

[This is an English translation prepared for reference purpose only. Should there be any inconsistency between the translation and the original Japanese text, the latter shall prevail.]

Securities Code: 2914
March 1, 2019

To Our Shareholders

Masamichi Terabatake
Representative Director and President
Japan Tobacco Inc.
2-1, Toranomom 2-chome, Minato-ku, Tokyo

NOTICE OF CONVOCATION OF THE 34TH ORDINARY GENERAL MEETING OF SHAREHOLDERS

You are cordially invited to attend the 34th Ordinary General Meeting of Shareholders of Japan Tobacco Inc. (“JT” or the “Company”) to be held as set forth below.

If you cannot attend the meeting, you may exercise your voting rights in written form or by electromagnetic means including the Internet. Please see the “Reference Documents for the General Meeting of Shareholders” hereinafter described and exercise your voting rights by 6:00 p.m., on Tuesday, March 19, 2019, in accordance with “Instructions for Exercising Your Voting Rights” on pages 3 to 5.

Particulars

1. Date and Time of the Meeting: Wednesday, March 20, 2019 at 10:00 a.m.

2. Place of the Meeting: The Prince Park Tower Tokyo
Second basement, Ballroom
8-1, Shibakoen 4-chome, Minato-ku, Tokyo

3. Purpose of the Meeting:

Matters to be Reported:

1. Report on the Business Report, the Consolidated Financial Statements, and the Independent Auditors’ Report and JT’s Audit & Supervisory Board Report on the Consolidated Financial Statements for the 34th Business Term (From January 1, 2018 to December 31, 2018)
2. Report on the Non-Consolidated Financial Statements for the 34th Business Term (From January 1, 2018 to December 31, 2018)

Matters to be Resolved:

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| Item 1: | Appropriation of Surplus |
| Item 2: | Partial Amendment to the Articles of Incorporation |
| Item 3: | Election of Two (2) Members of the Board |
| Item 4: | Election of Five (5) Audit & Supervisory Board Members |
| Item 5: | Revision of Remuneration Amount for Members of the Board |
| Item 6: | Revision of Amount of Stock Option Granted to Members of the Board |
| Item 7: | Revision of Remuneration Amount for Audit & Supervisory Board Members |

Information on Matters Posted on JT's Website

1. Among the documents to be provided upon release of this Notice of Convocation of the 34th Ordinary General Meeting of Shareholders, the items below are posted on our website (<https://www.jti.co.jp/>) in accordance with laws and regulations, and the provision in Article 17 of the Articles of Incorporation. Therefore, they are not included in this Notice of Convocation of the 34th Ordinary General Meeting of Shareholders.

- “Overview of the Resolutions on the Development of Systems Necessary to Ensure the Properness of Operations and the Operating Status of the Systems” on the Business Report
- “Consolidated Statement of Changes in Equity” and “Notes to Consolidated Financial Statements” on the Consolidated Financial Statements
- “Non-consolidated Statement of Changes in Net Assets” and “Notes to Non-Consolidated Financial Statements” on the Non-Consolidated Financial Statements

In addition, these items are included in the Consolidated and Non-Consolidated Financial Statements audited by the Accounting Auditors in the course of preparing Accounting Auditors' Report, and in the Business Report, and Consolidated and Non-Consolidated Financial Statements audited by Audit & Supervisory Board Members in the course of preparing Audit Report.

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 website (<https://www.jti.co.jp/>).



Guidance to our shareholders attending the General Meeting of Shareholders

- * For those attending, please bring this Notice of Convocation of the 34th 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 sincerely ask you to 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 34th 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 (Wednesday) (your letter of inquiry must reach us by this date).
- * Taking into account such factors as the smooth operation of the General Meeting of Shareholders, and the fairness between the shareholders who attend on the day and those who find it difficult to attend, the Company decided to discontinue the gifts, which for each year up until last year had been given to the shareholders who attend on the day.

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.

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

<p>A. Attend the meeting</p>	<p>▶ Please present the Voting Rights Exercise Form at the reception desk on arrival at the meeting. (Not required to place a seal.) Date and time of the General Meeting of Shareholders: 10:00 a.m., on Wednesday, March 20, 2019</p>
<p>B. Post the Voting Rights Exercise Form</p>	<p>▶ Please post the Voting Rights Exercise Form indicating whether you are for or against each of the items. Exercise due date: To be returned to us no later than 6:00 p.m., on Tuesday, March 19, 2019</p>
<p>C. Exercise the Voting Rights via the Internet</p>	<p>▶ Please indicate whether you are for or against each of the items following the instructions on the next page. Exercise due date: No later than 6:00 p.m., on Tuesday, March 19, 2019</p>
<p>Guide to filling in the Voting Rights Exercise Form Please indicate for or against about each item. Items 1, 2, 5, 6 and 7 When you are for the proposed item, mark <input type="radio"/> in the "for" box, and when you are against the item, mark <input type="radio"/> in the "against" box. Item 3 and 4 When you are for all of the proposed persons in the item, mark <input type="radio"/> in the "for" box, and when you are against all in the item, mark <input type="radio"/> in the "against" box. If you are against certain candidates, mark <input type="radio"/> in the "for" box, and also write the candidate number for each candidate you are against inside the parentheses.</p>	

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

When Exercise the Voting Rights via the Internet

The exercise of the voting rights via the Internet is available only by accessing the designated website for the exercise of the voting rights (“Voting Rights Exercise Website”) from your computer or smartphone.

Please access the Voting Rights Exercise Website and indicate whether you are for or against each of the items.

Exercise due date	▶	No later than 6:00 p.m., on Tuesday, March 19, 2019
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Log in via two-dimensional barcode

It is possible to log in to the Voting Rights Exercise website without entering the “Log-in ID” and the “Temporary Password” described on the lower right-hand side of the Voting Rights Exercise Form.

1. Scan the two-dimensional barcode at the lower right-hand side of the Voting Rights Exercise Form.
 - * Depending on the smartphone model being used, it may not be possible to log in using the two-dimensional barcode.

<p>The two-dimensional barcode may only be used once when logging in. If exercising voting rights more than once, or if exercising voting rights without using the two-dimensional barcode, please refer to “Log in with your Log-in ID and Temporary Password,” below.</p>
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2. Then, please indicate whether you are for or against each of the items following the directions on the website.

Log in with your Log-in ID and Temporary Password

Voting Rights Exercise Website: <https://evote.tr.mufg.jp/>

1. Access the Voting Rights Exercise Website.
2. Enter the “Log-in ID” and the “Temporary Password” described on the lower right-hand side of the Voting Rights Exercise Form, and click the “Log-in” button.
3. Register a new password.
4. Then, please indicate whether you are for or against each of the items following the directions on the website.

* Please refer to the following page for the Cautions Regarding Exercise of the Voting Rights via the Internet.

Cautions Regarding Exercise of the Voting Rights via the Internet

For the exercise of the voting rights via the Internet, please access the Voting Rights Exercise Website (<https://evote.tr.mufg.jp/>), and exercise your voting rights after confirming the items below.

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

- * You will not be able to access the website from 2:00 a.m. to 5:00 a.m. each day during the exercise period.
- * You may not be able to use the website in such Internet environments as those using firewalls, etc. for the Internet connection, those using antivirus programs, those with a proxy server, or those where TLS-encrypted communications are not specified.
- * 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 Website. Please take care not to forget your new password.
- * JT will notify you of the new “Log-in ID” and “Temporary Password” at each convocation of the General Meeting of Shareholders.
- * In the event voting rights are exercised more than once:
 - (1) If the voting right is exercised both by posting the Voting Rights Exercise Form and via the Internet, only the exercise of the voting right via the Internet shall be valid.
 - (2) If the voting right is exercised more than once via the Internet, only the last exercise of the voting right shall be valid.
- * Each shareholder shall bear any fees for accessing the Voting Rights Exercise Website (Internet connection fees, communications fees, etc.).

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

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

Item 1: Appropriation of Surplus

The Company has adopted a management resources allocation policy, under which the Company will continue to place a high priority on making business investments that contribute to sustainable mid- to long-term profit growth as well as to value the balance between profit growth through business investments and shareholder returns. In this context, the Company is pursuing enhanced shareholder returns in proportion to the mid- to long-term profit growth, while maintaining a strong financial base^(Note).

In accordance with these policies, year-end dividends for the 34th Business Term will be paid as described below.

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

Year-end dividends

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

Cash

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

¥75 per share of ordinary shares of JT

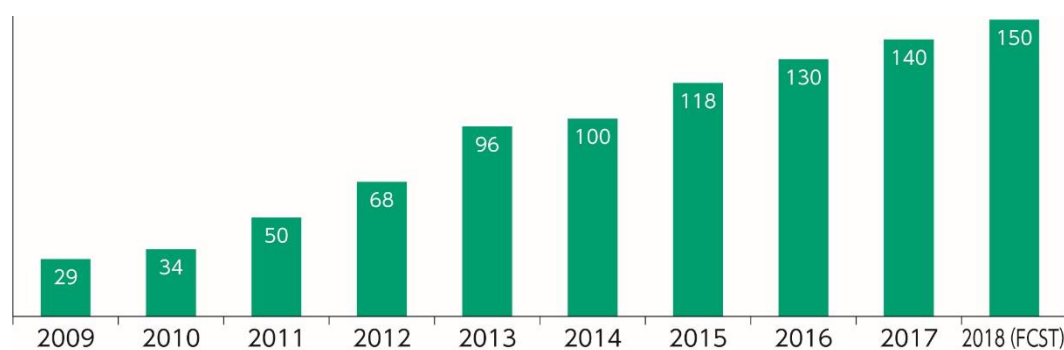
Aggregate amount: ¥134,356,751,925

Together with the interim dividends of ¥75 per share paid in September 2018, the annual dividends for the 34th Business Term will be ¥150 per share, a ¥10 increase year on year.

(3) Effective date for distribution of surplus:

March 22, 2019

Reference: Trends in dividend per share^(Note) (yen)

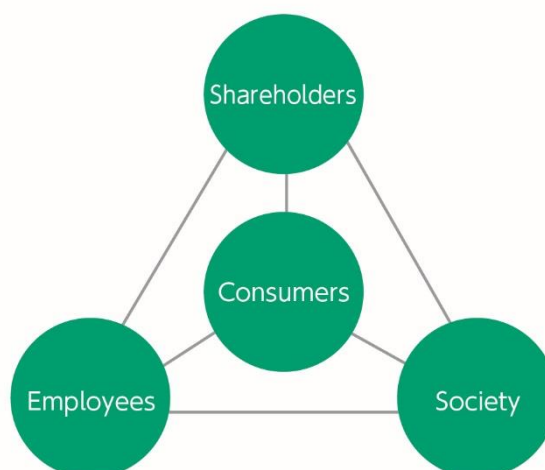


(Note) A 200 for 1 share split was effectuated as of July 1, 2012. The above numbers are calculated on the assumption that the share split was retroactively effective.

Reference

Management Principles

We strive to fulfill our responsibilities to our valued consumers, shareholders, employees and the wider society, carefully considering the respective interests of these four key stakeholder groups, and exceeding their expectations wherever we can.



In accordance with the “Business Plan 2019,” the Group will continue to pursue mid to high single-digit^(Note 1) annual average growth rate over the mid- to long-term in adjusted operating profit at constant rates of exchange^(Note 2). The Group’s management resources allocation policy and returns to shareholders policy are as follows.

Management resources allocation policy

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

Improve returns to shareholders in agreement with mid- to long-term profit growth, while maintaining a firm financial base	<ul style="list-style-type: none"> • Work toward stable and consistent growth in dividend per share • Consider whether to execute the acquisition of treasury shares in view of factors including the medium-term outlook on business environment and financial positions • Continue to monitor a trend in shareholder returns of global FMCG^(Note 3) companies
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(Notes) 1. mid to high single-digit: mid to high single-digit-percentage

2. Adjusted operating profit is calculated by deducting amortization cost of acquired intangibles and adjustment items (income and costs) from operating profit (loss). Adjustment items (income and costs) are impairment losses on goodwill, restructuring income and costs, and other items. Adjusted operating profit growth rate at constant rates of exchange is a financial measurement that excludes foreign exchange effects by translating and calculating adjusted operating profit for the fiscal year in the International Tobacco Business using the foreign exchange rates of the previous fiscal year.

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

Item 2: Partial Amendment to the Articles of Incorporation

1. Reasons for the Proposed Amendment

The Company expects the business environment surrounding JT Group to become increasingly challenging and to change at an unprecedented scale and speed. In these circumstances, we believe it is necessary to enhance our corporate governance in order for JT Group to continue to achieve mid- to long-term sustainable profit growth and increase corporate value.

As part of our efforts to enhance our corporate governance, the Company will revise the article on the number of audit & supervisory board members in order to ensure a variety of perspectives and strengthen our auditing functions.

2. Details of the Proposed amendment

Proposed amendment is as follows.

(Underline indicates amended portions)

Current	Proposed Amendment
Article 27. (Number of Audit & Supervisory Board Members) The number of audit & supervisory board members shall not exceed <u>four</u> .	Article 27. (Number of Audit & Supervisory Board Members) The number of audit & supervisory board members shall not exceed <u>five</u> .

Item 3: Election of Two (2) Members of the Board

Having taken into account the Group’s business environment, as we move to realize sustainable profit growth and increased corporate value over the mid- to long-term, we propose the election of two (2) new Members of the Board with the aim of promoting sustainability management, as well as further strengthening and enhancing corporate governance.

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

Candidate Number			
1	Kazuhito Yamashita	(Born February 4, 1963)	Number of the Company’s Shares Held 6,400
Newly appointed	Brief Personal History, Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company		
	April 1986	Joined the Company	Reasons for nomination as a candidate for Director Kazuhito Yamashita has served in such roles as Senior Vice President, Chief Corporate, Scientific & Regulatory Affairs Officer, and Head of China Division, focusing on promoting social and environmental issues and on the expansion of the overseas business in an increasingly complex and diverse business environment. His leadership, and the broad knowledge he has cultivated, are well-suited to the sustainability management needed to establish an environment conducive to the Group’s sustainable growth going forward, for which reason we consider him a suitable candidate for Director, and propose his election as a Member of the Board.
	May 2007	Vice President, Corporate, Scientific & Regulatory Affairs Division, Tobacco Business Headquarters	
	July 2009	Vice President, Corporate Affairs Division, Tobacco Business Headquarters	
	June 2010	Senior Vice President, Chief Corporate, Scientific & Regulatory Affairs Officer, Tobacco Business Headquarters	
	January 2015	Senior Vice President, Head of China Division, Tobacco Business Headquarters	
January 2019	Senior Vice President, Compliance, Sustainability Management and General Affairs (Current Position)		

(Note) No conflict of interest exists between the Company and Kazuhito Yamashita.

Candidate Number			
2	Yukiko Nagashima	(Born April 4, 1961)	Number of the Company's Shares Held 0
<div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;">Newly appointed</div> <div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;">Outside Director</div> <div style="border: 1px solid black; padding: 5px;">Independent Director</div>	Brief Personal History, Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company		
	<p>April 1985</p> <p>April 2006</p> <p>January 2008</p> <p>October 2012</p> <p>June 2016</p> <p>April 2018</p>	<p>Joined Recruit Co., Ltd. (Current Recruit Holdings Co., Ltd.)</p> <p>Corporate Executive Officer, Recruit Co., Ltd.</p> <p>President and Representative Director, Recruit Staffing Co., Ltd.</p> <p>Corporate Executive Officer, Recruit Holdings Co., Ltd.</p> <p>Standing Audit and Supervisory Board Member, Recruit Holdings Co., Ltd. (Current Position)</p> <p>Standing Audit and Supervisory Board Member, Recruit Co., Ltd. (Current Position)</p>	<p>Reasons for nomination as a candidate for Outside Director</p> <p>Over the course of her career Yukiko Nagashima has been deeply involved in emerging businesses and corporate management, and also has experience as a Member of the Audit and Supervisory Boards. Given that we expect the influence of her wide-ranging insights, from the perspectives of both management and auditing, on the management of the Group to contribute to a further strengthening of corporate governance, we consider her an appropriate candidate for Outside Director of the Company, and propose her election as such.</p>
	(Significant Concurrent Positions outside the Company)		
	<p>Standing Audit and Supervisory Board Member, Recruit Holdings Co., Ltd.</p> <p>Standing Audit and Supervisory Board Member, Recruit Co., Ltd.</p>		

- (Notes)
1. No conflict of interest exists between the Company and Yukiko Nagashima.
 2. Should Yukiko Nagashima election be approved, the Company intends to enter into an agreement with her to limit her liabilities stipulated in Article 423, paragraph 1 of the Companies Act to the extent permitted by the laws and regulations.
 3. Yukiko Nagashima satisfies the Criteria for Evaluating the Independence of Outside Executives of the Company and the requirements of an independent director prescribed by the Tokyo Stock Exchange, Inc.
Although the Company has business relationships with both Recruit Holdings Co., Ltd. and Recruit Co., Ltd., of which she is Standing Audit and Supervisory Board Member, in relation to recruitment etc., the value of the business in the fiscal 2018 was negligible, coming to less than 0.01% of consolidated net sales for Recruit Holdings Co., Ltd. in the fiscal year ended March 2018, and less than 0.01% of the Company's consolidated revenue in fiscal 2018.
We judge that this relationship has no impact on her independence.
 4. The Company intends to designate Yukiko Nagashima as an independent director as prescribed by the Tokyo Stock Exchange, Inc., should her election be approved.

Reference: Composition of the Board of Directors after election (Plan)

Name		Positions and Responsibilities in the Company	Attendance at meetings of the Board of Directors	Number of years as Member of the Board
[Current]	Yasutake Tango	Chairman of the Board	15/15 (100%)	4 years and 9 months
[Current]	Masamichi Terabatake	Representative Director and President, Chief Executive Officer	10/10 (100%)	1 year
[Current]	Mutsuo Iwai	Representative Director and Executive Vice President, President, Tobacco Business Headquarters	15/15 (100%)	3 years
[Current]	Naohiro Minami	Representative Director and Executive Vice President, Chief Finance Officer and Communications	10/10 (100%)	1 year
[Current]	Kiyohide Hirowatari	Representative Director and Executive Vice President, Corporate, Pharmaceutical Business and Food Business	10/10 (100%)	1 year
[Newly appointed]	Kazuhito Yamashita	Member of the Board and Senior Vice President, Compliance, Sustainability Management and General Affairs	-	-
[Current]	Main Kohda [Outside Director] [Independent Director]	Outside Director	15/15 (100%)	6 years and 9 months
[Current]	Koichiro Watanabe [Outside Director] [Independent Director]	Outside Director	10/10 (100%)	1 year
[Newly appointed]	Yukiko Nagashima [Outside Director] [Independent Director]	Outside Director	-	-

- (Notes)
1. Attendance at meetings of the Board of Directors held in the fiscal year 2018 is presented.
 2. The numbers of years as Member of the Board at the conclusion of this Ordinary General Meeting of Shareholders are presented.

Item 4: Election of Five (5) 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. This being the case, in order to further enhance and strengthen corporate governance, and with the aim of incorporating a diversity of viewpoints to further reinforce the auditing function, we propose the election of five (5) Audit & Supervisory Board Members, an increase of one (1) person, on condition that Item 2 is approved and passed.

The Audit & Supervisory Board has approved this proposition.

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

Candidate Number			
1	Ryoko Nagata	(Born July 14, 1963)	Number of the Company's Shares Held 12,400
Reappointed	Brief Personal History, Positions in the Company, and Significant Concurrent Positions outside the Company		
	April 1987	Joined the Company	Reasons for nomination as a candidate for Audit & Supervisory Board Member Ryoko Nagata assumed the position of Audit & Supervisory Board Member of the Company in March 2018. In the course of auditing the Group, she has leveraged her abundant experience and her wide-ranging insights with regard to the Group's business operations across operational businesses and internal departments. We therefore again propose her election as an Audit & Supervisory Board Member, as we believe her broad and deep knowledge and experience will be essential to the improvement of the corporate governance of the Group going forward.
	April 2001	Vice President, Head of Products Division, Food Business Division, Food Business Headquarters	
	June 2008	Senior Vice President, Head of Beverage Business Division, Food Business Headquarters and Products Division, Food Business Division, Food Business	
	July 2008	Senior Vice President, Head of Beverage Business Division, Food Business Headquarters	
	July 2010	Senior Vice President, Head of Beverage Business Division	
	June 2013	Senior Vice President, CSR	
	January 2018	Senior Vice President, Assistant to President	
March 2018	Standing Audit & Supervisory Board Member (Current Position)		

- (Notes)
1. No conflict of interest exists between the Company and Ryoko Nagata.
 2. The Company has entered into an agreement with Ryoko Nagata to limit her liabilities stipulated in Article 423, paragraph 1 of the Companies Act to the extent permitted by the laws and regulations. Should her election be approved, the Company intends to extend the agreement.

Candidate Number							
2	Hiroshi Yamamoto (Born November 29, 1963)	Number of the Company's Shares Held 0					
<div style="border: 1px solid black; padding: 5px; width: fit-content; margin: auto;">Newly appointed</div>	Brief Personal History, Positions in the Company, and Significant Concurrent Positions outside the Company						
	<table border="0"> <tr> <td style="vertical-align: top;">April 1987</td> <td>Joined the Company</td> </tr> <tr> <td style="vertical-align: top;">July 2008</td> <td>Vice President, NTM Procurement Division, Tobacco Business</td> </tr> <tr> <td style="vertical-align: top;">June 2012</td> <td>Vice President, Operational Review and Business Assurance Division (Current Position)</td> </tr> </table>	April 1987	Joined the Company	July 2008	Vice President, NTM Procurement Division, Tobacco Business	June 2012	Vice President, Operational Review and Business Assurance Division (Current Position)
April 1987	Joined the Company						
July 2008	Vice President, NTM Procurement Division, Tobacco Business						
June 2012	Vice President, Operational Review and Business Assurance Division (Current Position)						

- (Notes)
1. No conflict of interest exists between the Company and Hiroshi Yamamoto.
 2. Should Hiroshi Yamamoto election be approved, the Company intends to enter into an agreement with him to limit his liabilities stipulated in Article 423, paragraph 1 of the Companies Act to the extent permitted by the laws and regulations.

Candidate Number		3		Toru Mimura		(Born December 26, 1955)		Number of the Company's Shares Held		0	
<div style="border: 1px solid black; padding: 5px; text-align: center; width: fit-content; margin: 5px auto;">Newly appointed</div> <div style="border: 1px solid black; padding: 5px; text-align: center; width: fit-content; margin: 5px auto;">Outside Audit & Supervisory Board Member</div>		Brief Personal History, Positions in the Company, and Significant Concurrent Positions outside the Company									
		April 1979		Entered Ministry of Finance						Reasons for nomination as a candidate for Outside Audit & Supervisory Board Member Toru Mimura has extensive experience over many years of serving in a wide range of important positions in ministries and agencies, in addition to his role as research institute chairman, and through this has acquired deep knowledge of such fields as finance, global risk management, geopolitics and company law. We judge that the broad and deep knowledge he has cultivated through this wide-ranging experience will enable him to make a significant contribution to the effective auditing of the Group in this changeable and highly uncertain business environment. In addition, we believe his roles as Standing Audit & Supervisory Board Member and Outside Audit & Supervisory Board Member facilitate improvements to auditing from a third-party perspective, and will lead to a strengthening of the Group's corporate governance, for which reason we propose his election as Outside Audit & Supervisory Board Member.	
		July 2010		Deputy Director-General of the Planning and Coordination Bureau, and Secretary-General of the Executive Bureau, Certified Public Accountants and Auditing Oversight Board, Financial Services Agency							
		July 2011		Director General, Kinki Local Finance Bureau, Ministry of Finance							
		January 2012		Resigned Director-General, Kinki Local Finance Bureau, Ministry of Finance Deputy Director-General, Minister's Secretariat, Ministry of Defense							
		September 2012		Director General, Bureau of Personnel and Education, Ministry of Defense							
		July 2013		Director General, National Institute for Defense Studies, Ministry of Defense							
		July 2014		Director General, Bureau of Finance and Equipment, Ministry of Defense							
		October 2015		Vice-Minister of Defense for International Affairs, Ministry of Defense							
		July 2016		Retired from the office of Vice-Minister of Defense for International Affairs, Ministry of Defense							
September 2016		Chairman, Sampo Japan Nipponkoa Research Institute Inc.									
October 2017		Director, Eltes Co.,Ltd.									
March 2018		Registered as Attorney at Law									
		(Significant Concurrent Positions outside the Company) Attorney at Law, Shiba International Law Offices									

- (Notes)
1. No conflict of interest exists between the Company and Toru Mimura.
 2. Should Toru Mimura election be approved, the Company intends to enter into an agreement with him to limit his liabilities stipulated in Article 423, paragraph 1 of the Companies Act to the extent permitted by the laws and regulations.
 3. As explained in "Reasons for nomination as a candidate for Outside Audit & Supervisory Board Member" above, because Toru Mimura has the knowledge and experience that the Company expects, the Company proposes that he be elected, and notes that he satisfies the requirements of an independent auditor prescribed by the Tokyo Stock Exchange, Inc. However, because of his professional experience at the Ministry of Finance, having taken into account the Company's prescribed criteria for independence, the Company does not intend to designate him an independent auditor. More than seven years have elapsed since he resigned from his post at the Ministry of Finance.

Candidate Number 4	Hiroshi Obayashi (Born June 17, 1947)	Number of years as Audit & Supervisory Board Member (at the conclusion of this Ordinary General Meeting of Shareholders) 4 years	Number of the Company's Shares Held 0																														
<div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;">Reappointed</div> <div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;">Outside Audit & Supervisory Board Member</div> <div style="border: 1px solid black; padding: 5px;">Independent Auditor</div>	Brief Personal History, Positions in the Company, and Significant Concurrent Positions outside the Company																																
	<table border="1"> <tr> <td style="width: 15%;">April 1970</td> <td>Judicial Apprentice</td> <td rowspan="13" style="vertical-align: top; padding: 5px;"> Reasons for nomination as a candidate for Outside Audit & Supervisory Board Member Hiroshi Obayashi assumed the position of Audit & Supervisory Board Member of the Company in March 2015. In addition to his extensive experience in the legal circles, he has accumulated experience as an outside director and outside audit & supervisory board member across a wide range of industries. We consider his deep knowledge and experience to be indispensable to improving the Group's corporate governance going forward, for which reason we propose that he be reappointed as Outside Audit & Supervisory Board Member. Furthermore, he has no experience of being involved in company management other than through the role of an outside director and outside audit & supervisory board member, but for the reasons presented above, and because he has adequately discharged his responsibilities as Audit and Supervisory Board Member of the Company, we judge that he would be able to appropriately execute his duties as Outside Audit & Supervisory Board Member. </td> </tr> <tr> <td>April 1972</td> <td>Appointed as Public Prosecutor</td> </tr> <tr> <td>May 2001</td> <td>Director-General of the Rehabilitation Bureau, Ministry of Justice</td> </tr> <tr> <td>January 2002</td> <td>Deputy Vice-Minister of Justice, Ministry of Justice</td> </tr> <tr> <td>June 2004</td> <td>Director-General of the Criminal Affairs Bureau, Ministry of Justice</td> </tr> <tr> <td>June 2006</td> <td>Vice-Minister of Justice, Ministry of Justice</td> </tr> <tr> <td>July 2007</td> <td>Superintending Prosecutor, Sapporo High Public Prosecutors' Office</td> </tr> <tr> <td>July 2008</td> <td>Superintending Prosecutor, Tokyo High Public Prosecutors Office</td> </tr> <tr> <td>June 2010</td> <td>Prosecutor-General</td> </tr> <tr> <td>December 2010</td> <td>Retired from the office of Prosecutor-General</td> </tr> <tr> <td>March 2011</td> <td>Registered as Attorney at Law</td> </tr> <tr> <td>April 2011</td> <td>Outside Audit & Supervisory Board Member, Daiwa Securities Co., Ltd. (Current position)</td> </tr> <tr> <td>June 2013</td> <td>Outside Director, Mitsubishi Electric Corporation (Current position)</td> </tr> <tr> <td>June 2014</td> <td>Outside Audit & Supervisory Board Member, NIPPON STEEL & SUMITOMO METAL CORPORATION (Current position)</td> </tr> <tr> <td>March 2015</td> <td>Outside Audit & Supervisory Board Member, the Company (Current position)</td> </tr> </table>	April 1970	Judicial Apprentice	Reasons for nomination as a candidate for Outside Audit & Supervisory Board Member Hiroshi Obayashi assumed the position of Audit & Supervisory Board Member of the Company in March 2015. In addition to his extensive experience in the legal circles, he has accumulated experience as an outside director and outside audit & supervisory board member across a wide range of industries. We consider his deep knowledge and experience to be indispensable to improving the Group's corporate governance going forward, for which reason we propose that he be reappointed as Outside Audit & Supervisory Board Member. Furthermore, he has no experience of being involved in company management other than through the role of an outside director and outside audit & supervisory board member, but for the reasons presented above, and because he has adequately discharged his responsibilities as Audit and Supervisory Board Member of the Company, we judge that he would be able to appropriately execute his duties as Outside Audit & Supervisory Board Member.	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	April 2011	Outside Audit & Supervisory Board Member, Daiwa Securities Co., Ltd. (Current position)	June 2013	Outside Director, Mitsubishi Electric Corporation (Current position)	June 2014	Outside Audit & Supervisory Board Member, NIPPON STEEL & SUMITOMO METAL CORPORATION (Current position)	March 2015	Outside Audit & Supervisory Board Member, the Company (Current position)	<p>(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</p>
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- (Notes) 1. No conflict of interest exists between the Company and Hiroshi Obayashi.
2. The Company has entered 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 regulations. Should his election be approved, the Company intends to extend the agreement.
 3. Hiroshi Obayashi satisfies the Criteria for Evaluating the Independence of Outside Executives of the Company and the requirements of an independent auditor prescribed by the Tokyo Stock Exchange, Inc.
 4. The Company has designated Hiroshi Obayashi as an independent auditor as prescribed by the Tokyo Stock Exchange, Inc. and intends to designate him as such again, should his election be approved.

Candidate Number		5		Koji Yoshikuni		(Born September 7, 1952)		Number of the Company's Shares Held		0	
		Brief Personal History, Positions in the Company, and Significant Concurrent Positions outside the Company									
		<p>April 1975 Joined Japan Broadcasting Corporation</p> <p>June 2003 Director Responsible for Finance of News Department, Japan Broadcasting Corporation</p> <p>June 2005 Executive Director, Yokohama Broadcasting Station, Japan Broadcasting Corporation</p> <p>June 2007 Chief of Secretariat for Board of Governors, Japan Broadcasting Corporation</p> <p>February 2010 Senior Director, Japan Broadcasting Corporation</p> <p>April 2012 Executive Director, Japan Broadcasting Corporation</p> <p>April 2017 Vice President, the Graduate School of Project Design (Current position)</p> <p> Auditor, Hosei University (Current position)</p>						<p>Reasons for nomination as a candidate for Outside Audit & Supervisory Board Member</p> <p>Koji Yoshikuni has served in such roles at Japan Broadcasting Corporation as the Director Responsible for Finance of News Department, Chief of Secretariat for Board of Governors, and Executive Director, and has a knowledge of politics and economics cultivated over long years in his journalistic career, as well as management experience that has left him thoroughly acquainted with all business operations and internal departments. We judge that we can expect him to use the wide-ranging knowledge derived from his previous experience to play a significant role, as an Audit & Supervisory Board Member, in improving the Group's corporate governance, for which reason we propose that he be elected Outside Audit & Supervisory Board Member. In addition, he is knowledgeable in the area of finance and accounting.</p>			
Newly appointed											
Outside Audit & Supervisory Board Member											
Independent Auditor											

- (Notes)
1. No conflict of interest exists between the Company and Koji Yoshikuni.
 2. Should Koji Yoshikuni election be approved, the Company intends to enter into an agreement with him to limit his liabilities stipulated in Article 423, paragraph 1 of the Companies Act to the extent permitted by the laws and regulations.
 3. Koji Yoshikuni satisfies the Criteria for Evaluating the Independence of Outside Executives of the Company and the requirements of an independent auditor prescribed by the Tokyo Stock Exchange, Inc.
 4. The Company intends to designate Koji Yoshikuni as an independent auditor as prescribed by the Tokyo Stock Exchange, Inc., should his election be approved.

Reference: Composition of the Audit & Supervisory Board Members after election (Plan)

No.	Name	Responsibilities in the Company	Attendance at meetings of the Board of Directors	Attendance at meetings of the Audit & Supervisory Board	Number of years as Audit & Supervisory Board Member
1	[Reappointed] Ryoko Nagata [Standing Audit & Supervisory Board Member]	Standing Audit & Supervisory Board Member	10/10 (100%)	9/9 (100%)	1 year
2	[Newly appointed] Hiroshi Yamamoto [Standing Audit & Supervisory Board Member]	Standing Audit & Supervisory Board Member	-	-	-
3	[Newly appointed] Toru Mimura [Standing Audit & Supervisory Board Member] [Outside Audit & Supervisory Board Member]	Standing Audit & Supervisory Board Member Outside Audit & Supervisory Board Member	-	-	-
4	[Reappointed] Hiroshi Obayashi [Outside Audit & Supervisory Board Member] [Independent Auditor]	Outside Audit & Supervisory Board Member	15/15 (100%)	13/13 (100%)	4 years
5	[Newly appointed] Koji Yoshikuni [Outside Audit & Supervisory Board Member] [Independent Auditor]	Outside Audit & Supervisory Board Member	-	-	-

- (Notes)
- Attendance at meetings of the Board of Directors and meetings of the Audit & Supervisory Board held in the fiscal year 2018 is presented.
 - The numbers of years as Audit & Supervisory Board Member at the conclusion of this Ordinary General Meeting of Shareholders are presented.

【Reference】 Criteria for Evaluating the Independence of Outside Executives

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

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

【Reference】 Nomination of Member of the Board Candidates

In “JT Corporate Governance Policy,” the Company prescribes the following.

Nomination of Member of the Board candidates and Audit & Supervisory Board Member candidates, dismissal of Members of the Board who execute the business and related matters shall be conducted under the appropriate supervision of the Board of Directors, according to the following policies and procedures.

- JT shall work on expanding, in terms of quality and quantity, the group of executive candidates with qualities for assuming sustainable profit growth and increase of corporate value in the mid- to long-term by pursuing the “4S” model.

In specific, JT aspires to expand a diverse group of executive candidates, while referring to opinions from outside at the Meeting for Talent Development currently established. Independent outside Members of the Board are also participating in the said meeting, to further increase objectivity.

- Member of the Board candidates shall be nominated, upon the representative Member of the Board forming a candidate proposal in consideration of discussions, etc., at the above meeting, by resolution of the Board of Directors through discussions on the candidate proposal at the Board of Directors meeting, after securing opportunities for receiving appropriate advice from independent outside Members of the Board, such as by giving explanations to independent outside Members of the Board before raising it at the Board of Directors meeting. With respect to Audit & Supervisory Board Member candidates, a person who is expected to perform his or her duties appropriately from a position independent of the Board of Directors shall be nominated by resolution of the Board of Directors, upon receiving the prior consent of The Audit & Supervisory Board.
- For dismissal of Members of the Board who execute the business, in the cases where they do not meet the required qualifications or have become unable to perform their duties, a Member of the Board who is not subject to dismissal shall bring a proposal for dismissal before the Board of Directors and the Board of Directors shall resolve the proposal.
- Looking forward, the company will consider merging the functions of the abovementioned Meeting for Talent Development and the existing Compensation Advisory Panel to newly establish a Personnel and Compensation Advisory Panel as a voluntary advisory panel to the Board of Directors comprised mainly of independent outside Members of the Board.

Further, when bringing up the agenda item on the appointment of Member of the Board candidates and Audit & Supervisory Board Member candidates at the shareholders’ meeting, and when the Board of Directors has resolved to dismiss a Member of the Board who execute the business, JT shall disclose the reasons for the appointment of individual candidates and for the dismissal.

Item 5: Revision of Remuneration Amount for Members of the Board

The remuneration amount for Members of the Board of the Company was approved at an annual level not exceeding ¥870 million at the 22nd Ordinary General Meeting of Shareholders held on June 22, 2007, and has remained unchanged since. However, with the need to respond to a rapidly changing business environment, both the role and the duties of Members of the Board have increased, and with the remuneration level at the group of companies that, having taken into account the scale of companies and their finances, the Company uses as a benchmark, rising as a result of globalization and the introduction of new incentives, it has become necessary for the Company maintain a level of remuneration adequate to secure high-quality human resources. In accordance with the increase in the number of Members of the Board, conditional upon approval being obtained for Item 3, it is hereby proposed that the remuneration amount for Members of the Board be revised to an annual level not exceeding ¥1.2 billion (including ¥80 million annually for the Outside Directors).

There are currently seven (7) Members of the Board (including two (2) Outside Directors), and there will be nine (9) Members of the Board (including three (3) Outside Directors), provided Item 3 is approved.

Item 6: Revision of Amount of Stock Option Granted to Members of the Board

In order to further bolster morale and raise motivation to increase corporate value among directors of the Company, approval was obtained at the 22nd Ordinary General Meeting of Shareholders held on June 22, 2007, for a stock option, with the remuneration amount not exceeding ¥200 million annually, and with the total number of subscription rights to shares not exceeding 800 annually. This plan has remained unchanged since, but we propose to revise the remuneration for stock option grants to an amount not exceeding ¥240 million annually, with the total number of subscription rights to shares not exceeding 960 annually. The reasons for this revision are presented in Item 5.

There are currently seven (7) Members of the Board (including two (2) Outside Directors), and there will be nine (9) Members of the Board (including three (3) Outside Directors), provided Item 3 is approved.

In addition, stock option grants are not allocated to Outside Directors of the Company.

Item 7: Revision of Remuneration Amount for Audit & Supervisory Board Members

The remuneration amount for the Audit & Supervisory Board Members of the Company was approved at an annual level not exceeding ¥190 million at the 22nd Ordinary General Meeting of Shareholders held on June 22, 2007, and has remained unchanged since. However, with the business environment changing rapidly, and with the content of audit work becoming both more complex and more diverse, the role and duties of Audit & Supervisory Board Members have increased. Therefore, in accordance with the increase in the number of Audit & Supervisory Board Members, conditional upon approval being obtained for Item 2 and 4 respectively, it is hereby proposed that the remuneration amount for Audit & Supervisory Board Members be revised to an annual level not exceeding ¥240 million.

There are currently four (4) Audit & Supervisory Board Members, and there will be five (5) Audit & Supervisory Board Members, provided Item 2 and 4 are both approved.

【Reference】 Determination of Remuneration Amount for Members of the Board and Executive Officers
In “JT Corporate Governance Policy,” the Company prescribes the following.

The Board of Directors shall appropriately decide on compensation for Member of the Board and Executive Officers according to the following policies and procedures.

- From the viewpoint of securing objectivity and transparency concerning compensation of Members of the Board, the Board of Directors shall establish a Compensation Advisory Panel as a voluntary advisory panel of the Board of Directors. The main members of the Compensation Advisory Panel shall be independent outside Members of the Board and independent outside Audit & Supervisory Board Members, and the Compensation Advisory Panel shall respond to consultation, discuss and recommend policies, systems, calculation methods, etc., concerning compensation for JT’s Members of the Board and Executive Officers, as well as monitor the situation of compensation of Members of the Board at JT.
- The Board of Directors shall adopt a performance-based compensation system and a stock option system concerning compensation of Members of the Board, adopt compensation composition corresponding to the nature of each Member of the Board and Executive Officer’s services and determine each Member of the Board and Executive Officer’s compensation based on the following basic principles concerning compensation of Members of the Board in consideration of recommendations received from the Compensation Advisory Panel.
 - The compensation standard shall be suitable for securing excellent personnel.
 - The compensation system shall be performance-based which will serve as motivation for achieving performance goals.
 - Compensation shall be linked to mid- to long-term corporate value.
 - Compensation shall be transparent based on objective points of view and quantitative framework.

[For your reference, we have included various graphs and photographs.]

[Attached Documents]

Business Report

(From January 1, 2018 to December 31, 2018)

I. Matters Concerning Present State of the Corporate Group

1. Overview and results of operations

General summary

Revenue

In the International Tobacco Business, revenue was affected by the unfavorable foreign exchange effects from weaker local currencies in emerging countries, etc., while the Domestic Tobacco Business was hit by the impact of lower cigarette sales volume, but due to the effects of favorable pricing and the volume effects in the International Tobacco Business, as well as rising RRP-related^(Note 4) revenue and the effects of favorable cigarette pricing in the Domestic Tobacco Business, in addition to increased royalty revenue in the Pharmaceutical Business, revenue rose by 3.6% from the previous fiscal year to ¥2,216.0 billion.

Adjusted operating profit, operating profit and profit attributable to owners of the parent company

Adjusted operating profit at constant rates of exchange, which is one of the Group's management benchmarks, grew by 8.9% from the previous fiscal year, with declines in the Domestic Tobacco Business and the Processed Food Business being offset by increases in the International Tobacco Business and the Pharmaceutical Business, with another factor being the posting in the previous year of the one-time loss in relation to the filing for bankruptcy of a distributor in the United Kingdom. In addition, adjusted operating profit increased by 1.7% from the previous fiscal year to ¥595.5 billion, despite unfavorable foreign exchange effects. Adjusted operating profit excluding the one-time loss in the previous year, declined by 1.9% from the previous fiscal year, and at constant currency, increased 4.9% from the previous fiscal year.

Operating profit increased by 0.7% from the previous fiscal year to ¥565.0 billion, driven by growth in adjusted operating profit and gains from the sale of real estate-related assets. This was despite an increase in trademark amortization related to acquisitions.

Despite an increase in operating profit, profit attributable to owners of the parent declined by 1.7% from the previous fiscal year to ¥385.7 billion due to an increase in financial costs.

Consolidated performance

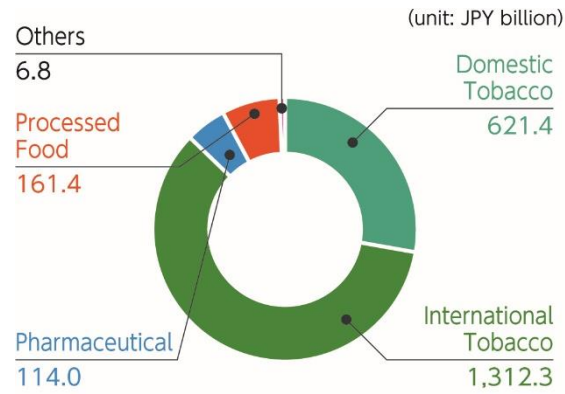
	[Billions of yen]	Change [%]
Revenue ^(Note 1)	2,216.0	3.6
Adjusted operating profit ^(Note 2)	595.5	1.7
Adjusted operating profit (at constant rates of exchange) ^(Note 3)	637.2	8.9
Profit attributable to owners of the parent company	385.7	(1.7)

(Notes) 1. From the current fiscal year, in accordance with the application of IFRS 15, certain items formerly treated as selling, general and administrative expenses are accounted for as reductions of revenue. As a result, compared to the application of the former accounting standard, revenue and selling, general and administrative expenses decreased by ¥10,944 million and ¥70,905 million respectively, and cost of sales increased by ¥59,962 million on the consolidated

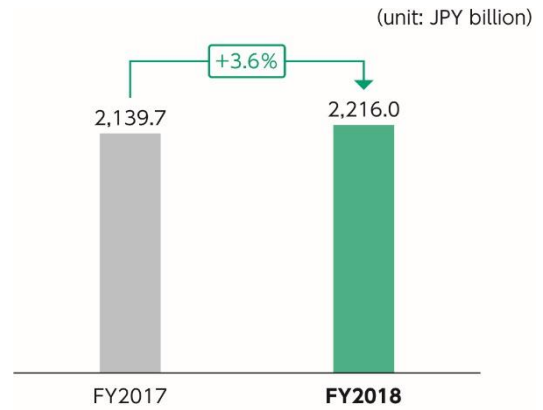
statement of income for the current fiscal year. These changes have no effect on operating profit and profit for the year.

2. Adjusted operating profit is calculated by deducting amortization cost of acquired intangibles arising from business acquisitions and adjustment items (income and costs) from operating profit (loss). Adjustment items (income and costs) are impairment losses on goodwill, restructuring income and costs, and other items.
3. Adjusted operating profit (at constant rates of exchange) is a value that excludes foreign exchange effects by translating and calculating adjusted operating profit for the current fiscal year in the International Tobacco Business using the foreign exchange rates of the previous fiscal year.
4. Reduced-Risk Products (RRP) are products with potential to reduce the risks associated with smoking such as E-Vapor products and T-Vapor products. E-Vapor products do not use tobacco leaf, instead using electrical heating of a liquid inside a device or specialized cartridge to generate vapor for the user to enjoy. Conversely, T-Vapor products do use tobacco leaf, but instead of burning the leaf, they use methods such as heating the leaf to generate vapor (which includes compounds derived from the tobacco leaf) for the user to enjoy.

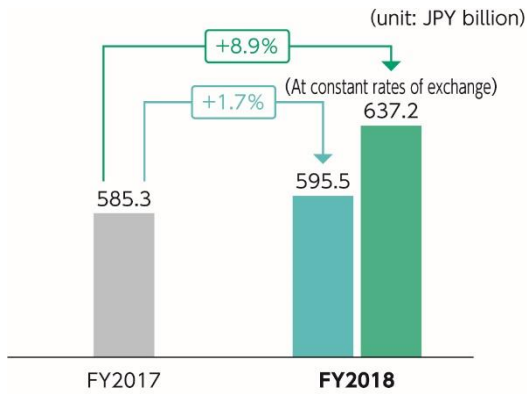
Revenue breakdown by business segment



Revenue

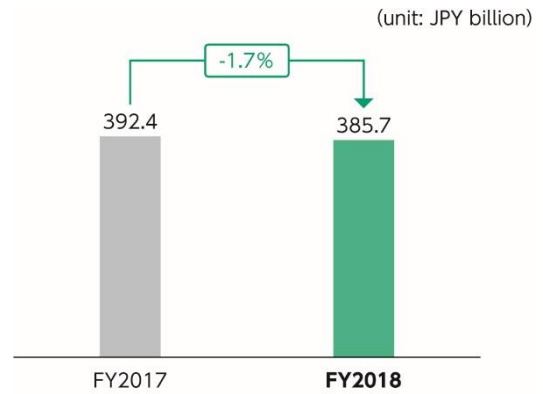


Adjusted operating profit

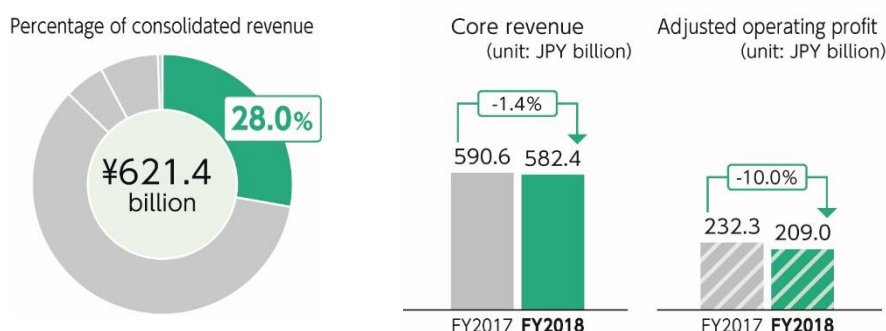


Profit

(Attributable to owners of the parent company)



Domestic Tobacco Business



In the current fiscal year, sales volume of cigarettes^(Note 1) was negatively impacted by a decline in cigarette industry volume^(Note 2) caused by the expansion of RRP market and the downtrend in total demand, among others. As a result, sales volume fell by 11.7%, from the previous fiscal year to 82.0 billion cigarettes. The Company's RRP sales volume reached 2.8 billion cigarette equivalent units.

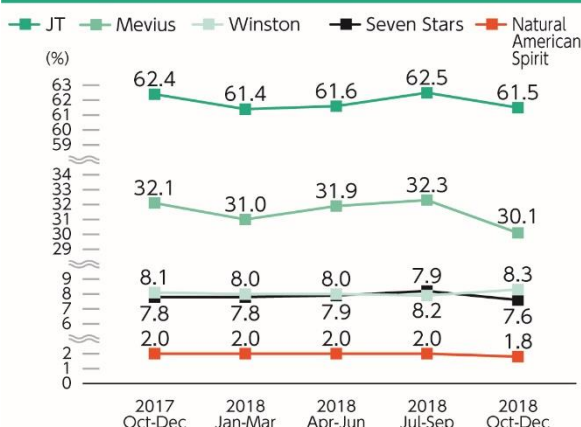
Cigarette market share increased 0.5ppt from the previous fiscal year to 61.8% led by the solid performance of core brands.

Core revenue from the tobacco business^(Note 3) fell by 1.4% from the previous fiscal year to ¥582.4 billion, with the effects of favorable cigarette pricing and an increase of RRP related revenue, etc., not offsetting the impact of lower cigarette sales volume. Core revenue from the tobacco business includes RRP related revenue of ¥64.6 billion.

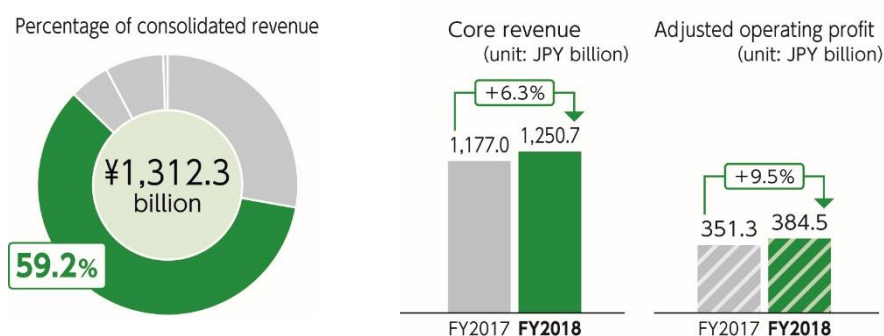
Adjusted operating profit decreased by 10.0% from the previous fiscal year to ¥209.0 billion, due to the impact of lower cigarette sales volume and an increase of sales promotion expenses, partially offset by an increase in RRP related revenue and the effects of favorable cigarette pricing.

- (Notes)
1. Sales volume of cigarettes includes sales volume for the Company in the Japanese cigarette market, but it does not include sales volume for RRP and so on. In addition to the figure stated above for sales volume, during the fiscal year ended December 31, 2018, 4.0 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 the Company's China Division (4.0 billion cigarettes in the previous fiscal year).
 2. Cigarette industry volume includes sales volume for the whole Japanese cigarette market, but it does not include sales volume for RRP and so on.
 3. Core revenue in the Domestic Tobacco Business includes revenue from the domestic duty-free market as well as from markets in China, Hong Kong and Macau that are under the control of the Company's China Division, in addition to revenue related to RRP, but it excludes revenue related to imported tobacco delivery charges, among others.

JT / Major products Quarterly Market Share



International Tobacco Business



In the current fiscal year, the effects of acquisitions in the Philippines, Russia and elsewhere resulted in total shipment volume^(Note 1) rising by 7.3% from the previous fiscal year to ¥427.6 billion. Excluding the effects of acquisitions, total shipment volume declined by 1.1% from the previous fiscal year, since rising sales volume in regions such as Turkey and Iran was not enough to compensate for the effects of declines in total demand in areas such as Russia and Taiwan.

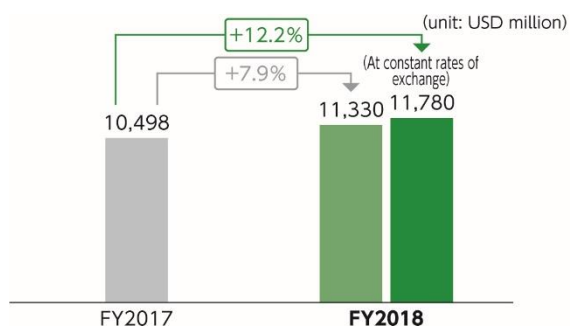
GFB^(Note 2) shipment volume rose by 2.3% from the previous year to 266.4 billion cigarettes, driven by volume growth of Winston, Camel and LD.

Yen-based core revenue increased by 6.3% from the previous fiscal year to ¥1,250.7 billion, driven by the effects of favorable pricing in key markets including Russia and by the volume increases as a result of acquisitions, etc. Adjusted operating profit rose by 9.5% from the previous fiscal year to ¥384.5 billion, despite the increase in investments to strengthen the business foundation in the markets where the Company made acquisitions. This was due to higher core revenue, as well as the one-time loss in the previous fiscal year caused by a distributor in the United Kingdom filing for bankruptcy. Adjusted operating profit excluding the one-time loss recorded in the previous fiscal year increased by 3.0% from the previous fiscal year. Moreover, both core revenue and adjusted operating profit were subject to the unfavorable foreign exchange effects.

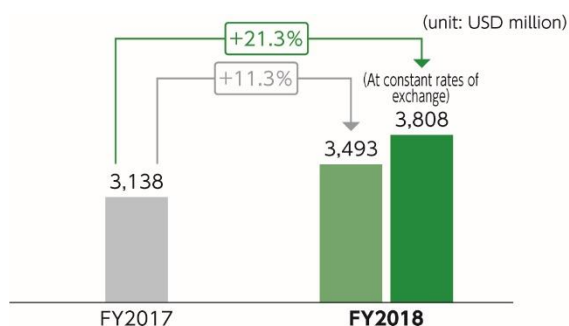
For dollar-based core revenue^(Note 3), the effects of favorable pricing and rising volume outweighed the unfavorable effects of foreign exchange, leading to an increase of 7.9% from the previous fiscal year, to \$11,330 million (up 12.2% from the previous fiscal year at constant rates of exchange). In addition, despite a rise in investments, higher core revenue drove an increase in adjusted operating profit of 11.3% from the previous fiscal year, to \$3,493 million (up 21.3% from the previous fiscal year at constant rates of exchange). Adjusted operating profit excluding the one-time loss recorded in the previous fiscal year increased by 4.8% from the previous fiscal year (up 14.3% from the previous fiscal year at constant rates of exchange).

- (Notes)
1. Includes fine cut tobacco, cigars, pipe tobacco, snus and kretek, except for contract manufacturing products, waterpipe tobacco products and RRP.
 2. GFBs (Global Flagship Brands) consist of four brands, which serve as flagships of the Group's brand portfolio - Winston, Camel, Mevius, LD.
 3. Core revenue in the International Tobacco Business includes revenue related to waterpipe tobacco products and RRP, but excludes revenue related to the distribution business and contract manufacturing, among others.

Core revenue (USD basis)



Adjusted operating profit (USD basis)



Exchange rate per U.S. dollar

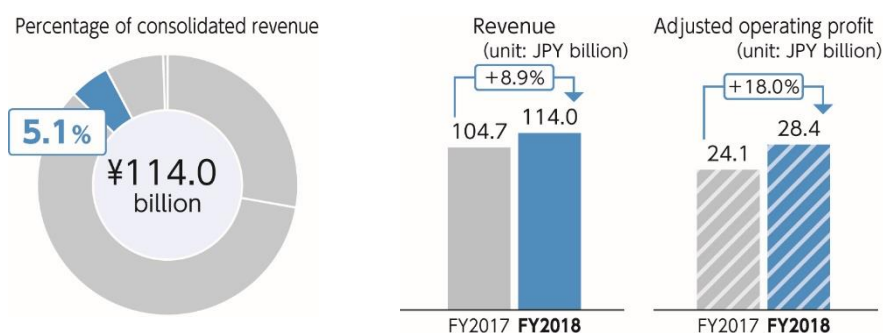
Foreign exchange rate per U.S. dollar	FY 2017	FY 2018
Yen	112.16	110.44
Ruble	58.35	62.68
Pounds sterling	0.78	0.75
Euro	0.89	0.85
Taiwanese dollar	30.44	30.14
Turkish lira	3.64	4.82
Iranian rial	38,811	61,649

Main Market Shares (12-month rolling average)

	2017 Dec	2018 Dec	Variance
Italy	23.1%	23.9%	0.7ppt
France	22.0%	23.2%	1.2ppt
Spain	24.0%	24.8%	0.8ppt
UK	40.5%	41.3%	0.8ppt
Russia (GFBs)	32.9%	35.6%	2.6ppt
	23.7%	24.8%	1.1ppt
Turkey	28.8%	27.7%	(1.1ppt)
Taiwan	41.7%	42.5%	0.8ppt

Source: IRI, Logista, Nielsen and JTI estimates

Pharmaceutical Business



In the Pharmaceutical Business, the Company has been striving to make a stable contribution to the Group's profits by promoting R&D on next-generation strategic products and by maximizing the value of each product.

In the area of product development, seven compounds are in clinical development.

In the current fiscal year, revenue increased by 8.9%, from the previous fiscal year to ¥114.0 billion, driven by higher royalty revenue of an original JT compound that has been out-licensed and milestone revenue. Adjusted operating profit increased by 18.0%, from the previous fiscal year to ¥28.4 billion, driven by the revenue growth, despite increased R&D investment.

The Company has reached an agreement with Gilead Sciences, Inc. and Group company Torii Pharmaceutical Co., Ltd. to terminate the license agreements under which the Company has an exclusive license to develop and commercialize six anti-HIV drugs in Japan. The termination date is set for January 1, 2019. The Company is currently working on necessary procedures to transfer the marketing approvals.

【Reference】

Japan Tobacco Inc. Clinical Development as of February 7, 2019

<In-house development>

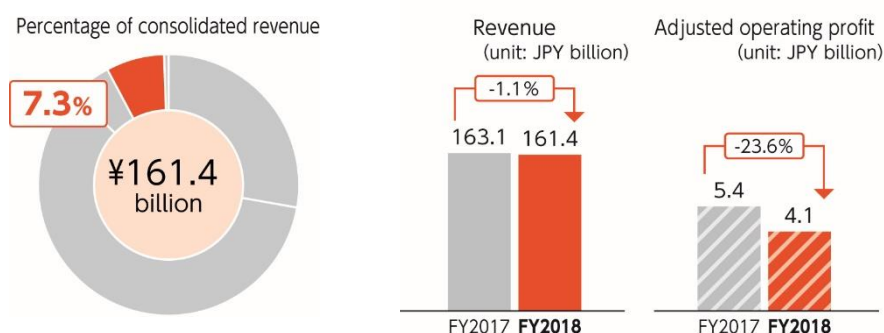
Code (Generic Name)	Potential Indication/Dosage form	Mechanism		Phase(Region)	Note
JTZ-951 (enarodustat)	Anemia associated with chronic Kidney disease /Oral	HIF-PH inhibitor	Increases red blood cells by stimulating production of erythropoietin, an erythropoiesis-stimulating hormone, via inhibition of HIF-PHD.	Phase3(Japan) Phase1(Overseas)	In-house Co-development with Torii
JTE-052 (delgocitinib)	Autoimmune/allergic diseases /Oral, Topical *Atopic dermatitis/Topical	JAK inhibitor	Suppresses overactive immune response via inhibition of Janus kinase (JAK) related to immune signal.	NDA filed(Japan)	In-house *Co-development with Torii
JTE-051	Autoimmune/allergic diseases /Oral	Interleukin-2 inducible T cell kinase inhibitor	Suppresses overactive immune response via inhibition of the signal to activate T cells related to immune response.	Phase2(Overseas)	In-house
JTT-251	Type 2 diabetes mellitus /Oral	PDHK inhibitor	Decreases blood glucose by activation of pyruvate dehydrogenase (PDH) related to carbohydrate metabolism.	Phase1(Overseas)	In-house
JTE-451	Autoimmune/allergic diseases /Oral	RORγ antagonist	Suppresses overactive immune response via inhibition of ROR γ related to Th 17 activation.	Phase2(Overseas)	In-house
JTT-662	Type 2 diabetes mellitus /Oral	SGLT1 inhibitor	Suppresses postprandial hyperglycemia and normalizes blood glucose level via inhibition of SGLT1.	Phase1(Overseas)	In-house
JTT-751 (ferric citrate)	Iron-deficiency anemia/Oral	Oral iron replacement	Corrects iron-deficiency anemia by using absorbed Iron for synthesis of hemoglobin.	Phase3(Japan)	In-license (Keryx Biopharmaceuticals) Co-development with Torii Additional indication

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

<Licensed compounds>

Compound (JT's code)	Licensee	Mechanism		Note
trametinib	Novartis	MEK inhibitor	Inhibits cellular growth by specifically inhibiting the activity of MAPK/ERK pathway.	
Anti-ICOS monoclonal antibody	MedImmune	ICOS antagonist	Suppresses overactive immune response via inhibition of ICOS which regulates activation of T cells.	
delgocitinib	LEO Pharma ROHTO Pharmaceutical	JAK inhibitor	Suppresses overactive immune response via inhibition of Janus kinase (JAK) related to immune signal.	
enarodustat	JW Pharmaceutical	HIF-PH inhibitor	Increases red blood cells by stimulating production of erythropoietin, an erythropoiesis-stimulating hormone, via inhibition of HIF-PHD.	

Processed Food Business



In the Processed Food Business, we concentrate on frozen and ambient processed foods, seasonings, and bakery, while at the same time making efforts to strengthen cost competitiveness and working on initiatives to improve profitability.

In the fiscal year ended December 31, 2018, we continued working to expand product sales with an emphasis on staple food products such as frozen noodles, frozen rice, packed rice and baked frozen bread. Specifically, we launched 25 new and 49 renewed frozen and ambient temperature home-use products, such as by offering the authentic taste of Chinese noodles in the form of “Seafood and Pork-Bone Based Soup with Charsiu Ramen, which is the result of our tie-up with a famous ramen establishment, and “Beef Rice,” a hearty meat-based meal. In addition with the aim of boosting summer demand for frozen udon noodles, and raising awareness of the TableMark brand, we used media activities, primarily television commercials, and implemented consumer campaigns.

Despite growth in sales of staple food products and seasonings, revenue in the fiscal year ended December 31, 2018 decreased by 1.1%, from the previous fiscal year to ¥161.4 billion, due to a decline in sales of other products. Adjusted operating profit decreased by 23.6%, from the previous fiscal year to ¥4.1 billion, due mainly to higher raw material costs.

Furthermore, we have established the Processed Food Business Planning Division with the goal of building an operating structure that will ensure seamless management of strategy planning and business execution in each subsidiary of the Processed Food Business, such as TableMark Co., Ltd., Fuji Foods Corporation and Saint-Germain Co., Ltd., and have accordingly made the decision to liquidate the intermediate holding company, TableMark Holdings Co., Ltd. The Processed Food Business began operations under this new structure on January 1, 2019, but there has been no change to the business content of the business companies.

2. Status of capital expenditures

In this fiscal year, we made capital expenditures totaling ¥159.8 billion.

In the Domestic Tobacco Business, we spent ¥55.4 billion, mainly on investments accompanying maintenance and upgrade of manufacturing processes, productivity improvements, adaptation to new products, improvements in product specifications, and others. In the International Tobacco Business, we invested ¥75.7 billion mainly for optimization of manufacturing facilities in addition to improvements in product specifications. In the Pharmaceutical Business, we spent ¥11.3 billion on enhancing and strengthening research and development structures and the like. In the Processed Food Business, we invested ¥12.7 billion in improvement, maintenance and renewals of production capability.

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

3. Status of financing

The Company conducted an issuance of corporate bonds with general mortgage totaling ¥100.0 billion on September 10, 2018, to be applied to the repayment of short-term borrowings. In addition, with the aim of allocating funds for the repayment of short-term borrowings by overseas subsidiary JT International Financial Services B.V., on September 28, 2018, we issued foreign currency denominated straight bonds consisting of \$1.025 billion, €550 million, and £400 million, for a total of ¥239.8 billion.

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

On July 31, 2018, the Group acquired all of the shares issued^(Note 1) of JSC Donskoy Tabak, a cigarette company in Russia, and making it a subsidiary.

In addition, on November 29, 2018, the Group acquired the tobacco business^(Note 2) of the Akij Group (hereinafter "Akij"), a cigarette company in Bangladesh.

- (Notes)
1. To purchase all of the shares issued of JSC Pereslavl-Tabak and 94.97% of the shares issued of Syneteristiki Kapnoviomihania Ellados Sekap S.A. are included.
 2. The Company acquired all of the shares issued of United Dhaka Tobacco Company Limited to which Akij had transferred assets related to its tobacco business, and also tobacco-related rights of trademarks owned by Akij.

8. Trends in assets and operating results

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

	31st term From January 1, 2015 to December 31, 2015	32nd term From January 1, 2016 to December 31, 2016	33rd term From January 1, 2017 to December 31, 2017	34th term From January 1, 2018 to December 31, 2018
Revenue (Millions of yen)	2,252,884	2,143,287	2,139,653	2,215,962
Profit before income taxes (Millions of yen)	565,113	578,237	538,532	531,486
Profit attributable to owners of the parent company (Millions of yen)	398,454	421,695	392,409	385,677
Basic earnings per share (Yen)	221.95	235.47	219.10	215.31
Total assets (Millions of yen)	4,558,235	4,744,374	5,221,484	5,461,400
Total equity (Millions of yen)	2,521,524	2,528,041	2,842,027	2,700,445

- (Notes)
1. Consolidated financial statements of the JT Group are prepared based on IFRS (for the 34th term, including the impact of IFRS 15 application).
 2. During the 31st term, the Group withdrew from the Beverages Business and this business was categorized as discontinued operations. Accordingly, revenue, profit before income taxes, profit attributable to owners of the parent company, and basic earnings per share in “31st term” are shown for continuing operations.
 3. When including amounts for discontinued operations for the 31st term, profit attributable to owners of the parent company, and basic earnings per share are ¥485,691 million and ¥270.54, respectively.

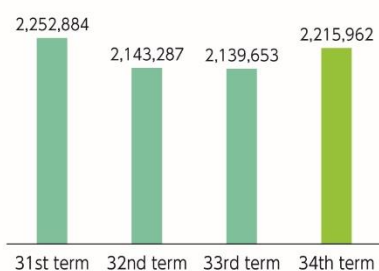
(2) Trends in assets and non-consolidated operating results of JT [Non-consolidated]

	31st term From January 1, 2015 to December 31, 2015	32nd term From January 1, 2016 to December 31, 2016	33rd term From January 1, 2017 to December 31, 2017	34th term From January 1, 2018 to December 31, 2018
Net sales (Millions of yen)	732,483	729,286	681,840	696,250
Ordinary income (Millions of yen)	371,989	203,242	199,336	190,343
Net income (Millions of yen)	345,009	173,607	160,120	164,595
Net income per share (Yen)	192.18	96.94	89.40	91.89
Total assets (Millions of yen)	2,756,785	2,849,913	2,885,760	2,682,344
Net assets (Millions of yen)	1,713,068	1,663,675	1,592,966	1,493,562

(Note) Non-consolidated financial statements of the Company are prepared based on Japanese GAAP.

Trends in assets and operating results of the JT Group [Consolidated]

■ Revenue (unit: JPY million)



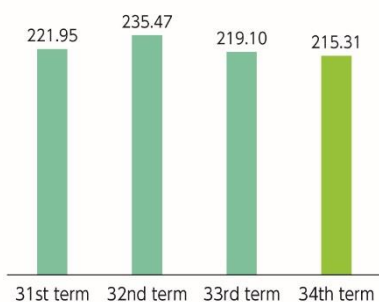
■ Profit before income taxes (unit: JPY million)



■ Profit attributable to owners of the parent company (unit: JPY million)



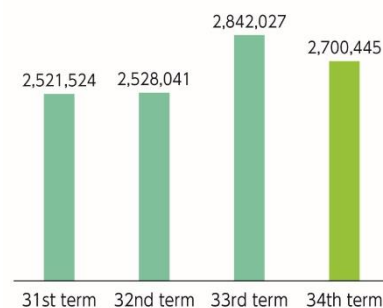
■ Basic earnings per share (unit: JPY)



■ Total assets (unit: JPY million)



■ Total equity (unit: JPY million)



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 responsibilities to our valued consumers, shareholders, employees and the wider society, carefully considering the respective interests of these four key stakeholder groups, and exceeding their expectations wherever we can.

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.

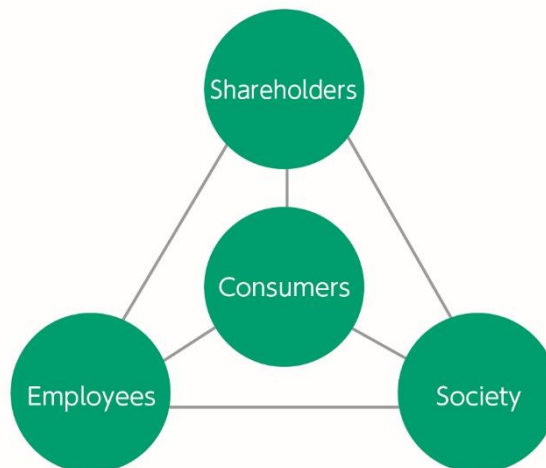
We have also adopted “The JT Group Way” as a code of conduct which all members of the Group should follow. The JT Group Way requires that we fulfill the expectations of our consumers and behave responsibly, strive for quality in everything we do through continuous improvement, and leverage diversity 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.

Management Principles

We strive to fulfill our responsibilities to our valued consumers, shareholders, employees and the wider society, carefully considering the respective interests of these four key stakeholder groups, and exceeding their expectations wherever we can.



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

In view of realizing the Group's long-term vision of becoming a "Company committed to global growth that provides consumers with diversified value available uniquely from JT," the Group intends to carry on strategies that have hitherto been implemented, and believes that in order to take them to a higher level it is necessary to cultivate the ability to respond to change, and that the skill and speed with which the Group responds to such changes will be a crucial factor in determining competitiveness going forward. In addition, we believe that not merely responding passively, we should initiate transformation ourselves, acquiring the ability to generate change and thus making possible sustainable growth in profits over the mid- to long term.

Based on this thinking, the Group formulates its three-year business plan with the aim of renewing it each year on a rolling basis in order to speed up the Group's ability to respond appropriately to unexpected changes.

In the "Business Plan 2019," there is no change in the Group's management resources allocation policy, under which we will continue to place a high priority on making business investments that contribute to sustainable mid- to long-term profit growth as well as on valuing the balance between profit growth through business investments and shareholder returns.

In accordance with the "Business Plan 2019," the Group will continue to pursue mid to high single-digit^(Note 1) annual average growth rate over the mid- to long-term in adjusted operating profit at constant rates of exchange^(Note 2).

With regard to shareholder return policies, the Group will pursue enhanced shareholder returns in proportion to the mid- to long-term profit growth by continually making proactive business investments while maintaining a strong financial base^(Note 3) that enables response to any possible environmental changes.

Specifically, the Group will work toward stable and consistent growth in dividend per share.

Whether to execute the acquisition of treasury shares will be considered in view of factors including the medium-term outlook on business environment and financial positions.

Adopting a stakeholder model, the Group will continue to monitor a trend in shareholder returns of global FMCG^(Note 4) companies which achieve a high-growth business.

*At the Board of Directors meeting held on February 7, 2019, the Company made a resolution to conduct share buybacks of up to 23,000,000 shares or up to ¥50,000,000,000, based on Shareholder Return Policy.

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

Tobacco Business		Grow adjusted operating profit at mid to high single-digit rate per annum over the mid- to long-term as the core business and profit growth engine of the JT Group
	Domestic	Core business that serves as the highly competitive profit generator
	International	Also a core business that serves as the profit growth engine
Pharmaceutical Business		Strive to make stable profit contribution to the JT Group through promotion of R&D on next-generation strategic products and value maximization of each product
Processed Food Business		Aim to contribute to the earnings of the JT Group through mid- to long-term profit growth driven by high-quality expansion in the top line

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. As part of our efforts to strengthen the organizational base in pursuit of these objectives, and in order to link rapidly growing digital technologies such as AI and IoT to the improvement of the Company's competitiveness, we established the Digitalization Office on January 1, 2019.

Based on the "4S" model that forms our management principles, we will pursue high-level, well-balanced stakeholder satisfaction, while also aiming to set up environmental businesses that maintain, going forward, the Group's position as a company that is the preferred choice of society. To this end we established the Sustainability Management Division on January 1, 2019.

The Group recognizes that uncertainties in the business environment in which it operates remain high, due to factors such as global economic trends, foreign exchange risks and international geopolitical risks. In order to overcome this uncertain business environment and operate its global business appropriately the Group will, based on the "4S" model, continue a policy of integrated business investment and adaptability to change and, by changing itself and acquiring the ability to generate change, make possible sustainable growth in profits over the mid- to long term, as well as achieve steady returns to shareholders.

- (Notes)
1. mid to high single-digit: mid to high single-digit-percentage
 2. Adjusted operating profit is calculated by deducting amortization cost of acquired intangibles and adjustment items (income and costs) from operating profit (loss). Adjustment items (income and costs) are impairment losses on goodwill, restructuring income and costs, and other items.
Adjusted operating profit growth rate at constant rates of exchange is a financial measurement that excludes foreign exchange effects by translating and calculating adjusted operating profit for the current fiscal year in the International Tobacco Business using the foreign exchange rates of the previous fiscal year.
 3. As its financial policy, the Group will maintain a strong financial base that secures stability in case of changes in business environment such as economic crises and flexibility enabling expeditious responses to business investment opportunities.
 4. FMCG: Fast Moving Consumer Goods (daily consumer durables)

【Reference】 Our approach to sustainability

JT Group’s sustainability strategy

In order for the Group to achieve sustainable growth, it is essential for our business to contribute to the sustainable development of our society. We maintain on-going dialogues with our stakeholders and work continuously on a variety of sustainability issues to fulfill our responsibilities as a member of our society.

The Group supports the Sustainable Development Goals (SDGs) set out by the United Nations. We would like to contribute to the following goals through our business activities and initiatives.



In 2018, our tobacco business, the group’s core business, launched its sustainability strategy. There are four focus areas with three absolute requirements for sustainability.

Tobacco Business – Sustainability Strategy

4 Focus Areas			
Product and Services	We will be a total tobacco company offering consumers an even greater choice of products by focusing on quality, innovation and reduced risk potential.		
People	We will be the employer of choice by investing in people.		
Supply Chain	We will reduce environmental and social risks, and enable transparent and responsible practices across our supply chain.		
Regulatory Environment and Business Standards	We will ensure the company is included in policymaking leading to fair and balanced regulation and enhance our cooperation with governments to combat illegal trade.		

3 Absolute Requirements		
RESPECT FOR HUMAN RIGHTS	AN IMPROVED SOCIAL AND ENVIRONMENTAL IMPACT	GOOD GOVERNANCE AND BUSINESS STANDARDS
We are committed to respecting human rights across our global operations and value chains, as expressed in our JT Group Human Rights Policy.	We are committed to protecting the environment and making a positive difference wherever we operate.	We are committed to promoting transparent, fair, and timely decision-making that carefully considers the respective interests of consumers, shareholders, employees, and the wider society.

Read more about the four strategic focus areas and the related targets of our tobacco business in the “FY2018 JT Group Sustainability Report”, scheduled for publication at the end of May 2019. Furthermore, our pharmaceutical business and processed food business are both currently formulating their respective sustainability strategy.



JT Group Environment Plan 2030

The JT Group strives to foster a healthy, sustainable and productive environment for future generations by balancing our activities and our relationship with the environment across our value chain and in wider society. We believe that reducing environmental impacts contributes to the sustainable growth of the JT Group, as it results in efficient resource use, improved performance and cost reduction.

In 2014, we established the Environment Long-term Plan 2020, and we have been taking steps to reduce our environmental impacts. Under this long-term plan, we have strengthened our approaches to reducing the environmental impacts across the JT Group, covering all the locations in the Japanese Domestic Tobacco business, the international tobacco business, the pharmaceutical business and processed food business.

Through a number of initiatives, we achieved in 2017 our key target to reduce total Greenhouse Gas (GHG) emissions from our operations by 20%, three years ahead of the schedule. Given this and that we are approaching 2020, the target year of the current plan, we have started to establish “JT Group Environment Plan 2030”, looking beyond 2020.

Based on “JT Group Environment Plan 2030”, which takes account of the social and business environments that have changed dramatically in recent years, we will be addressing environmental issues that may have a long-term impact on the JT Group’s value chain. Specifically, we will set clear objectives and targets for Energy and Emissions, Natural Resources (water and forestry), and Waste.

For detail information, please refer to the “FY2018 JT Group Sustainability Report”, which is scheduled to be published at the end of May 2019.



ENERGY AND EMISSIONS

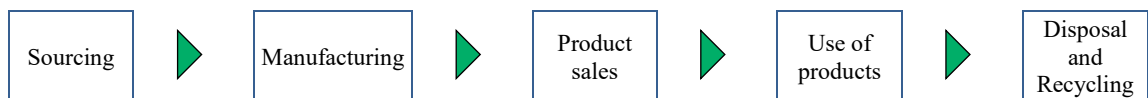


NATURAL RESOURCES



WASTE

The JT Group is working on environmental issues throughout the value chain



▶...Transport

Please visit the Company’s website to find out more about our approach to sustainability.

<https://www.jt.com/sustainability/>

With regard to the Company’s corporate governance, please refer to “【Reference】 Fundamental Policy Concerning Corporate Governance” at the end of the Business Report.

10. Main business contents

Business segment	Main business
Domestic Tobacco Business	Manufacture and sale of tobacco products, mainly Mevius and Seven Stars
International Tobacco Business	Manufacture and sale of tobacco products, mainly Winston and Camel
Pharmaceutical Business	Research and development, manufacture and sale of prescription drugs
Processed Food Business	Manufacture and sale of frozen and ambient 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	88.9	Manufacture and sale of filters for tobacco products
JT International S.A.	(Thousands of CHF) 1,215,425	(100.0)	Manufacture and sale of tobacco products
Gallaher Ltd.	(Thousands of GBP) 172,495	(100.0)	Manufacture and sale of tobacco products
Torii Pharmaceutical Co., Ltd.	(Millions of yen) 5,190	53.5	Manufacture and sale of prescription drugs
TableMark Co., Ltd.	(Millions of yen) 22,500	(100.0)	Manufacture and sale of processed foods

- (Notes)
1. Figures in parentheses in the “Equity ownership” column indicate indirect holding rates.
 2. There were 224 consolidated subsidiaries in this fiscal year, including 6 above-mentioned important subsidiaries, as well as 11 affiliates accounted for by the equity method. In addition, consolidated revenue for the fiscal year ended December 31, 2018 amounted to ¥2,216.0 billion with profit attributable to owners of the parent company at ¥385.7 billion.
 3. On the last day of the fiscal year ended December 31, 2018, there were no specified wholly owned subsidiaries as stipulated in Article 118, item 4 of the Regulation for Enforcement of the Companies Act.

12. Major lenders

Lender	Outstanding balance (Millions of yen)
Syndicated loan	57,150 (EUR 450 million)
The Norinchukin Bank	40,000
Shinkin Central Bank	30,000

(Note) The syndicated loan to the Company's overseas subsidiary JT International Holding B.V., a borrower, was financed jointly by four banks, with UNICREDIT BANK AG acting as the arranger and agent.

13. Major sales offices and factories

(1) JT

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

Regional sales headquarters:

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

Factories: Kita-Kanto (Tochigi), Tokai (Shizuoka), Kansai (Kyoto), Kyushu (Fukuoka), and Tomobe (Ibaraki)

Laboratories: Tobacco Science Research Center (Kanagawa), Leaf Tobacco Research Center (Tochigi), 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)
TableMark Co., Ltd. (Tokyo)

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

14. Status of employees

(1) Employees of the JT Group [Consolidated]

Business segment	Number of employees (Person)
Domestic Tobacco Business	10,566
International Tobacco Business	45,319
Pharmaceutical Business	1,877
Processed Food Business	5,303
Common company-wide services within JT	903
Total	63,968

- (Notes) 1. The above number of employees indicates the number of working employees.
2. The number of employees has increased by 6,005 people compared to the end of the previous fiscal year, but this is due mainly to acquisition of the tobacco business of the Akij Group.

(2) Employees of JT [Non-consolidated]

Male/Female	Number of employees (Person)	Year-on-year increase (decrease) (Person)	Average age (Year old)	Average years of service (Year)
Male	6,312	71	43.7	19.4
Female	1,145	50	36.9	12.0
Total or average	7,457	121	42.7	18.3

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

II. Matters Concerning Shares of JT

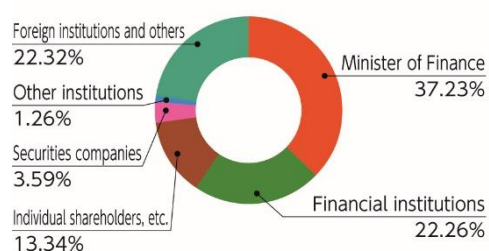
1. Total number of shares authorized: 8,000,000,000 shares

2. Total number of shares issued: 2,000,000,000 shares

(Including treasury shares 208,576,641 shares)

3. Number of shareholders: 394,994

Composition of shareholders (Deducting treasury shares)



4. Major shareholders

Name of shareholders	Number of shares held (Share)	Equity ownership (%)
Minister of Finance	666,926,200	37.23
Master Trust Bank of Japan, Ltd. (Trust Account)	91,137,400	5.09
Japan Trustee Services Bank, Ltd. (Trust Account)	68,848,700	3.84
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	23,660,000	1.32
State Street Bank and Trust Company 505223	23,351,971	1.30
Japan Trustee Services Bank, Ltd. (Trust Account 5)	22,744,400	1.27
SSBTC Client Omnibus Account	22,178,610	1.24
Japan Trustee Services Bank, Ltd. (Trust Account 9)	21,978,900	1.23
State Street Bank West Client - Treaty 505234	20,542,232	1.15
JPMorgan Chase Bank 385151	20,367,542	1.14

(Note) Equity ownership is calculated after deducting treasury shares (208,576,641 shares).

5. Other significant matters concerning shares

At the Board of Directors meeting held on February 7, 2019, the Company made a resolution to conduct share buybacks of up to 23,000,000 shares or up to ¥50,000,000,000, based on Shareholder Return Policy.

III. Matters Concerning Subscription Rights to Shares

1. Total number and others of subscription rights to shares as of December 31, 2018

(1) Total number of subscription rights to shares:

4,147 units

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

Ordinary shares 829,400 shares

(200 shares per subscription right to shares)

2. Status of subscription rights to shares held by Members of the Board and Audit & Supervisory Board Members of JT as of December 31, 2018

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

Ordinary shares 237,200 shares

(200 shares per subscription right to shares)

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

¥1 per share

(3) Assignment of subscription rights to shares

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

(4) Conditions for exercising subscription rights to shares

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

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

Year granted	Payment due upon allotment of subscription rights to shares	Exercise period of subscription rights to shares	Members of the Board		Audit & Supervisory Board Members	
			Number of units	Number of shareholders	Number of units	Number of shareholders
FY2007	¥581,269 per unit	From January 9, 2008 to January 8, 2038	16	1	-	-
FY2008	¥285,904 per unit	From October 7, 2008 to October 6, 2038	18	1	15	1
FY2009	¥197,517 per unit	From October 14, 2009 to October 13, 2039	40	1	36	1
FY2010	¥198,386 per unit	From October 5, 2010 to October 4, 2040	42	1	30	1
FY2011	¥277,947 per unit	From October 4, 2011 to October 3, 2041	9	1	32	1
FY2012	¥320,000 per unit	From October 10, 2012 to October 9, 2042	50	3	23	1
FY2013	¥513,400 per unit	From October 8, 2013 to October 7, 2043	49	3	14	1
FY2014	¥483,200 per unit	From October 7, 2014 to October 6, 2044	63	4	8	1
FY2015	¥711,200 per unit	From August 4, 2015 to August 3, 2045	106	4	17	1
FY2016	¥572,600 per unit	From July 5, 2016 to July 4, 2046	96	4	13	1
FY2017	¥482,200 per unit	From July 4, 2017 to July 3, 2047	144	4	21	1
FY2018	¥300,000 per unit	From July 3, 2018 to July 2, 2048	344	5	-	-

- (Notes)
1. Outside Directors are not included in the above category of “Members of the Board.”
 2. The subscription rights to shares owned by an Audit & Supervisory Board Member are those that were granted to the individual while he was serving as an Executive Officer (*sikkoyakuin*).

3. Status of subscription rights to shares granted to employees of JT from January 1, 2018 to December 31, 2018

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

Ordinary shares 109,400 shares
(200 shares per subscription right to shares)

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

¥300,000 per unit

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

¥1 per share

(4) Exercise period of subscription rights to shares:

From July 3, 2018 to July 2, 2048

(5) Assignment of subscription rights to shares

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

(6) Conditions for exercising subscription rights to shares

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

(7) Status of granting to employees of JT

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

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

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

Position	Name	Responsibility	Significant concurrent positions outside the Company
Chairman of the Board	Yasutake Tango		The Ogaki Kyoritsu Bank, Ltd. Outside Director
*Representative Director and President	Masamichi Terabatake	Chief Executive Officer	
Representative Director and Executive Vice President	Mutsuo Iwai	President, Tobacco Business	JT International Group Holding B.V. Chairman and Managing Director
*Representative Director and Executive Vice President	Naohiro Minami	Chief Finance Officer and Communications	JT International Holding B.V. Supervisory Board member
*Representative Director and Executive Vice President	Kiyohide Hirowatari	Compliance, General Affairs, Legal, Corporate Strategy, IT, CSR, Human Resources and Operation Review & Business Assurance	
Member of the Board	Main Kohda		Novelist LIXIL Group Corporation Outside Director Japan Exchange Group, Inc. Outside Director MITSUBISHI MOTORS CORPORATION Outside Member of the Board
*Member of the Board	Koichiro Watanabe		Dai-ichi Life Holdings, Inc. Representative Director and Chairman of the Board The Dai-ichi Life Insurance Company, Limited Representative Director and Chairman of the Board
*Standing Audit & Supervisory Board Member	Ryoko Nagata		
Standing Audit & Supervisory Board Member	Tomotaka Kojima		
Audit & Supervisory Board Member	Yoshinori Imai		

Position	Name	Responsibility	Significant concurrent positions outside the Company
Audit & Supervisory Board Member	Hiroshi Obayashi		Obayashi Law Office Attorney at Law Daiwa Securities Co., Ltd. Outside Audit & Supervisory Board Member Mitsubishi Electric Corporation Outside Director NIPPON STEEL & SUMITOMO METAL CORPORATION Outside Audit & Supervisory Board Member

- (Notes)
- Members of the Board Main Kohda and Koichiro Watanabe are Outside Directors.
 - Audit & Supervisory Board Members Yoshinori Imai and Hiroshi Obayashi are Outside Audit & Supervisory Board Members.
 - Members of the Board, Main Kohda and Koichiro Watanabe, and Audit & Supervisory Board Members, Yoshinori Imai and Hiroshi Obayashi, were designated as independent officers (directors and auditors) as prescribed by the Tokyo Stock Exchange, Inc.
 - Audit & Supervisory Board Member Tomotaka Kojima has relevant knowledge about financing and accounting as he was Deputy Head of Finance Group of JT.
 - The Members of the Board and Audit & Supervisory Board Member denoted with the asterisk * assumed their office on March 27, 2018.
 - Representative Director Mitsuomi Koizumi, and Members of the Board Yasushi Shingai, Hideki Miyazaki and Motoyuki Oka resigned on March 27, 2018.
 - Standing Audit & Supervisory Board Member Futoshi Nakamura resigned on March 27, 2018.
 - The Company has entered into agreements with each of its Members of the Board (excluding those are Executive Directors, etc.) and 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.
 - Changes in the responsibilities etc. of Officers after the end of the current fiscal year

Name	Positions and responsibilities in the Company, and significant concurrent positions outside the Company	
	As of December 31, 2018	As of January 1, 2019
Kiyohide Hirowatari	Representative Director and Executive Vice President Compliance, General Affairs, Legal, Corporate Strategy, IT, CSR, Human Resources and Operation Review & Business Assurance	Representative Director and Executive Vice President Legal, Corporate Strategy, Digitalization, Human Resources, Operation Review & Business Assurance, Pharmaceutical Business and Food Business

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

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

Category	Members of the Board		Audit & Supervisory Board Members		Total	
	Number to be paid (Person)	Amount to be paid (Millions of yen)	Number to be paid (Person)	Amount to be paid (Millions of yen)	Number to be paid (Person)	Amount to be paid (Millions of yen)
Basic remuneration	11	408	5	125	16	533
Officers' bonus	4	176	-	-	4	176
Stock option grants	8	109	-	-	8	109
Total	-	693	-	125	-	818

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

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

Outside members of Compensation Advisory Panel

Outside Director Main Kohda

Outside Director Koichiro Watanabe

Outside Audit & Supervisory Board Member

Outside Audit & Supervisory Board Member

Yoshinori Imai

Hiroshi Obayashi

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

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

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

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

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

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

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

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

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

The amounts of remunerations for Members of the Board are determined by resolution of the Board of Directors 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, whose size and profits are at similar levels to those of the Company, are undertaken based on third-party research into remuneration for corporate executives. The amounts of remunerations for Audit & Supervisory Board Members are benchmarked in the same way, and determined through discussions among Audit & Supervisory Board Members, within the approved upper limits.

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

(1) Significant concurrent positions outside the Company

Category	Name	Organizations where concurrent positions are held	Position
Member of the Board	Main Kohda	Novelist	
		LIXIL Group Corporation	Outside Director
		Japan Exchange Group, Inc.	Outside Director
		MITSUBISHI MOTORS CORPORATION	Outside Member of the Board
	Koichiro Watanabe	Dai-ichi Life Holdings, Inc.	Representative Director and Chairman of the Board
		The Dai-ichi Life Insurance Company, Limited	Representative Director and Chairman of the Board
Audit & Supervisory Board Member	Hiroshi Obayashi	Obayashi Law Office	Attorney at Law
		Daiwa Securities Co., Ltd.	Outside Audit & Supervisory Board Member
		Mitsubishi Electric Corporation	Outside Director
		NIPPON STEEL & SUMITOMO METAL CORPORATION	Outside Audit & Supervisory Board Member

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

(2) Major activities during this fiscal year

Category	Name	Status of main activities
Member of the Board	Main Kohda	Attended all 15 Board of Directors meetings held during this fiscal year. Ms. Kohda asked questions and made remarks where necessary at these meetings, as a Member of the Board.
	Koichiro Watanabe	Attended all 10 Board of Directors meetings held during this fiscal year since he assumed office on March 27, 2018. Mr. Watanabe asked questions and made remarks where necessary at these meetings, as a Member of the Board.
Audit & Supervisory Board Member	Yoshinori Imai	Attended 14 out of 15 Board of Directors meetings, as well as 12 out of 13 meetings of the Audit & Supervisory Board held during this fiscal year. Mr. Imai asked questions and made remarks where necessary at these meetings, as an Audit & Supervisory Board Member.
	Hiroshi Obayashi	Attended all 15 Board of Directors meetings, as well as all 13 meetings of the Audit & Supervisory Board, held during this fiscal year. Mr. Obayashi asked questions and made remarks where necessary at these meetings, as an Audit & Supervisory Board Member.

(3) 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	3	38	2	31	5	70

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: ¥330 million

ii) Fees for tasks other than audit attestation based on Article 2, paragraph 1 of the Certified Public Accountants Act: ¥81 million

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

¥543 million

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

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

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

- (Notes)
1. Fees paid under the terms of the audit contract concluded between Deloitte Touche Tohmatsu LLC and JT in relation to audit attestation based on the Companies Act and the Financial Instruments and Exchange Act are not clearly classified, and since they cannot be effectively classified, their total is indicated in the amount in "i)" above.
 2. JT retains 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 advisory services relating to sustainability management and the issuance of the comfort letter in relation to the bond issuing, and for which a consideration is paid to the same.
 3. Among the important subsidiaries of JT, JT International S.A. and Gallaher Ltd. are audited by Deloitte & Touche LLP. None of these subsidiaries are audited by Deloitte Touche Tohmatsu LLC, the Independent Auditor of JT.

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

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

[Reference] Corporate Governance

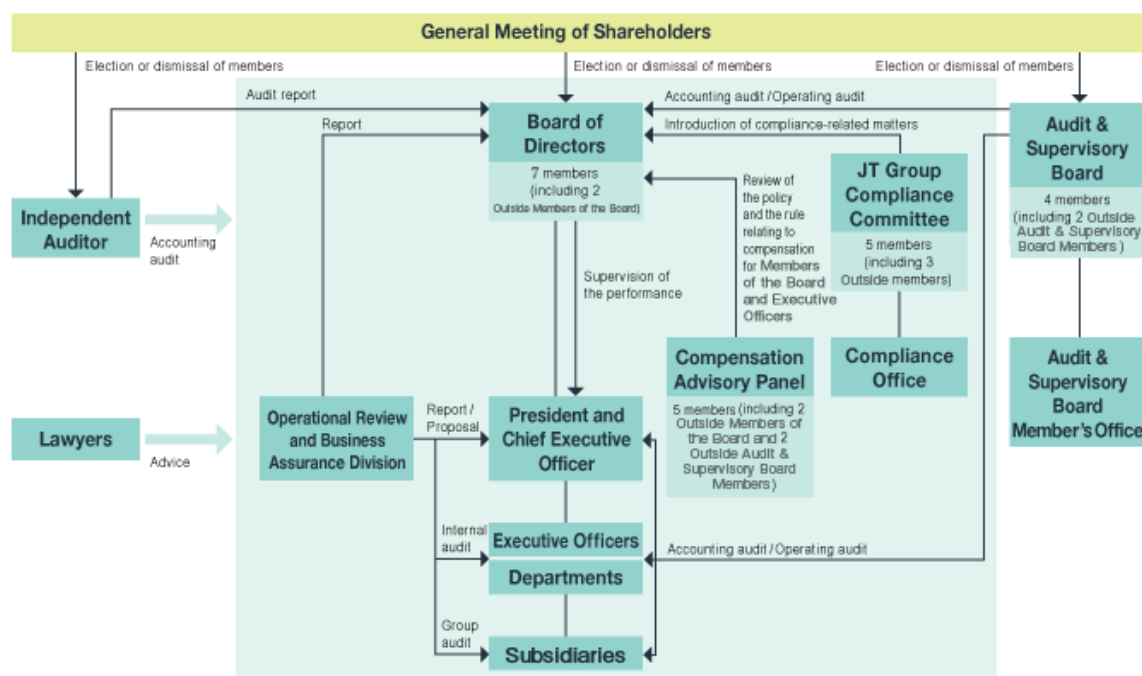
Fundamental Policy Concerning Corporate Governance

We have enhanced our corporate governance, based on our belief that it is the means for conducting transparent, fair, timely and decisive decision-making for pursuing JT's management principle, the "4S model." Specifically the 4S model aims "to fulfill our responsibilities to our valued consumers, shareholders, employees and the wider society, carefully considering the respective interests of these four key stakeholder groups, and exceeding their expectations wherever we can."

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

"JT Corporate Governance Policies" is posted on our website (<https://www.jti.co.jp/>).

JT's Corporate Governance System (as of December 31, 2018)



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

Overview of the Board of Directors, Audit & Supervisory Board, and Committees

■ The Board of Directors

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

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

It is currently composed of seven (7) Members of the Board (including two (2) Outside Directors). Conditional on approval by this Ordinary General Meeting of Shareholders, in future it is planned that it be composed of nine (9) Members of the Board (including three (3) Outside Directors).

In year ended December 31, 2018, we had 15 board meetings to discuss important issues including the management plan.

■ The Audit & Supervisory Board

The Audit & Supervisory Board shall be composed of persons with proven experience in business, law, financial affairs and accounting, etc. Audit & Supervisory Board Members, in addition to participating in the Board of Directors meetings and other important meetings and making remarks as an independent body mandated by the shareholders, shall actively exercise his/her authority such as by proactively inspecting business bases, etc., as well as appropriately conduct an audit from an objective position corresponding to the nature of duties of independent outside Audit & Supervisory Board Members or standing Audit & Supervisory Board Members. It is currently composed of four (4) Audit & Supervisory Board Members (including two (2) Outside Audit & Supervisory Board Members). Conditional on approval by this Ordinary General Meeting of Shareholders, in future it is planned that it be composed of five (5) Audit & Supervisory Board Members (including three (3) Outside Audit & Supervisory Board Members).

In year ended December 31, 2018, we had 13 board meetings to discuss issues including the auditing policies and preparing of Audit Report.

■ Compensation Advisory Panel

The Company has established the Compensation Advisory Panel as an optional advisory body to the Board of Directors with the aims of enhancing the objectivity and transparency regarding the remuneration of Members of the Board and Audit & Supervisory Board Members. The Compensation Advisory Panel consists of the Chairman of the Board and four (4) Outside Directors and Outside Audit & Supervisory Board Members (including two (2) Outside Directors and two (2) Outside Audit & Supervisory Board Members). (For details, please refer to IV. Matters Concerning Members of the Board and Audit & Supervisory Board Members of JT, 2. Remunerations for Members of the Board and Audit & Supervisory Board Members, (2) in the Business Report of this notice.)

In year ended December 31, 2018, we had 2 meetings to discuss issues including the level of the remuneration of Members of the Board and Audit & Supervisory Board Members.

In addition, at the Meeting for Talent Development, which is also attended by independent outside Members of the Board, the Company formulates and implements successor plans for the CEO and others, and works to expand a diverse group of executive candidates. Looking forward, the Company will consider merging the functions of this Meeting for Talent Development and the Compensation Advisory Panel to newly establish a Personnel and Compensation Advisory Panel as a voluntary advisory panel to the Board of Directors comprised mainly of independent outside Members of the Board.

■ JT Group Compliance Committee

As part of the Company's efforts to ensure that compliance is practiced fairly and effectively, it has established the JT Group Compliance Committee. The JT Group Compliance Committee is headed by the Chairman of the Board, with the majority of the members consisting of external members.

In year ended December 31, 2018, we met 3 times to discuss initiatives, etc. to further strengthen compliance. Its conclusions have been reflected in the Compliance Plan for FY2019.

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

Consolidated Statement of Financial Position

(As of December 31, 2018)

(Millions of yen)

Account title	Amount	Account title	Amount
Current assets		Current liabilities	
Cash and cash equivalents	282,063	Trade and other payables	380,516
Trade and other receivables	456,591	Bonds and borrowings	250,466
Inventories	649,238	Income tax payables	72,449
Other financial assets	35,633	Other financial liabilities	4,486
Other current assets	385,872	Provisions	6,078
Subtotal	1,809,396	Other current liabilities	716,190
Non-current assets held-for-sale	10	Total current liabilities	1,430,185
Total current assets	1,809,406		
		Non-current liabilities	
Non-current assets		Bonds and borrowings	727,314
Property, plant and equipment	758,841	Other financial liabilities	10,067
Goodwill	2,008,416	Retirement benefit liabilities	321,838
Intangible assets	503,076	Provisions	3,780
Investment property	17,558	Other non-current liabilities	179,274
Retirement benefit assets	57,140	Deferred tax liabilities	88,497
Investments accounted for using the equity method	66,807	Total non-current liabilities	1,330,770
Other financial assets	115,046		
Deferred tax assets	125,109	Total liabilities	2,760,955
Total non-current assets	3,651,993		
		Equity	
		Share capital	100,000
		Capital surplus	736,400
		Treasury shares	(442,829)
		Other components of equity	(423,357)
		Retained earnings	2,660,381
		Equity attributable to owners of the parent company	2,630,594
		Non-controlling interests	69,851
		Total equity	2,700,445
Total assets	5,461,400	Total liabilities and equity	5,461,400

Consolidated Statement of Income

(Year ended December 31, 2018)

(Millions of yen)

Account title	Amount
Revenue	2,215,962
Cost of sales	(933,034)
Gross profit	1,282,928
Other operating income	48,532
Share of profit in investments accounted for using the equity method	3,931
Selling, general and administrative expenses	(770,407)
Operating profit	564,984
Financial income	5,754
Financial costs	(39,252)
Profit before income taxes	531,486
Income taxes	(144,055)
Profit for the period	387,431
Attributable to:	
Owners of the parent company	385,677
Non-controlling interests	1,755

Nonconsolidated Balance Sheet

(As of December 31, 2018)

(Millions of yen)

Account title	Amount	Account title	Amount
ASSETS		LIABILITIES	
Current assets	432,963	Current liabilities	593,441
Cash and deposits	106,089	Accounts payable–trade	9,806
Accounts receivable–trade	54,296	Lease obligations	3,085
Securities	39,800	Accounts payable–other	62,403
Merchandise and finished goods	33,304	National tobacco excise taxes payable	74,403
Semi-finished goods	61,625	National tobacco special excise taxes payable	10,562
Work in process	2,294	Local tobacco excise taxes payable	85,145
Raw materials and supplies	43,226	Income taxes payable	39,364
Advance payments–trade	2,667	Accrued consumption taxes	23,790
Prepaid expenses	9,742	Cash management system deposits received	250,231
Deferred tax assets	13,657	Provision for bonuses	5,675
Short-term loans receivable from subsidiaries and affiliates	46,357	Other	28,976
Other	19,931	Noncurrent liabilities	595,341
Allowance for doubtful accounts	(26)	Bonds payable	373,692
Noncurrent assets	2,249,380	Long-term loans payable	70,000
Property, plant and equipment	262,466	Lease obligations	4,874
Buildings	86,012	Provision for retirement benefits	131,041
Structures	2,740	Deferred tax liabilities	11,460
Machinery and equipment	69,652	Other	4,274
Vehicles	1,387	Total liabilities	1,188,782
Tools, furniture and fixtures	17,412	NET ASSETS	
Land	71,394	Shareholders' equity	1,461,323
Construction in progress	13,869	Capital stock	100,000
Intangible assets	388,684	Capital surplus	736,400
Patent right	243	Legal capital surplus	736,400
Right of trademark	115,732	Retained earnings	1,067,752
Software	20,231	Legal retained earnings	18,776
Goodwill	250,397	Other retained earnings	1,048,976
Other	2,082	Reserve for investment loss on developing new business	287
Investments and other assets	1,598,230	Reserve for reduction entry	41,753
Investment securities	54,855	Special account for reduction entry	10,179
Shares of subsidiaries and affiliates	1,504,796	Retained earnings brought forward	996,757
Long-term loans receivable from subsidiaries and affiliates	19,215	Treasury shares	(442,829)
Long-term prepaid expenses	9,888	Valuation and translation adjustments	30,693
Other	9,708	Valuation difference on available-for-sale securities	25,815
Allowance for doubtful accounts	(232)	Deferred gains or losses on hedges	4,877
Total assets	2,682,344	Subscription rights to shares	1,547
		Total net assets	1,493,562
		Total liabilities and net assets	2,682,344

Nonconsolidated Statement of Income

(Year ended December 31, 2018)

(Millions of yen)

Account title	Amount	
Net sales		696,250
Cost of sales		192,604
Gross profit		503,646
Selling, general and administrative expenses		348,375
Operating income		155,271
Non-operating income		
Interest income	502	
Dividends income	36,387	
Other	6,478	43,366
Non-operating expenses		
Interest expenses	846	
Interest on bonds	4,344	
Other	3,103	8,294
Ordinary income		190,343
Extraordinary income		
Gain on sales of noncurrent assets	38,607	
Other	1,106	39,714
Extraordinary losses		
Loss on sales of noncurrent assets	247	
Loss on retirement of noncurrent assets	6,750	
Impairment loss	746	
Other	1,215	8,958
Income before income taxes		221,098
Income taxes—current	59,263	
Income taxes—deferred	(2,760)	56,503
Net income		164,595

(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

February 8, 2019

To the Board of Directors of
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Masahiko Tezuka (Seal)

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Yasuhiko Haga (Seal)

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Yoichi Matsushita (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, 2018 of Japan Tobacco Inc. and its consolidated subsidiaries, and the related consolidated statements of income and changes in equity for the fiscal year from January 1, 2018 to December 31, 2018, 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, 2018, and the results of their operations for the year then ended.

Interest

Our firm and the engagement partners do not have any interest in Japan Tobacco Inc. 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 8, 2019

To the Board of Directors of
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Masahiko Tezuka (Seal)

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Yasuhiko Haga (Seal)

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Yoichi Matsushita (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, 2018 of Japan Tobacco Inc. and the related nonconsolidated statements of income and changes in net assets for the 34th fiscal year from January 1, 2018 to December 31, 2018, 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, 2018, and the results of its operations for the year then ended in accordance with accounting principles generally accepted in Japan.

Interest

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

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

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

Audit Report of the Audit & Supervisory Board

AUDIT REPORT

Regarding the performance of duties by the Members of the Board for the 34th fiscal year from January 1, 2018 to December 31, 2018, the Audit & Supervisory Board hereby submits its audit report, which has been prepared through discussions based on the audit report prepared by each Audit & Supervisory Board Member.

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

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

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

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

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

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

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

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

2. Audit Results

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

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

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

In our opinion, the methods and results employed and rendered by the Independent 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 14, 2019

The Audit & Supervisory Board, Japan Tobacco Inc.

Standing Audit & Supervisory Board Member	Ryoko Nagata	(seal)
Standing Audit & Supervisory Board Member	Tomotaka Kojima	(seal)
Audit & Supervisory Board Member	Yoshinori Imai	(seal)
Audit & Supervisory Board Member	Hiroshi Obayashi	(seal)

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