthermore, although there were benefits from continued cost reductions and others, these were exceeded by the effect of the decrease in sales volume. As a result, adjusted operating profit decreased by 14.3% from the same period of the previous year.

(Billions of yen)

| Domestic Tobacco Business | January through March 2014 | Three months ended March 31, 2015 | Change | |
|---|---|---|---|---|
| Revenue | 180.3 | 157.6 | (22.7) | (12.6)% |
| Of which, core revenue | 171.1 | 149.6 | (21.5) | (12.6)% |
| Adjusted operating profit | 66.5 | 57.0 | (9.5) | (14.3)% |

### International Tobacco Business

In the three months ended March 31, 2015, despite factors including the impact of a decline in total demand in Russia, total shipment volume(Note 1) in the International Tobacco Business increased by 0.5% from the same period of the previous fiscal year and shipment volume among GFBs(Note 2) increased by 8.4%. This mainly reflected a substantial increase in market share in Turkey resulting from a review of sales prices for Camel and the positive impact from the occurrence of trade inventory adjustments in the same period of the previous year.

(Billions of cigarettes)

| International Tobacco Business | January through March 2014 | Three months ended March 31, 2015 | Change | |
|---|---|---|---|---|
| Shipment volume | 87.7 | 88.1 | 0.4 | 0.5% |
| Of which, GFBs | 55.3 | 60.0 | 4.7 | 8.4% |

Despite favorable pricing in addition to the increase in shipment volume, dollar-based core revenue decreased by 14.2% and adjusted operating profit decreased by 13.8%, due mainly to unfavorable foreign exchange effects on some local currencies, particularly the ruble. Adjusted operating profit at constant rates of exchange increased by 13.1%.

(Millions of U.S. dollar)

| International Tobacco Business (U.S. dollar-based) | January through March 2014 | Three months ended March 31, 2015 | Change | |
|---|---|---|---|---|
| Revenue | 2,969 | 2,517 | (453) | (15.2)% |
| Of which, core revenue | 2,761 | 2,369 | (392) | (14.2)% |
| Adjusted operating profit | 1,022 | 881 | (141) | (13.8)% |

Yen-based core revenue and adjusted operating profit decreased by 0.5% and 0.1%, respectively, as a result of the impact of weaker yen when making conversions to that currency.

(Billions of yen)

| International Tobacco Business | January through March 2014 | Three months ended March 31, 2015 | Change | |
|---|---|---|---|---|
| Revenue | 305.1 | 299.9 | (5.3) | (1.7)% |
| Of which, core revenue | 283.7 | 282.3 | (1.5) | (0.5)% |
| Adjusted operating profit | 105.1 | 105.0 | (0.1) | (0.1)% |

Note 1: Includes fine cut tobacco, cigars, pipe tobacco and snus, except for contract manufacturing products, waterpipe tobacco products and Emerging Products.

Note 2: We have identified eight brands which serve as flagships of the Group’s brand portfolio, Winston, Camel, Mevius, Benson & Hedges, Silk Cut, LD, Sobranie and Glamour, which we collectively call the Global Flagship Brands (GFBs).

* In the three months ended March 31, 2015, the exchange rates of currencies against the U.S. dollar were as follows.

| Foreign exchange rate per U.S. dollar | January through March 2014 | Three months ended March 31, 2015 |
|---|---|---|
| Yen | 102.77 | 119.16 |
| Ruble | 34.97 | 62.27 |
| Pounds sterling | 0.60 | 0.66 |
| Euro | 0.73 | 0.89 |

**Pharmaceutical Business**

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 11.

In the three months ended March 31, 2015, in March 2015, JT and JT Group company Torii Pharmaceutical Co., Ltd. signed an agreement regarding two new anti-HIV drugs containing tenofovir alafenamide, a nucleotide reverse transcriptase inhibitor, discovered by Gilead Sciences, Inc., for which JT holds the exclusive rights to develop and commercialize in Japan. Under the terms of the agreement, Torii Pharmaceutical Co., Ltd. holds exclusive rights to market the drugs in Japan, subsequent to JT's obtaining manufacturing and marketing approval from the Japanese authorities.

Revenue in the three months ended March 31, 2015, decreased by ¥1.6 billion, or 8.8%, from the same period of the previous year to ¥16.6 billion, despite an increase in royalty income. The decrease reflected the occurrence of milestone revenue for out-licensed compounds in the same period of the previous year and temporarily heightened demand at Torii Pharmaceutical Co., Ltd. ahead of the consumption tax hike in April 2014. Adjusted operating loss was ¥0.8 billion, a deterioration of ¥0.5 billion from the loss of ¥0.4 billion posted in the same period of the previous fiscal year, due mainly to the decline in revenue.

**Processed Food Business**

In the Processed Food Business, we continued working to expand sales of staple food products such as frozen noodles, frozen rice, packed rice and baked frozen bread in the three months ended March 31, 2015. Specifically, we conducted vigorous sales promotions for products including "Sanuki Udon Noodles 3 packs," which were newly launched in our flagship line of frozen Udon noodles, and our series of very simple and convenient microwave-only authentic Chinese noodles with trays provided, such as "Green Pepper Steak Noodles."

Revenue in the three months ended March 31, 2015, increased by ¥0.4 billion, or 0.9%, from the same period of the previous fiscal year to ¥38.8 billion, due mainly to the effects of price revisions. Adjusted operating profit increased by ¥0.8 billion, or 568.2%, from the same period of the previous fiscal year to ¥0.9 billion, due mainly to the effects of price revisions, improvement in the cost to sales ratio and efficient execution of expenditure.

**Beverage Business**

As announced on February 4, 2015, we decided to withdraw from manufacture and sale of JT beverage products in the Beverage Business, targeting the withdrawal by the end of September 2015.

Revenue in the three months ended March 31, 2015, decreased by ¥1.9 billion, or 4.5%, from the same period of the previous fiscal year to ¥39.9 billion due to a decline in sales volume. Adjusted operating loss was ¥0.5 billion, an improvement of ¥0.1 billion from the loss of ¥0.6 billion posted in the same period of the previous fiscal year.

## (2) Operational and financial issues to be addressed

During the three months ended March 31, 2015, there were no material changes in issues to be addressed by the Group mentioned in the previous fiscal year’s Annual Securities Report.

## (3) Research and development activities

Research and development expenses for the entire Group during the three months ended March 31, 2015, were ¥13.5 billion.

During the three months ended March 31, 2015, there were no material changes in the status of the Group’s research and development activities mentioned in the previous fiscal year’s Annual Securities Report.

## (4) Analysis of capital resources and liquidity of funds

a. Funding requirements

Funds are allocated for capital expenditure, working capital and acquiring external capital resources as well as the repayment of loans, the payment of interest and dividends, the acquisition of treasury shares and the payment of income taxes.

b. Resources of funds

The necessary funds are mainly procured from net cash flows from operating activities, loans from financial institutions and bond and commercial paper issuances.

<Cash flows>

Cash and cash equivalents at the end of the first quarter ended March 31, 2015 decreased by ¥190.6 billion from the end of the previous fiscal year to ¥195.2 billion. Cash and cash equivalents at the end of the same period of the previous fiscal year was ¥138.7 billion.

* In Japan, the end of the fiscal year ended December 31, 2014 (December 31, 2014) was a holiday for financial institutions. Consequently, an additional month’s worth of tobacco excise taxes payable is included in cash and cash equivalents at the period-end in comparison to the equivalent amounts if the period-end had been a business day for financial institutions. The amount of national excise taxes paid on the business day immediately following the end of the fiscal year ended December 31, 2014 was ¥136.8 billion.

Cash flows from (used in) operating activities

Net cash flows used in operating activities during the three months ended March 31, 2015 were ¥140.3 billion, compared with ¥27.1 billion used in the same period of the previous fiscal year. This was mainly due to payments of national tobacco excise tax and income taxes, despite the generation of a stable cash inflow from the tobacco business.

As a result of a holiday for financial institutions, the amount of national tobacco excise tax payable for the current period is for four months, while the amount for the same period of the previous fiscal year is for three months.

Cash flows from (used in) investing activities

Net cash flows used in investing activities during the three months ended March 31, 2015 were ¥34.9 billion, compared with ¥27.4 billion used in the same period of the previous fiscal year. This was mainly due to the purchase of property, plant and equipment.

Cash flows from (used in) financing activities

Net cash flows used in financing activities during the three months ended March 31, 2015 were ¥12.2 billion, compared with ¥51.9 billion used in the same period of the previous fiscal year. This was mainly due to the acquisition of treasury shares and the payment of cash dividends, despite proceeds from borrowings and commercial paper.

<Interest-bearing debt>

Long-term debt

Bonds issued (including the current portion) as of December 31, 2014 and as of March 31, 2015 accounted for ¥140.0 billion and ¥139.8 billion respectively and long-term borrowings as loans from financial institutions (including the current portion) accounted for ¥41.0 billion and ¥40.8 billion respectively. Long-term lease obligations totaled ¥15.3 billion as of December 31, 2014 and ¥16.0 billion as of March 31, 2015.

Short-term debt

Short-term borrowings from financial institutions totaled ¥27.6 billion as of December 31, 2014 and ¥155.6 billion as of March 31, 2015, respectively. There was no commercial paper outstanding as of December 31, 2014, but commercial paper outstanding as of March 31, 2015, totaled ¥49.0 billion. Short-term lease obligations totaled ¥4.3 billion as of December 31, 2014 and ¥4.5 billion as of March 31, 2015.

c. Liquidity

We have historically had, and expect to continue to have, significant cash flows from operating activities. We expect that cash generated from operating activities will continue to be stable and cover funds needed for regular business activities. On March 31, 2015, we had committed lines of credit from major financial institutions both domestic and international. In addition, we have a domestic commercial paper program, uncommitted lines of credit, and a domestic bond shelf registration.

# III. Filing company

## 1. Information on the Company (JT)'s shares

### (1) Total number of shares authorized

a. Total number of shares authorized

| Class | Total number of shares authorized (Share) |
|---|---|
| Ordinary shares | 8,000,000,000 |
| Total | 8,000,000,000 |

b. Number of shares issued

| Class | Number of shares issued (Share; as of March 31, 2015) | Number of shares issued (Share; as of the date of filing: May 1, 2015) | Name of financial instruments exchange where the stock of JT is traded or the name of authorized financial instruments firms association where JT is registered | Details |
|---|---|---|---|---|
| Ordinary shares | 2,000,000,000 | 2,000,000,000 | Tokyo Stock Exchange (First Section) | (Note 2) |
| Total | 2,000,000,000 | 2,000,000,000 | – | – |

Notes: 1. The provisions of Article 2 of the Japan Tobacco Inc. Act prescribe that the Japanese government must continue to hold more than one-third of all JT shares issued (excluding shares of a class for which it is provided that the voting rights may not be exercised for all the matters that are subject to resolution at the shareholders meeting).

2. JT's standard class of shares with no rights limitations. Its share trading unit is 100 shares.

### (2) Status of subscription rights to shares

No items to report

### (3) Exercise of bond certificates with subscription rights to shares with exercise price amendment clause

No items to report

### (4) Details of rights plan

No items to report

### (5) Trends in total number of shares issued, capital stock

| Date | Fluctuation in the number of shares issued (Thousands of shares) | Balance of shares issued (Thousands of shares) | Fluctuation in capital stock (Millions of yen) | Balance of capital stock (Millions of yen) | Fluctuation in capital reserve (Millions of yen) | Balance of capital reserve (Millions of yen) |
|---|---|---|---|---|---|---|
| January 1, 2015 to March 31, 2015 | – | 2,000,000 | – | 100,000 | – | 736,400 |

### (6) Status of major shareholders

As the current quarterly accounting period is the first quarter, there are no items to report.

### (7) Status of voting rights

a. Shares issued

(As of March 31, 2015)

| Classification | Number of shares (Share) | Number of voting rights | Details |
|---|---|---|---|
| Shares without voting rights | – | – | – |
| Shares with restricted voting rights (Treasury stock) | – | – | – |
| Shares with restricted voting rights (Other) | – | – | – |
| Shares with full voting rights (Treasury stock) | Ordinary shares 209,333,500 | – | (Note 2) |
| Shares with full voting rights (Other) | Ordinary shares 1,790,641,400 | 17,906,414 | (Note 2) |
| Shares less than one unit | Ordinary shares 25,100 | – | (Note 3) |
| Total number of shares issued | 2,000,000,000 | – | – |
| Total number of voting rights | – | 17,906,414 | – |

Notes: 1. The number of “Shares with full voting rights (Other)” includes 33,600 shares in the name of Japan Securities Depository Center, Inc. “Number of voting rights” includes 336 units of voting rights related to shares with full voting rights in its name.

2. JT’s standard class of shares with no rights limitations. Its share trading unit is 100 shares.

3. 88 shares of treasury stock are included.

b. Treasury stock

(As of March 31, 2015)

| Name of shareholder | Address | Number of shares held under own name (Share) | Number of shares held under the name of others (Share) | Total number of shares held (Share) | Percentage of number of shares held in the total number of shares issued (%) |
|---|---|---|---|---|---|
| Japan Tobacco Inc. | 2-1, Toranomon 2-chome, Minato-ku, Tokyo, Japan | 209,333,500 | – | 209,333,500 | 10.47 |
| Total | – | 209,333,500 | – | 209,333,500 | 10.47 |

## 2. Status of officers

After filing of the previous fiscal year’s Annual Securities Report, there were no personnel changes of officers during the three months ended March 31, 2015.

# IV. Accounting

## 1. Preparation policy for the condensed interim consolidated financial statements

The condensed interim consolidated financial statements of Japan Tobacco Inc. (hereinafter referred to as the “Company”) are prepared in conformity with International Accounting Standard 34, “Interim Financial Reporting” (hereinafter referred to as “IAS 34”) pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements (Cabinet Office Ordinance No. 64 of 2007; hereinafter referred to as the “Ordinance on QCFS”).

Figures stated in the condensed interim consolidated financial statements are rounded to the nearest million yen.

## 2. Audit certification

In accordance with the provisions of Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act, the condensed interim consolidated financial statements for the three months ended March 31, 2015 were reviewed by Deloitte Touche Tohmatsu LLC.

# 1. 【Condensed interim consolidated financial statements】

## (1) 【Condensed interim consolidated statement of financial position】

(Millions of yen)

| | As of December 31, 2014 | As of March 31, 2015 |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents (Note 6) | 385,820 | 195,182 |
| Trade and other receivables | 448,402 | 410,334 |
| Inventories | 587,849 | 572,773 |
| Other financial assets | 43,907 | 44,981 |
| Other current assets | 230,530 | 286,804 |
| Subtotal | 1,696,507 | 1,510,074 |
| Non-current assets held-for-sale | 367 | 425 |
| Total current assets | 1,696,874 | 1,510,499 |
| Non-current assets | | |
| Property, plant and equipment (Note 7) | 756,127 | 728,698 |
| Goodwill (Note 7) | 1,539,376 | 1,418,251 |
| Intangible assets (Note 7) | 364,912 | 342,926 |
| Investment property | 17,870 | 22,108 |
| Retirement benefit assets | 35,402 | 32,613 |
| Investments accounted for using the equity method | 76,825 | 72,378 |
| Other financial assets | 91,959 | 100,063 |
| Deferred tax assets | 125,361 | 114,466 |
| Total non-current assets | 3,007,832 | 2,831,503 |
| Total assets | 4,704,706 | 4,342,002 |

(Millions of yen)

| | As of December 31, 2014 | As of March 31, 2015 |
|---|---|---|
| Liabilities and equity | | |
| Liabilities | | |
| Current liabilities | | |
| Trade and other payables | 419,764 | 384,781 |
| Bonds and borrowings | 107,562 | 284,409 |
| Income tax payables | 54,942 | 40,931 |
| Other financial liabilities | 14,463 | 15,733 |
| Provisions | 9,200 | 8,412 |
| Other current liabilities | 754,169 | 562,486 |
| Total current liabilities | 1,360,098 | 1,296,754 |
| Non-current liabilities | | |
| Bonds and borrowings | 101,001 | 100,771 |
| Other financial liabilities | 18,617 | 18,909 |
| Retirement benefit liabilities | 351,915 | 344,085 |
| Provisions | 25,425 | 23,644 |
| Other non-current liabilities | 121,792 | 106,393 |
| Deferred tax liabilities | 103,356 | 94,546 |
| Total non-current liabilities | 722,106 | 688,348 |
| Total liabilities | 2,082,204 | 1,985,102 |
| Equity | | |
| Share capital | 100,000 | 100,000 |
| Capital surplus | 736,400 | 736,405 |
| Treasury shares | (344,447) | (444,435) |
| Other components of equity | 142,425 | (21,171) |
| Retained earnings | 1,902,460 | 1,901,226 |
| Equity attributable to owners of the parent company | 2,536,838 | 2,272,025 |
| Non-controlling interests | 85,665 | 84,876 |
| Total equity | 2,622,503 | 2,356,900 |
| Total liabilities and equity | 4,704,706 | 4,342,002 |

## (2) 【Condensed interim consolidated statement of income】

(Millions of yen)

| | Three months ended June 30, 2014 | Three months ended March 31, 2015 |
|---|---|---|
| Revenue (Notes 5, 9) | 556,448 | 554,893 |
| Cost of sales | (226,392) | (219,988) |
| Gross profit | 330,056 | 334,905 |
| Other operating income (Note 10) | 7,637 | 1,350 |
| Share of profit in investments accounted for using the equity method | 1,279 | 905 |
| Selling, general and administrative expenses (Note 11) | (190,745) | (193,750) |
| Operating profit (Note 5) | 148,227 | 143,411 |
| Financial income (Note 12) | 3,049 | 4,315 |
| Financial costs (Note 12) | (3,760) | (2,433) |
| Profit before income taxes | 147,516 | 145,293 |
| Income taxes | (39,720) | (40,256) |
| Profit for the period | 107,796 | 105,036 |
| Attributable to: | | |
| Owners of the parent company | 106,181 | 104,195 |
| Non-controlling interests | 1,615 | 841 |
| Profit for the period | 107,796 | 105,036 |
| Interim earnings per share | | |
| Basic (Yen) (Note 14) | 58.42 | 57.59 |
| Diluted (Yen) (Note 14) | 58.39 | 57.56 |

## Reconciliation from “Operating profit” to “Adjusted operating profit”

(Millions of yen)

| | Three months ended June 30, 2014 | Three months ended March 31, 2015 |
|---|---|---|
| Operating profit | 148,227 | 143,411 |
| Amortization cost of acquired intangibles | 7,335 | 7,457 |
| Adjustment items (income) | (6,957) | (66) |
| Adjustment items (costs) | 267 | 7,836 |
| Adjusted operating profit (Note 5) | 148,872 | 158,638 |

## (3) 【Condensed interim consolidated statement of comprehensive income】

(Millions of yen)

| | Three months ended June 30, 2014 | Three months ended March 31, 2015 |
|---|---|---|
| Profit for the period | 107,796 | 105,036 |
| Other comprehensive income | | |
| Items that will not be reclassified to profit or loss: | | |
| Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income | 3,348 | 6,672 |
| Remeasurements of defined benefit plans (Note 13) | ― | (14,541) |
| Total of items that will not be reclassified to profit or loss | 3,348 | (7,869) |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange differences on translation of foreign operations | (107,424) | (170,420) |
| Net gain (loss) on derivatives designated as cash flow hedges | (254) | 166 |
| Total of items that may be reclassified subsequently to profit or loss | (107,678) | (170,255) |
| Other comprehensive income (loss), net of taxes | (104,330) | (178,123) |
| Comprehensive income (loss) for the period | 3,465 | (73,087) |
| Attributable to: | | |
| Owners of the parent company | 1,858 | (73,502) |
| Non-controlling interests | 1,607 | 415 |
| Comprehensive income (loss) for the period | 3,465 | (73,087) |

## (4) 【Condensed interim consolidated statement of changes in equity】

(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) | — | — | — | — | (107,423) | (254) | 3,354 |
| Comprehensive income (loss) for the period | — | — | — | — | (107,423) | (254) | 3,354 |
| Acquisition of treasury shares | — | — | — | — | — | — | — |
| Disposal of treasury shares | — | 1 | 1 | (2) | — | — | — |
| Share-based payments | — | — | — | 64 | — | — | — |
| Dividends (Note 8) | — | — | — | — | — | — | — |
| Changes in the ownership interest in a subsidiary without a loss of control | — | — | — | — | 263 | — | — |
| Transfer from other components of equity to retained earnings | — | — | — | — | — | — | 23 |
| Other increase (decrease) | — | — | — | — | — | — | — |
| Total transactions with the owners | — | 1 | 1 | 62 | 263 | — | 23 |
| As of June 30, 2014 | 100,000 | 736,401 | (344,462) | 1,506 | 122,831 | 39 | 22,758 |
| As of January 1, 2015 | 100,000 | 736,400 | (344,447) | 1,631 | 116,421 | 1,215 | 23,156 |
| Profit for the period | — | — | — | — | — | — | — |
| Other comprehensive income (loss) | — | — | — | — | (169,865) | 166 | 6,564 |
| Comprehensive income (loss) for the period | — | — | — | — | (169,865) | 166 | 6,564 |
| Acquisition of treasury shares | — | — | (100,000) | — | — | — | — |
| Disposal of treasury shares | — | 5 | 11 | (16) | — | — | — |
| Share-based payments | — | — | — | 29 | — | — | — |
| Dividends (Note 8) | — | — | — | — | — | — | — |
| Changes in the ownership interest in a subsidiary without a loss of control | — | — | — | — | — | — | — |
| Transfer from other components of equity to retained earnings | — | — | — | — | — | — | (11) |
| Other increase (decrease) | — | — | — | — | — | (462) | — |
| Total transactions with the owners | — | 5 | (99,988) | 13 | — | (462) | (11) |
| As of March 31, 2015 | 100,000 | 736,405 | (444,435) | 1,644 | (53,443) | 919 | 29,710 |

(Millions of yen)

| | Equity attributable to owners of the parent company | | | | | |
|---|---|---|---|---|---|---|
| | Other components of equity | | | | | |
| | Remeasurements of defined benefit plans | Total | Retained earnings | Total | Non-controlling interests | Total equity |
| As of April 1, 2014 | — | 251,107 | 1,762,566 | 2,505,610 | 90,481 | 2,596,091 |
| Profit for the period | — | — | 106,181 | 106,181 | 1,615 | 107,796 |
| Other comprehensive income (loss) | — | (104,323) | — | (104,323) | (7) | (104,330) |
| Comprehensive income (loss) for the period | — | (104,323) | 106,181 | 1,858 | 1,607 | 3,465 |
| Acquisition of treasury shares | — | — | — | — | — | — |
| Disposal of treasury shares | — | (2) | — | 0 | — | 0 |
| Share-based payments | — | 64 | — | 64 | — | 64 |
| Dividends (Note 8) | — | — | (90,877) | (90,877) | (1,209) | (92,087) |
| Changes in the ownership interest in a subsidiary without a loss of control | — | 263 | (20,703) | (20,440) | (5,733) | (26,173) |
| Transfer from other components of equity to retained earnings | — | 23 | (23) | — | — | — |
| Other increase (decrease) | — | — | — | — | (391) | (391) |
| Total transactions with the owners | — | 349 | (111,604) | (111,253) | (7,333) | (118,587) |
| As of June 30, 2014 | — | 147,133 | 1,757,143 | 2,396,215 | 84,755 | 2,480,969 |
| As of January 1, 2015 | — | 142,425 | 1,902,460 | 2,536,838 | 85,665 | 2,622,503 |
| Profit for the period | — | — | 104,195 | 104,195 | 841 | 105,036 |
| Other comprehensive income (loss) | (14,562) | (177,697) | — | (177,697) | (426) | (178,123) |
| Comprehensive income (loss) for the period | (14,562) | (177,697) | 104,195 | (73,502) | 415 | (73,087) |
| Acquisition of treasury shares | — | — | — | (100,000) | — | (100,000) |
| Disposal of treasury shares | — | (16) | — | 0 | — | 0 |
| Share-based payments | — | 29 | — | 29 | — | 29 |
| Dividends (Note 8) | — | — | (90,878) | (90,878) | (1,166) | (92,044) |
| Changes in the ownership interest in a subsidiary without a loss of control | — | — | — | — | — | — |
| Transfer from other components of equity to retained earnings | 14,562 | 14,551 | (14,551) | — | — | — |
| Other increase (decrease) | — | (462) | — | (462) | (38) | (500) |
| Total transactions with the owners | 14,562 | 14,102 | (105,429) | (191,311) | (1,204) | (192,515) |
| As of March 31, 2015 | — | (21,171) | 1,901,226 | 2,272,025 | 84,876 | 2,356,900 |

## (5) 【Condensed interim consolidated statement of cash flows】

(Millions of yen)

| | Three months ended June 30, 2014 | Three months ended March 31, 2015 |
|---|---|---|
| Cash flows from operating activities | | |
| Profit before income taxes | 147,516 | 145,293 |
| Depreciation and amortization | 34,234 | 35,080 |
| Impairment losses | 41 | 438 |
| Interest and dividend income | (2,957) | (4,239) |
| Interest expense | 2,125 | 921 |
| Share of profit in investments accounted for using the equity method | (1,279) | (905) |
| (Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property | (5,884) | 4,953 |
| (Increase) decrease in trade and other receivables | 31,881 | 21,389 |
| (Increase) decrease in inventories | 10,031 | 4,290 |
| Increase (decrease) in trade and other payables | (54,485) | (20,841) |
| Increase (decrease) in retirement benefit liabilities | 667 | (7,665) |
| (Increase) decrease in prepaid tobacco excise taxes | (63,816) | (56,829) |
| Increase (decrease) in tobacco excise tax payables | (6,772) | (118,226) |
| Increase (decrease) in consumption tax payables | 9,505 | (39,890) |
| Other | (44,200) | (57,280) |
| Subtotal | 56,607 | (93,511) |
| Interest and dividends received | 3,991 | 4,377 |
| Interest paid | (1,619) | (976) |
| Income taxes paid | (86,090) | (50,216) |
| Net cash flows from operating activities | (27,111) | (140,326) |
| | | |
| Cash flows from investing activities | | |
| Purchase of securities | (1,633) | (51) |
| Proceeds from sale and redemption of securities | 626 | 86 |
| Purchase of property, plant and equipment | (28,844) | (29,717) |
| Proceeds from sale of investment property | 7,274 | 70 |
| Purchase of intangible assets | (3,226) | (3,294) |
| Payments into time deposits | (11) | (193) |
| Proceeds from withdrawal of time deposits | — | 162 |
| Other | (1,622) | (1,974) |
| Net cash flows from investing activities | (27,437) | (34,910) |

(Millions of yen)

| | Three months ended June 30, 2014 | Three months ended March 31, 2015 |
|---|---|---|
| Cash flows from financing activities | | |
| Dividends paid to owners of the parent company (Note 8) | (89,506) | (90,167) |
| Dividends paid to non-controlling interests | (502) | (522) |
| Increase (decrease) in short-term borrowings and commercial paper | 235,957 | 179,720 |
| Repayments of long-term borrowings | (135) | (63) |
| Redemption of bonds | (170,670) | ― |
| Repayments of finance lease obligations | (1,207) | (1,199) |
| Acquisition of treasury shares | ― | (100,000) |
| Payments for acquisition of interests in subsidiaries from non-controlling interests | (25,876) | ― |
| Other | 0 | 0 |
| Net cash flows from financing activities | (51,938) | (12,230) |
| Net increase (decrease) in cash and cash equivalents | (106,485) | (187,466) |
| Cash and cash equivalents at the beginning of the period | 253,219 | 385,820 |
| Effect of exchange rate changes on cash and cash equivalents | (8,074) | (3,172) |
| Cash and cash equivalents at the end of the period (Note 6) | 138,659 | 195,182 |

【Notes to condensed interim consolidated financial statements】

## 1. Reporting entity

The Company is a joint stock corporation under the Companies Act of Japan, pursuant to the Japan Tobacco Inc. Act, with its principal places of business located in Japan since its incorporation. The addresses of the Company's registered head office and principal business offices are available on the Company's website (http://www.jti.co.jp).

The condensed interim consolidated financial statements for the three-month period ended March 31, 2015 of the Company and its subsidiaries (hereinafter referred to as the "Group") were approved on April 30, 2015 by Mitsuomi Koizumi, President and Chief Executive Officer.

## 2. Basis of preparation

The Group's condensed interim consolidated financial statements, which satisfy all the requirements concerning the "Specified Company" prescribed in Article 1-2 of the Ordinance on QCFS, are prepared in conformity with International Financial Reporting Standards pursuant to the provision of Article 93 of the Ordinance on QCFS.

The condensed interim consolidated financial statements are prepared in conformity with IAS 34 and do not include all information required for the consolidated financial statements for the fiscal year. They should be read along with the consolidated financial statements for the fiscal year ended December 31, 2014.

The Company and its subsidiaries with fiscal year ends other than December 31 have changed their fiscal year ends to December 31 since fiscal year 2014.

As a consequence of this change of fiscal year end, the comparable period was the period from April 1, 2014 to June 30, 2014, and the first quarter of fiscal year 2015 was the period from January 1, 2015 to March 31, 2015.

In addition, the fiscal year end date of JT International Holding B.V. and its subsidiaries which operate the Group's international tobacco business, continues to be December 31 as before, hence the Group consolidated financial results of the JTIH Group for the three-month period from January 1, 2014 to March 31, 2014 into the Group's consolidated financial results for the comparable period.

For the consolidated statement of income assuming that the comparable period of the Group had been the three-month period from January 1, 2014 to March 31, 2014, revenue, operating profit, adjusted operating profit, and profit for the period attributable to owners of the parent company would have been ¥586,996 million, ¥156,558 million, ¥163,317 million, and ¥89,300 million, respectively.

## 3. Significant accounting policies

The significant accounting policies adopted for the condensed interim consolidated financial statements are the same as those for the consolidated financial statements for the fiscal year ended December 31, 2014 except the following items.

The Group computes income taxes for the interim period based on the estimated average annual effective tax rate.

(Changes in accounting policies)

The Group has adopted the following new accounting standards, amended standards and interpretations from the quarter ended March 31, 2015.

| IFRS | | Description of new standards and amendments |
|---|---|---|
| IFRS 9 | Financial Instruments<br>(Amended in November 2013) | Amendments to hedge accounting |
| IAS 19 | Employee Benefits | Clarifying the accounting treatment for contributions from employees or third parties set out in the formal terms of defined benefit plans. |

The effect of the above standards and interpretations on the condensed interim consolidated financial statements is immaterial.
IFRS 9 mentioned above has been early adopted.

## 4. Significant accounting estimates and judgments

Preparation of condensed interim consolidated financial statements of the Group requires management estimates and assumptions in order to measure income, expenses, assets and liabilities, and disclose contingencies as of the interim period end date. These estimates and assumptions are based on the best judgment of management in light as of the historical experience and various factors deemed to be reasonable as of the interim period end date. Given their nature, actual results may differ from those estimates and assumptions.

The estimates and assumptions are continuously reviewed by management. The effects of a change in estimates and assumptions are recognized in the period of the change or the period of the change and future periods.

In principle, estimates and assumptions that may have a material effect on the amounts recognized in the condensed interim consolidated financial statements of the Group are the same as those for the fiscal year ended December 31, 2014.

## 5. Operating segments

(1) Outline of reportable segments

The reportable segments of the Group are determined based on the operating segments that are components of the Group about which separate financial information is available and are evaluated regularly by the Board of Directors in deciding how to allocate resources and in assessing performance.

The Group is mainly engaged in the manufacture and sale of tobacco products, prescription drugs, beverages and processed foods. With respect to tobacco products, operations are managed separately for domestic and overseas markets. The reportable segments of the Group are composed of five segments: “Domestic Tobacco Business,” “International Tobacco Business,” “Pharmaceutical Business,” “Beverage Business” and “Processed Food Business.” They are determined by types of products, characteristics, and markets.

The “Domestic Tobacco Business” manufactures and sells tobacco products in domestic areas (which include duty-free shops in Japan and markets in China, Hong Kong, and Macau where the Company’s China Division operates). The “International Tobacco Business” manufactures and sells tobacco products overseas mainly through JT International S.A., which controls manufacturing and sales operations. The “Pharmaceutical Business” consists of research and development, and the manufacture and sale of prescription drugs. The “Beverage Business” consists of the manufacture and sale of beverages. The “Processed Food Business” consists of the manufacture and sale of frozen and room-temperature processed foods, bakery products and seasonings.

(2) Revenues and performances for reportable segments

Revenues and performances for reportable segments are as follows. The Board of Directors assesses the segment performance and determines resource allocation after reviewing revenues and adjusted operating profit. Since financial income, financial costs and income taxes are managed by the Group head office, these income and expenses are excluded from the segment performance. Transactions within the segments are based on mainly the prevailing market price.

For the three months ended June 30, 2014

(Millions of yen)

| | Reportable Segments | | | | | | Other (Note 3) | Elimination | Consolidated |
|---|---|---|---|---|---|---|---|---|---|
| | Domestic Tobacco | International Tobacco (Note 2) | Pharma-ceuticals | Beverage | Processed Food | Total | | | |
| Revenue | | | | | | | | | |
| External revenue (Note 4) | 152,486 | 305,150 | 13,113 | 44,909 | 37,349 | 553,007 | 3,441 | — | 556,448 |
| Intersegment revenue | 3,556 | 8,351 | — | 21 | 135 | 12,062 | 2,642 | (14,703) | — |
| Total revenue | 156,041 | 313,500 | 13,113 | 44,930 | 37,484 | 565,069 | 6,083 | (14,703) | 556,448 |
| Segment profit (loss) | | | | | | | | | |
| Adjusted operating profit (Note 1) | 51,253 | 105,068 | (3,754) | (1,369) | 32 | 151,230 | (2,401) | 43 | 148,872 |

For the three months ended March 31, 2015

(Millions of yen)

| | Reportable Segments | | | | | | Other (Note 3) | Elimination | Consolidated |
|---|---|---|---|---|---|---|---|---|---|
| | Domestic Tobacco | International Tobacco | Pharma-ceuticals | Beverage | Processed Food | Total | | | |
| Revenue | | | | | | | | | |
| External revenue (Note 4) | 157,554 | 299,868 | 16,637 | 39,875 | 38,782 | 552,717 | 2,176 | — | 554,893 |
| Intersegment revenue | 5,892 | 10,200 | — | 18 | 118 | 16,229 | 3,852 | (20,081) | — |
| Total revenue | 163,446 | 310,069 | 16,637 | 39,894 | 38,900 | 568,946 | 6,028 | (20,081) | 554,893 |
| Segment profit (loss) | | | | | | | | | |
| Adjusted operating profit (Note 1) | 56,954 | 104,972 | (837) | (514) | 899 | 161,474 | (2,554) | (282) | 158,638 |

Reconciliation from “Adjusted operating profit” to “Profit before income taxes”

For the three months ended June 30, 2014

(Millions of yen)

| | Reportable Segments | | | | | | Other (Note 3) | Elimination | Consolidated |
|---|---|---|---|---|---|---|---|---|---|
| | Domestic Tobacco | International Tobacco (Note 2) | Pharma-ceuticals | Beverage | Processed Food | Total | | | |
| Adjusted operating profit (Note 1) | 51,253 | 105,068 | (3,754) | (1,369) | 32 | 151,230 | (2,401) | 43 | 148,872 |
| Amortization cost of acquired intangibles | — | (7,335) | — | — | — | (7,335) | — | — | (7,335) |
| Adjustment items (income) (Note 5) | — | 286 | — | — | 413 | 699 | 6,258 | — | 6,957 |
| Adjustment items (costs) (Note 5) | (43) | (182) | — | — | (1) | (227) | (40) | — | (267) |
| Operating profit (loss) | 51,210 | 97,837 | (3,754) | (1,369) | 443 | 144,366 | 3,817 | 43 | 148,227 |
| Financial income | | | | | | | | | 3,049 |
| Financial costs | | | | | | | | | (3,760) |
| Profit before income taxes | | | | | | | | | 147,516 |

For the three months ended March 31, 2015

(Millions of yen)

| | Reportable Segments | | | | | | Other (Note 3) | Elimination | Consolidated |
|---|---|---|---|---|---|---|---|---|---|
| | Domestic Tobacco | International Tobacco | Pharma-ceuticals | Beverage | Processed Food | Total | | | |
| Adjusted operating profit (Note 1) | 56,954 | 104,972 | (837) | (514) | 899 | 161,474 | (2,554) | (282) | 158,638 |
| Amortization cost of acquired intangibles | — | (7,457) | — | — | — | (7,457) | — | — | (7,457) |
| Adjustment items (income) (Note 5) | 40 | — | — | 2 | 25 | 66 | — | — | 66 |
| Adjustment items (costs) (Note 5) | (1,239) | (486) | — | (123) | (2) | (1,849) | (5,987) | — | (7,836) |
| Operating profit (loss) | 55,755 | 97,029 | (837) | (635) | 922 | 152,233 | (8,541) | (282) | 143,411 |
| Financial income | | | | | | | | | 4,315 |
| Financial costs | | | | | | | | | (2,433) |
| Profit before income taxes | | | | | | | | | 145,293 |

(Note 1) For adjusted operating profit, amortization cost of acquired intangibles, and adjustment items (income and costs) are excluded from operating profit (loss).

(Note 2) The foreign subsidiaries group, which includes a core company of JT International S.A., that is part of the "International Tobacco Business" segment, continues to have December 31 as its fiscal year end date as before, and the profit or loss for the period from January 1, 2014 to March 31, 2014 is included in the three months ended June 30, 2014.

(Note 3) "Other" includes business activities relating to rent of real estate and corporate expenses relating to corporate communication and operation of the head office.

(Note 4) Core revenue as part of the "Domestic Tobacco Business" and the "International Tobacco Business" is as follows:

(Millions of yen)

| | Three months ended June 30, 2014 | Three months ended March 31, 2015 |
|---|---|---|
| Domestic Tobacco | 144,238 | 149,578 |
| International Tobacco | 283,731 | 282,266 |

(Note 5) "Adjustment items (income)" include restructuring income of gain on sale of real estate. "Adjustment items (costs)" include restructuring costs of the closing down of a factory. The breakdown of restructuring income is described in "10. Other operating income." Restructuring costs included in "Cost of sales" are ¥47 million for the three months ended March 31, 2015 and restructuring costs included in "Selling, general and administrative expenses" are ¥267 million and ¥7,789 million for the three months ended June 30, 2014 and March 31, 2015, respectively. The breakdown of restructuring costs is described in "11. Selling, general and administrative expenses."

The breakdown of "Adjustment items (costs)" is as follows:

(Millions of yen)

| | Three months ended June 30, 2014 | Three months ended March 31, 2015 |
|---|---|---|
| Restructuring costs | 267 | 7,836 |
| Adjustment items (costs) | 267 | 7,836 |

Restructuring costs for the three months ended March 31, 2015 mainly relate to disposal of real estate.

## 6. Cash and cash equivalents

Included in “Cash and cash equivalents” as of March 31, 2015 is ¥57,035 million (IRR 15,804.7 billion) held by the Group’s Iranian subsidiary, JTI Pars PJS Co. Due to international sanctions and other factors imposed on Iran, the subsidiary’s ability to remit funds outside of Iran is restricted.

## 7. Property, plant and equipment, goodwill and intangible assets

The schedules of the carrying amount of “Property, plant and equipment,” “Goodwill” and “Intangible assets” are as follows:

(Millions of yen)

| Carrying Amount | Property, plant and equipment | Goodwill | Intangible assets |
|---|---|---|---|
| As of January 1, 2015 | 756,127 | 1,539,376 | 364,912 |
| Individual acquisition | 27,207 | – | 3,840 |
| Transfer to investment property | (8,544) | – | – |
| Transfer to non-current assets held-for-sale | (73) | – | – |
| Depreciation or amortization | (23,277) | – | (11,626) |
| Impairment losses | (39) | – | (41) |
| Reversal of impairment loss | 147 | – | – |
| Sale or disposal | (1,280) | – | (61) |
| Exchange differences on translation of foreign operations | (21,050) | (121,125) | (15,531) |
| Other | (519) | – | 1,433 |
| As of March 31, 2015 | 728,698 | 1,418,251 | 342,926 |

## 8. Dividends

Dividends paid for each interim period are as follows:

For the three months ended June 30, 2014

| | Class of shares | Total dividends (Millions of yen) | Dividends per share (Yen) | Basis date | Effective date |
|---|---|---|---|---|---|
| (Resolution) | | | | | |
| Annual Shareholders’ Meeting (June 24, 2014) | Ordinary shares | 90,877 | 50 | March 31, 2014 | June 25, 2014 |

For the three months ended March 31, 2015

| | Class of shares | Total dividends (Millions of yen) | Dividends per share (Yen) | Basis date | Effective date |
|---|---|---|---|---|---|
| (Resolution) | | | | | |
| Annual Shareholders’ Meeting (March 20, 2015) | Ordinary shares | 90,878 | 50 | December 31, 2014 | March 23, 2015 |

## 9. Revenue

The reconciliation from “Gross turnover” to “Revenue” for each interim period is as follows:

(Millions of yen)

| | Three months ended June 30, 2014 | Three months ended March 31, 2015 |
|---|---|---|
| Gross turnover | 1,675,445 | 1,739,453 |
| Tobacco excise taxes and agency transaction amount | (1,118,997) | (1,184,560) |
| Revenue | 556,448 | 554,893 |

## 10. Other operating income

The breakdown of “Other operating income” for each interim period is as follows:

(Millions of yen)

| | Three months ended June 30, 2014 | Three months ended March 31, 2015 |
|---|---|---|
| Gain on sale of property, plant and equipment, intangible assets and investment property (Note) | 6,862 | 199 |
| Other (Note) | 776 | 1,152 |
| Total | 7,637 | 1,350 |

(Note) The amount of restructuring income included in each account is as follows:

(Millions of yen)

| | Three months ended June 30, 2014 | Three months ended March 31, 2015 |
|---|---|---|
| Gain on sale of property, plant and equipment, intangible assets and investment property | 6,670 | 53 |
| Other | – | 13 |
| Total | 6,670 | 66 |

## 11. Selling, general and administrative expenses

The breakdown of "Selling, general and administrative expenses" for each interim period is as follows:

(Millions of yen)

| | Three months ended June 30, 2014 | Three months ended March 31, 2015 |
|---|---|---|
| Advertising expenses | 4,303 | 4,548 |
| Promotion expenses | 28,475 | 25,221 |
| Shipping, warehousing expenses | 6,679 | 6,894 |
| Commission | 11,920 | 11,535 |
| Employee benefit expenses (Note) | 71,300 | 70,317 |
| Research and development expenses | 13,690 | 13,491 |
| Depreciation and amortization | 17,668 | 18,528 |
| Impairment losses on other than financial assets (Note) | 41 | 438 |
| Loss on sale and disposal of property, plant and equipment, intangible assets and investment property (Note) | 1,484 | 7,240 |
| Other (Note) | 35,187 | 35,537 |
| Total | 190,745 | 193,750 |

(Note) The amount of restructuring costs included in each account is as follows:

(Millions of yen)

| | Three months ended June 30, 2014 | Three months ended March 31, 2015 |
|---|---|---|
| Employee benefit expenses | 181 | (152) |
| Impairment losses on other than financial assets | — | 433 |
| Loss on sale and disposal of property, plant and equipment, intangible assets and investment property | 80 | 5,655 |
| Other | 5 | 1,852 |
| Total | 267 | 7,789 |

## 12. Financial income and financial costs

The breakdown of “Financial income” and “Financial costs” for each interim period is as follows:

(Millions of yen)

| Financial Income | Three months ended June 30, 2014 | Three months ended March 31, 2015 |
|---|---|---|
| Dividend income | 381 | 1,059 |
| Interest income | 2,576 | 3,180 |
| Other | 92 | 76 |
| Total | 3,049 | 4,315 |

(Millions of yen)

| Financial Costs | Three months ended June 30, 2014 | Three months ended March 31, 2015 |
|---|---|---|
| Interest expenses (Note 2) | 2,125 | 921 |
| Foreign exchange losses (Note 1) | 11 | 144 |
| Employee benefit expenses (Note 3) | 1,424 | 969 |
| Other | 200 | 398 |
| Total | 3,760 | 2,433 |

(Note 1) Valuation gain (loss) of currency derivatives is included in the foreign exchange losses.

(Note 2) Valuation gain (loss) of interest rate derivatives is included in interest expenses.

(Note 3) The employee benefit expenses are the net amount of interest cost and interest income related to employee benefits.

## 13. Other comprehensive income

“Remeasurements of defined benefit plans” for the three months ended March 31, 2015 include remeasurements arising from the effects of significant market fluctuations in relation to retirement benefit assets or liabilities.

## 14. Interim earnings per share

(1) Basis of calculating basic interim earnings per share

a. Profit attributable to ordinary shareholders of the parent company

(Millions of yen)

| | Three months ended June 30, 2014 | Three months ended March 31, 2015 |
|---|---|---|
| Profit for the period attributable to owners of the parent company | 106,181 | 104,195 |
| Profit not attributable to ordinary shareholders of the parent company | — | — |
| Profit for the period used for calculation of basic interim earnings per share | 106,181 | 104,195 |

b. Weighted-average number of ordinary shares outstanding during the period

(Thousands of shares)

| | Three months ended June 30, 2014 | Three months ended March 31, 2015 |
|---|---|---|
| Weighted-average number of shares during the period | 1,817,549 | 1,809,191 |

(2) Basis of calculating diluted interim earnings per share

a. Profit attributable to owners of diluted ordinary shareholders

(Millions of yen)

| | Three months ended June 30, 2014 | Three months ended March 31, 2015 |
|---|---|---|
| Profit for the period used for calculation of basic interim earnings per share | 106,181 | 104,195 |
| Adjustment | — | — |
| Profit for the period used for calculation of diluted interim earnings per share | 106,181 | 104,195 |

b. Weighted-average number of diluted ordinary shares outstanding during the period

(Thousands of shares)

| | Three months ended June 30, 2014 | Three months ended March 31, 2015 |
|---|---|---|
| Weighted-average number of ordinary shares during the period | 1,817,549 | 1,809,191 |
| Increased number of ordinary shares under subscription rights to share | 1,010 | 1,067 |
| Weighted-average number of diluted ordinary shares during the period | 1,818,559 | 1,810,258 |

## 15. Financial instruments

(Fair value of financial instruments)

The carrying amount and fair value of financial instruments measured at amortized cost are as follows:

(Millions of yen)

| | As of December 31, 2014 | | As of March 31, 2015 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Long-term borrowings (Note) | 40,976 | 40,976 | 40,789 | 40,789 |
| Bonds (Note) | 139,954 | 142,586 | 139,787 | 142,596 |

(Note) Current portion is included.

With regard to short-term financial assets and short-term financial liabilities measured at amortized cost, their fair value approximates the carrying amount.
The fair value of long-term borrowings is calculated based on the present value which is obtained by discounting the total of the principal and interest by the interest rate assumed in a case where the same loan is newly made.
The fair value of bonds issued by the Group is based on the market price for those having market prices, and based on the present value that is obtained by discounting the total of principal and interest by the interest rate, for which the remaining period and credit risk of such bonds are taken into consideration.

The fair value hierarchy of financial instruments is categorized as follows from Level 1 to Level 3:

Level 1: Fair value measured at the quoted price in the active market
Level 2: Fair value that is calculated using the observable price other than categorized in Level 1 directly or indirectly
Level 3: Fair value that is calculated based on valuation techniques which include input that is not based on observable market data

The fair value hierarchy of financial instruments measured at fair value is as follows:

As of December 31, 2014

(Millions of yen)

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Derivative assets | – | 31,837 | – | 31,837 |
| Equity securities | 55,499 | – | 3,856 | 59,355 |
| Other | 279 | – | 1,555 | 1,834 |
| Total | 55,778 | 31,837 | 5,411 | 93,025 |
| Derivative liabilities | – | 10,010 | – | 10,010 |
| Total | – | 10,010 | – | 10,010 |

As of March 31, 2015

(Millions of yen)

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Derivative assets | – | 32,852 | – | 32,852 |
| Equity securities | 62,944 | – | 4,587 | 67,531 |
| Other | 306 | – | 1,596 | 1,902 |
| Total | 63,250 | 32,852 | 6,183 | 102,285 |
| Derivative liabilities | – | 11,083 | – | 11,083 |
| Total | – | 11,083 | – | 11,083 |

## 16. Commitments

Commitments for the acquisition of assets after each closing date are as follows:

(Millions of yen)

| | As of December 31, 2014 | As of March 31, 2015 |
|---|---|---|
| Acquisition of property, plant and equipment | 64,832 | 62,324 |

## 17. Contingencies

As of March 31, 2015, there are no significant changes to the matters described in the consolidated financial statements for the fiscal year ended December 31, 2014.

## 18. Subsequent events

No items to report

## 2. Other

No items to report

**(TRANSLATION)**

## INDEPENDENT ACCOUNTANT'S REVIEW REPORT

April 30, 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 paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have reviewed the condensed interim consolidated financial statements included in the Accounting Section, namely, the condensed interim consolidated statement of financial position of Japan Tobacco Inc. (the "Company") and its consolidated subsidiaries as of March 31, 2015, and the related condensed interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended, and the related notes.

### Management's Responsibility for the Condensed Interim Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these condensed interim consolidated financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting" under the provision of Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements, and for such internal control as management determines is necessary to enable the preparation of condensed interim consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Accountant's Responsibility

Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review. We conducted our review in accordance with quarterly review standards generally accepted in Japan.

A review consists primarily of making inquiries, primarily of management and persons responsible for financial and accounting matters, and applying analytical procedures and other quarterly review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in Japan.

We believe that we have obtained the evidence to provide a basis for our conclusion.

**Accountant's Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements referred to above do not present fairly, in all material respects, the consolidated financial position of the Company and its consolidated subsidiaries as of March 31, 2015, and the consolidated results of their operations and their cash flows for the three-month period then ended in accordance with International Accounting Standard 34 "Interim Financial Reporting."

**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.