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

Securities Code: 2914
May 30, 2013

To Our Shareholders

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

NOTICE OF CONVOCATION OF THE 28TH ORDINARY GENERAL MEETING OF SHAREHOLDERS

You are cordially invited to attend the 28th ordinary general meeting of shareholders of Japan Tobacco Inc. ("JT" or the "Company") to be held as set forth below.

If you cannot attend the meeting, you may exercise your voting rights in written form or by electromagnetic means including the Internet. Please see the "Reference Documents for the General Meeting of Shareholders" hereinafter described and exercise your voting rights by 6:00 p.m., on Thursday, June 20, 2013, by returning to us by that time the Voting Rights Exercise Form enclosed herewith indicating whether you are for or against each of the items, or by accessing the web-site designated by us for the exercise of voting rights (http://www.evote.jp/).

Particulars

1. **Date and Time of the Meeting:** Friday, June 21, 2013, at 10:00 a.m.
2. **Place of the Meeting:** Tokyo Prince Hotel
   3-1, Shibakoen 3-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 Accounting Auditors' Report and JT's Board of Company Auditors Report on the Consolidated Financial Statements for the 28th Business Term (From April 1, 2012 to March 31, 2013)
2. Report on the Non-Consolidated Financial Statements for the 28th Business Term (From April 1, 2012 to March 31, 2013)

Matters to be Resolved:

Company's Proposals (Item 1 to Item 3)
Item 1: Distribution of Surplus
Item 2: Election of One (1) Director
Item 3: Election of One (1) Company Auditor
Shareholder's Proposals (Item 4 to Item 7)
Item 4: Dividend Proposal
Item 5: Share Buy-back
Item 6: Partial Amendments to the Articles of Incorporation
Item 7: Cancellation of All Existing Treasury Shares

4. Other Decisions on the Convocation of the Meeting

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

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

Instructions for Exercising Your Voting Rights

1.There are three methods to exercise the voting rights: by attending the meeting, by post, and via the Internet. Please see the next page for further details about how to exercise the voting rights.

2. JT participates in the electromagnetic voting rights exercise system (Voting Rights Exercise Platform) operated and administered by ICJ, Inc.

Information on Matters Posted on JT's Web-site

1. Notes to Consolidated and Non-Consolidated Financial Statements are posted on our web-site (http://www.jti.co.jp/) in accordance with laws and regulations, and the provision in Article 17 of the Articles of Incorporation. Therefore, they are not included in this Notice of Convocation of the 28th Ordinary General Meeting of Shareholders.

   In addition to documents stated in the reference documents attached to the Notice of Convocation of the 28th Ordinary General Meeting of Shareholders, Notes to Consolidated and Non-Consolidated Financial Statements posted on the Company's web-site are included in Consolidated and Non-Consolidated Financial Statements audited by Company Auditors and the Accounting Auditors in the course of preparing Audit Report and Accounting Auditors' Report respectively.

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

JT's web-site ▶	http://www.jti.co.jp

* For those attending, please bring this Notice of Convocation of the 28th Ordinary General Meeting of Shareholders with you.
* When an agent attends the meeting, please present a proxy together with the Voting Rights Exercise Form at the reception desk on arrival at the meeting.
Only one other shareholder who can exercise the voting rights at the 28th 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 without an interpreter.

Detailed Instructions for Exercising Your Voting Rights

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

Relation between Item 1, company's proposal, and Item 4, shareholder's proposal
Item 4 "Dividend Proposal," which is a shareholder's proposal, is a counter proposal against Item 1 "Distribution of Surplus," which is the Company's proposal. Therefore, Item 1 and Item 4 are incompatible. Accordingly, please note that, in cases where you exercise your voting rights to vote for both Item 1 and Item 4 in written form or by electromagnetic means, the exercise of the voting rights concerning Item 1 and Item 4 will be invalid.

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

A.	When attending the meeting	Please present the Voting Rights Exercise Form at the reception desk on arrival at the meeting. (Not required to place a seal.)
B.	When exercising the Voting Rights by post	Please post the Voting Rights Exercise Form indicating whether you are for or against each of the items so as to be returned to us by 6:00 p.m., on Thursday, June 20, 2013.
C.	When exercising the Voting Rights via the Internet	See the next page.

Instructions for Exercise of the Voting Rights via the Internet

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

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

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

Particulars

1. Voting Rights Exercise Web-site

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

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

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

(3) The exercise of the voting rights via the Internet is only available by 6:00 p.m. on Thursday, June 20, 2013. We appreciate it if you exercise your voting rights at your earliest convenience.

2. Exercise of the Voting Rights via the Internet

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

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

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

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

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

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

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

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

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

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

REFERENCE DOCUMENTS
FOR THE GENERAL MEETING OF SHAREHOLDERS

Company's Proposals (Item 1 to Item 3)

<u>Company's Proposal</u>

Item 1: Distribution of Surplus

The year-end dividends on shares of Common Stock for the 28th Business Term are proposed to be paid with a consolidated dividend payout ratio at 37.6% exceeding the target of 35.9%, which was announced as a target at the beginning of the term, on the following terms.

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

Cash

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

¥38 per share of Common Stock of JT — Aggregate amount: ¥69,064,616,200

Together with the interim dividends of ¥30 per share paid in November 2012, the annual dividends for the 28th Business Term will be ¥68 per share.

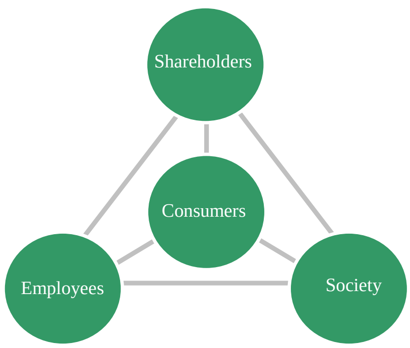
(3) Effective date for distribution of surplus:

June 24, 2013

Reference: JT's basic view on allocation of management resources

The Company prioritizes business investments for sustainable future profit growth in the medium- and long-term, in line with these management principles, and seeks to improve the attractiveness of our shareholder returns at the same time by benchmarking global FMCG (*1) companies in a variety of sectors.

In the Business Plan 2013, the Company set out targets for the adjusted EBITDA (*2) growth rate (at constant rates of exchange) and the consolidated dividend payout ratio as follows. Further, we set the adjusted EPS (*3) growth rate (at constant rates of exchange) as the key performance indicator regarding our shareholder return.



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

Group Profit Target

Adjusted EBITDA Growth Rate (at constant rates of exchange)	Mid to high single-digit (*4) growth per annum over the medium- to long-term 6.1% growth for the fiscal year 2013 against the fiscal year 2012

Shareholder Return

Consolidated Dividend Payout Ratio	40% for the fiscal year 2013, then aiming to reach 50% for the fiscal year 2015
Adjusted EPS Growth Rate (at constant rates of exchange)	High single-digit (*5) growth per annum in the medium- to long-term

*1 FMCG: Fast Moving Consumer Goods

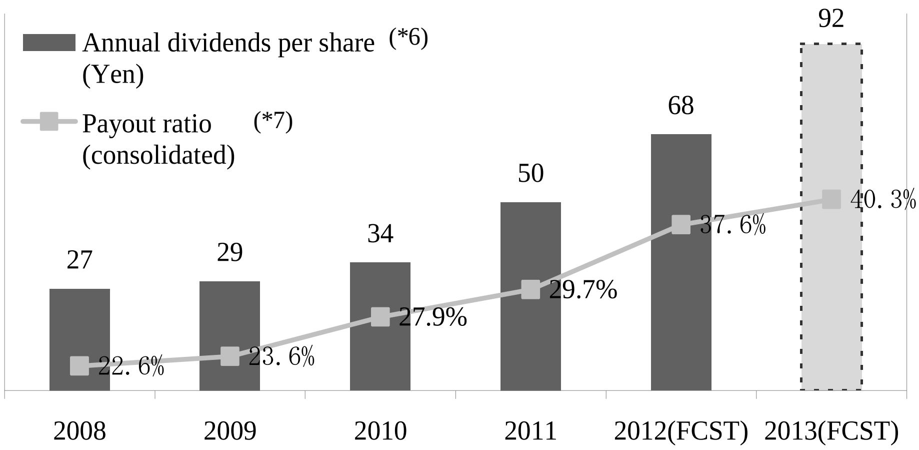
2 Adjusted EBITDA = Operating profit + depreciation and amortization ± adjustment items (income and costs)
*Adjustment items (income and costs): Impairment losses on goodwill ± restructuring income and costs ± others

3 Adjusted EPS = (Profit or loss attributable to owners of the parent company ± adjustment items (income and costs) ± tax and minority interests adjustments) / (weighted-average common shares + increased number of ordinary shares under subscription rights to shares)
*Adjustment items (income and costs): Impairment losses on goodwill ± restructuring income and costs ± others

*4 mid to high single-digit: mid to high single-digit-percentage

*5 high single-digit: high single-digit-percentage

Reference: Dividend payment and dividend payout ratio



*6 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.

*7 Consolidated dividend payout ratio for the fiscal year ended March 31, 2011 and prior fiscal years are calculated in Japanese GAAP based on earning before goodwill amortization. the fiscal year ended March 31, 2012 and fiscal years thereafter are calculated in IFRS.

<u>Company's Proposal</u>

Item 2: Election of One (1) Director

Director Mr. Mutsuo Iwai will resign at the conclusion of this ordinary general meeting of shareholders. Accordingly, the election of one (1) Director as his replacement is proposed.

The candidate for the office of Director is as follows:

Name (Date of Birth)	Brief Personal History, Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company			Number of the Company's Shares Held
Masamichi Terabatake (November 26, 1965)	Apr. Jul. Jul. Jun. Jun.	1989 2005 2008 2011 2012	Joined the Company General Manager, Secretary Vice President of Corporate Planning Division Senior Vice President, Chief Strategy Officer and Assistant to CEO in Food Business Senior Vice President, and Chief Strategy Officer (Current Position)	3,300

(Notes) 1. No conflict of interest exists between the Company and the above candidate.
2. The above candidate will retire from his position as Senior Vice President of the Company on May 31, 2013 and will assume the office of Executive Vice President of JT International S.A.on June 1, 2013.

<u>Company's Proposal</u>

Item 3: Election of One (1) Company Auditor

Auditor Mr. Hisao Tateishi will resign at the conclusion of this ordinary general meeting of shareholders. Accordingly, the election of one (1) Company Auditor as his replacement is proposed.

The Board of Company Auditors has approved this proposition.

The candidate for the office of Company Auditor is as follows:

Name (Date of Birth)	Brief Personal History, Positions in the Company, and Significant Concurrent Positions outside the Company	Number of the Company's Shares Held
Tomotaka Kojima (December 19, 1953)	Apr. 1976 Entered Ministry of Finance Jul. 2000 Director-General of the Fukuoka Local Finance Branch Bureau Jul. 2002 Deputy Head of Finance Group of the Company Jul. 2004 Deputy Director-General of Employee Welfare Bureau, General Secretariat, National Personnel Authority Apr. 2007 Deputy Director-General of General Secretariat, National Personnel Authority Jan. 2008 Director-General of Equity and Investigation Bureau, General Secretariat, National Personnel Authority Aug. 2009 Commissioner, National Hospital Organization. Nov. 2010 Executive Secretary, Japan Association of Corporate Directors (Current Position)	0

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

Shareholder's Proposals (Item 4 to Item 7)

The proposals from Item 4 to Item 7 were made by a shareholder.

<u>The Board of Directors' general view on the shareholder's proposal</u>

The Board of Directors is opposed to all four proposals from the proposing shareholder.

The Board of Directors believes that it will be in the best interests of all shareholders to achieve sustainable profit growth in the medium- to long-term through business investments for future profit growth and to increase the company's value thereby.

The proposing shareholder has made substantially the same proposals as those that were rejected at the General Shareholders' Meeting last year. Those proposals are, in summary, related to a return to shareholders and cancellation of treasury shares. Regarding the proposal for return to shareholders, the significantly high amount of the proposed return far exceeds the amount of cash flow generated by the business and would require the company to make additional financial borrowing from a third party. Regarding the proposal for cancellation of treasury shares, this would impose constraints on the flexibility of the company's capital strategy. Thus, in the event that these shareholder proposals were approved, it would become an obstacle to making business investments for future profit growth and increasing the company's value through sustainable profit growth in the medium- to long-term.

The company has a track record to achieve sustainable profit growth through business investments, most notably by two large scale business acquisitions. In addition to such profit growth, the company has steadily improved the return to shareholders by a stable and continuous increase of the consolidated dividend payout ratio and a consistent growth of the amount of dividend per share.

Furthermore, given a legal restriction on the issuance of new shares under the relevant provisions of the Japan Tobacco, Inc. Act ("JT Act"), the use of treasury shares is intended to be an important capital strategy as a substitute for the issuance of new shares in the company. Therefore, the Board of Directors believes that decisions on capital strategy including cancellation of treasury shares should be entrusted to the Board of Directors. This will ensure flexibility responding to changing business environment and then the increase of the company's value through sustainable profit growth in the medium- to long-term.

The Board of Directors recommends all shareholders of the company to oppose all of these shareholder's proposals.

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

<u>Shareholder's Proposal</u>

Item 4: Dividend Proposal

1. Agenda

The year-end dividends on shares of Common Stock for the 28th fiscal year shall be paid in the amount of ¥120 per share of Common Stock.

2. Reason for Proposal

The Company has sufficient cash and retained earnings to pay a higher dividend. The Company has on average returned 30% of its earnings to shareholders as dividends and share buybacks in the last three years which is a substantially lower dividend payout ratio compared to its international competitors. Over the same period the Company's competitors, British American Tobacco and Philip Morris International respectively returned on average 80% and 120% of their earnings to shareholders.

The Board of Directors' view on Item 4

The Board of Directors is opposed to this proposal.

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

The company has achieved an average annual EBITDA growth rate of 5.9% during the fiscal years 2000 to 2012 through business investments which include the acquisitions of RJR International and Gallaher. In the International Tobacco business that we have focused on in particular so far, the company has achieved an average annual US dollar based EBITDA growth rate of 24% (*1) during the period.

In addition to profit growth, the company has increased the consolidated dividend payout ratio. The amount of dividend per share has been increased by an average of 26% per year during the past five years. The company has therefore steadily increased the amount of return to shareholders.

In the Business Plan announced in April 2012, the Board of Directors set out a target rate for the adjusted EBITDA growth rate (at constant rates of exchange) of 5.2% and a consolidated dividend payout ratio of 35.9% in the fiscal year 2012. In fact, the company has achieved an adjusted EBITDA growth rate (at constant rates of exchange) of 15.1%, far exceeding the target rate. Further, the consolidated dividend payout ratio will be 37.6% exceeding the target as mentioned in the Company's proposal Item 1.

The total return ratio in the fiscal year 2012 will be 109.5%, taking into consideration the company's share buy-back of approximately ¥250 billion in conjunction with the 4th offering of shares by the government in February 2013, for the purpose of mitigating the market impact.

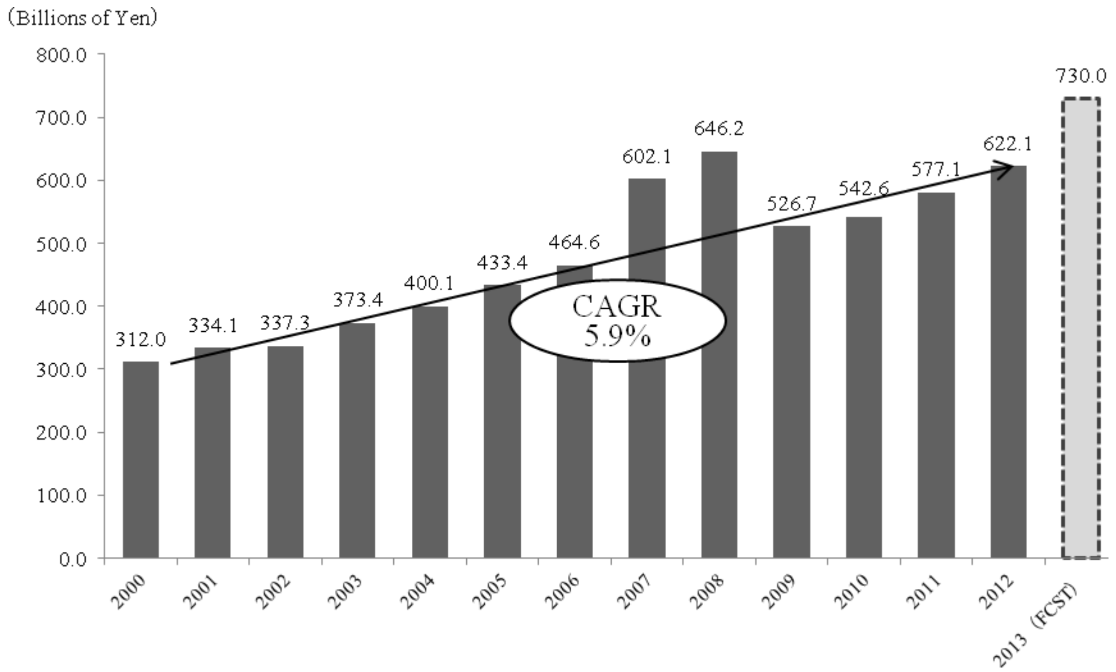
In the meantime, in the event that the shareholder's proposal for return were approved, the total amount of annual dividend per share in the fiscal year 2012 would be ¥150 (including interim dividend), which amounts to a consolidated dividend payout ratio of 82.8% and a total return ratio of 152.9% taking into consideration the company's share buy-back of ¥250 billion.

The Board of Directors believes that the significantly high return as stated in the proposal, which far exceeds the amount of cash flow generated by the business and would require the company to make additional financial borrowing from a third party, is short-term focused, and would become an obstacle to making business investments for future profit growth, loss of business competitiveness and decrease of the company's value in the medium- to long term.

In the Business Plan 2013 announced on April 25, the Board of Directors set out the target rate of the consolidated dividend payout ratio of 40% for the fiscal year 2013, and also the ratio of 50% for the fiscal year 2015, and expects the amount of dividend per share for the fiscal year 2013 will be ¥92 (up 35.3% from the previous year, consolidated dividend payout ratio of 40.3%).

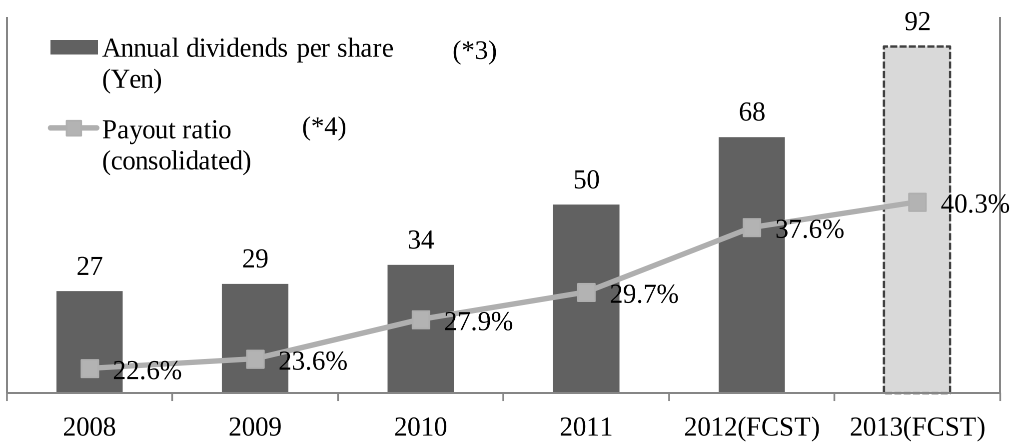
*1. 2000-2009: Based on US-GAAP, 2010-2012: IFRS basis

Reference: Adjusted EBITDA (*2) **Growth**



*2. The fiscal year ended March 31, 2001 to the fiscal year ended March 31, 2011: Based on Japanese GAAP
The fiscal year ended March 31, 2012 and after : Adjusted EBITDA (IFRS basis)

Reference: Dividend payment and dividend payout ratio



*3. 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.

*4. Consolidated dividend payout ratio for the fiscal year ended March 31, 2011 and prior fiscal years are calculated in Japanese GAAP based on earning before goodwill amortization. the fiscal year ended March 31, 2012 and fiscal years thereafter are calculated in IFRS.

<u>Shareholder's Proposal</u>

Item 5: Share Buy-back

1. Agenda

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

- Shares to be acquired: 100,000,000;
- Maximum aggregate amount of consideration: ¥350,000,000,000 (the "Proposed Amount"); provided that, if the aggregate amount for acquisition as permitted under the Companies Act (the "Distributable Amount" as set forth in Article 461 of the Companies Act) is less than the Proposed Amount, it shall be reduced to such amount as permitted under the Companies Act; and
- Period for the acquisition: Within 1 year from the end of this Ordinary General Meeting for Shareholders

2. Reason for Proposal

The capital structure of the Company is underleveraged and the shares are undervalued. The Company should use its cash resources to buy back shares and then to raise its dividend payout in line with its international peers. This will ensure the Board delivers on its pledge to prioritise the return of profits to shareholders and to deliver a competitive shareholder return.

<u>The Board of Directors' view on Item 5</u>

The Board of Directors is opposed to this proposal.

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

In order to implement the share buy-back of ¥350 billion as stated in the Proposer's proposal, the company would be required to make additional financial borrowing from a third party. The Board of Directors believes that the significantly high return as stated in the proposal, which far exceeds the amount of cash flow generated by the business is short-term focused and would become an obstacle to making business investments for future profit growth, to loss of business competitiveness and to decrease of the company's value in the medium- to long-term.

Regarding possible future share buy-backs, the Board of Directors will determine this in a timely and appropriate manner in accordance with business environment from the perspective of properly managing the adjusted EPS growth rate (at constant rates of exchange) that we set as the key performance indicator regarding return to shareholders.

<u>Shareholder's Proposal</u>

Item 6: Partial Amendments to the Articles of Incorporation

1. Agenda

The following new provision will be added as Article 19.2 in Chapter 3 "General Meeting for Shareholders" of the Articles of Incorporation:

Article 19.2 The general meeting for shareholders can resolve the matters in respect of cancellation of treasury shares including the class and the number of shares to be cancelled, in addition to the matters set forth in the Companies Act.

2. Reason for Proposal

The Company has been holding treasury shares without using them properly or cancelling them. If the treasury shares are to be allocated to the public or particular third parties, the interest of the existing shareholders will be significantly damaged.

In order to protect the interest of the shareholders, the general meeting for shareholders should have the authority to resolve matters in respect of cancellation of treasury shares by its resolution.

<u>The Board of Directors' view on Item 6</u>

The Board of Directors is opposed to this proposal.

Under the JT Act, the company has a legal restriction on the issuance of new shares pursuant to the provision that requires the approval of the Minister of Finance and the provision that prescribes the obligation of the government to hold one-third or more of the total number of the issued shares of the company. (*5) (*6)

Treasury shares can be utilized in a capital strategy as a substitute for the issuance of new shares. The Board of Directors believes that, considering the legal restriction of the company as stated above, it is important to maintain the flexibility of the company in utilizing treasury shares, rather than cancelling all of them.

The Board of Directors intends to use treasury shares if it determines that the company can realize profit growth over the medium- and long term and it will be in the best interests of all shareholders.

The Board of Directors believes that decisions on capital strategy including cancellation of treasury shares should be entrusted to the Board of Directors, and that this will facilitate flexible operations in accordance with changing business environment and then to the increase of company's value through sustainable profit growth in the medium- to long-term.

*5. The number of the votes to which the shareholders who may not exercise their votes on certain matters. The total number of the issued shares is calculated without the number of shares for which it is provided that the voting rights may not be exercised in connection with all matters to be resolved at the shareholder's meeting.

*6. The percentage held by the Minister of Finance is 33.35% as of March 31, 2013.

<u>Shareholder's Proposal</u>

Item 7: Cancellation of All Existing Treasury Shares

1. Agenda

Based on the amendment of the Articles of Incorporation in Agenda No. 3, we propose the following:

All the treasury shares owned by the Company shall be cancelled.

2. Reason for Proposal

The Company has no need to hold shares in treasury. Cancelling shares also ensures that the benefits of repurchasing shares are fully obtained. If the treasury shares are to be allocated to the public or particular third parties, the interest of the existing shareholders will be significantly damaged.

The Board of Directors’ view on Item 7

The Board of Directors is opposed to this proposal.

As stated in our view on Item 6 above, the company has a legal restriction on the issuance of new shares under the relevant provisions of the JT Act. The Board of Directors believes that it is important to maintain the flexibility of the company in utilizing treasury shares as a substitute for the issuance of new shares, rather than cancelling all of them.

Therefore, at this time, the Board of Directors will not consider cancelling all of the treasury shares, by which the company’s flexible capital strategy would be limited.

The figures concerning return to shareholders such as the consolidated dividend payout ratio, EPS, and etc. is calculated excluding the treasury shares in accordance with accounting standards, and whether the company cancels the treasury shares will not affect these figures used as an index showing the level of return to shareholders.

[Attached Documents]

Business Report

(For this fiscal year from April 1, 2012 to March 31, 2013)

I. Matters Concerning Present State of the Corporate Group (the JT Group)

1. Overview and results of operations

General summary
Revenue

Revenue increased by ¥86.4 billion or 4.2%, from the previous fiscal year to ¥2,120.2 billion. This was mainly the result of favorable pricing and a shipment volume increase in the international tobacco business and an increase in sales volume in the domestic tobacco business from the previous fiscal year, in which there was an impact from the earthquake disaster.

Operating profit and adjusted EBITDA

Operating profit increased by ¥73.2 billion or 15.9%, from the previous fiscal year to ¥532.4 billion. This was mainly the result of increased revenue in the domestic and international tobacco businesses, and the recording of cooperation fee for terminating leaf tobacco farming in the previous fiscal year. Furthermore, adjusted EBITDA(Note 1) excluding depreciation and amortization and cooperation fee for terminating leaf tobacco farming, etc. increased by ¥45.0 billion or 7.8%, from the previous fiscal year to ¥622.1 billion. Adjusted EBITDA at constant rates of exchange(Note 2) grew by 15.1% from the previous fiscal year.

(Notes)
1. Adjusted EBITDA = Operating profit + depreciation and amortization ± adjustment items (income and costs) *
   * Adjustment items (income and costs): Impairment losses on goodwill ± restructuring income and costs ± others
2. Adjusted EBITDA for the current fiscal year in the international tobacco business is translated and calculated using the foreign exchange rates of the previous fiscal year. Adjusted EBITDA at constant rates of exchange, excluding foreign exchange effects, is also presented as additional information.

Profit attributable to owners of the parent company

Profit before income taxes increased by ¥68.2 billion, or 15.5%, from the previous fiscal year to ¥509.6 billion due to an increase in operating profit. In the previous fiscal year, there was an impact from tax deductions made for loss on valuation of stocks of subsidiaries and affiliates, and as a result profit attributable to owners of the parent company increased by ¥22.7 billion, or 7.1%, from the previous fiscal year to ¥343.6 billion.

Cash and cash equivalents at the end of the current fiscal year decreased by ¥262.0 billion from the end of the previous fiscal year to ¥142.7 billion. Cash and cash equivalents at the end of the previous fiscal year was ¥404.7 billion.

* In Japan, the end of the previous fiscal year (March 31, 2012) and the end of the current fiscal year (March 31, 2013) were both holidays for financial institutions. Consequently, an additional month's worth of tobacco excise taxes payable is included in cash and cash equivalents at the period-ends in comparison to the equivalent amounts if the period-ends had been business days for financial institutions. The amounts of national excise taxes paid on the business days immediately following the end of the previous fiscal year and the current fiscal year were ¥143.5 billion and ¥136.6 billion, respectively.

Review of operations by business segment

Domestic Tobacco Business

	[Billions of yen]	Change [%]
Revenue	687.1	6.3
Core revenue	654.0	6.9
Adjusted EBITDA	281.3	7.3

Total sales volume for domestic cigarettes during the current fiscal year increased by 7.8 billion cigarettes, or 7.2%, from the previous fiscal year to 116.2 billion cigarettes(Note 1). This was mainly due to the effects of limited deliveries in terms of the number of brands and delivery volume following the Great East Japan Earthquake particularly in the three months ended June 30, 2011. Our market share for the current fiscal year was 59.6%, compared with 54.9% for the previous fiscal year. Market share was 60% in both February and March 2013 due to a boost from Mevius, the brand name under which the Mild Seven brand was renewed in February 2013 with the aim of having the number one global premium brand, showing that our share is steadily recovering.

Revenue increased by ¥41.0 billion, or 6.3%, from the previous fiscal year to ¥687.1 billion, and core revenue(Note 2) increased by ¥42.1 billion, or 6.9%, from the previous fiscal year to ¥654.0 billion. This was mainly attributable to the increase in sales volume. Domestic cigarette revenue per 1,000 cigarettes was ¥5,502.

Concerning profits, adjusted EBITDA increased by ¥19.1 billion, or 7.3%, from the previous fiscal year to ¥281.3 billion, mainly due to increased sales volume and the recognition of a loss on the Great East Japan Earthquake in the previous fiscal year, despite increases in some expenses. The increase in expenses was primarily the result of vigorous sales promotions to recover market share and further strengthen brand equity with an emphasis on Mevius amid an increasingly competitive environment in the current fiscal year, in addition to the contrast with a reduction in sales promotions particularly in the first three months of the previous fiscal year, in which the number of brands delivered and delivery volumes were limited.

(Notes)
1. In addition to the figure stated above, during the fiscal year ended March 31, 2013, 3.1 billion cigarettes were sold at duty-free shops in Japan, as well as at markets in China, Hong Kong and Macau that are under the control of JT's China Division.
2. For tobacco business, core revenue is disclosed additionally as a breakdown of revenue. Specifically, the figure for the domestic tobacco business is presented after deducting imported tobacco delivery charges, among others, included in the revenue from the revenue, while the figure for the international tobacco business is presented after deducting the revenue accounted for in distribution business and contract manufacturing, among others, from the revenue.

International Tobacco Business

	[Billions of yen]	Change [%]
Revenue	1,010.7	4.6
Core revenue	943.1	5.4
Adjusted EBITDA	343.3	9.1

Among GFBs(Note 1) in the current fiscal year, there was steady growth in shipments of Winston in Russia, Turkey and Uzbekistan. LD shipments grew in Turkey and Kazakhstan. As a result, shipment volume of GFBs increased by 12.3 billion cigarettes, or 4.8%, from the previous fiscal year to 268.8 billion cigarettes. Furthermore, total shipment volume including GFBs increased by 10.8 billion cigarettes, or 2.5%, from the previous fiscal year to 436.5 billion cigarettes. This was mainly due to the acquisition of business bases in Sudan in November 2011, and the completion in August 2012 of the acquisition of

Gryson NV, a major RYO/MYO(Note 2) tobacco company with a strong presence across several European countries and other areas, despite a fall in sales of non-GFB local brands in Russia.

Although there was unfavorable foreign exchange effects on the local currencies of key markets, dollar-based revenue increased by $555 million, or 4.6%, from the previous fiscal year to $12,663 million, while dollar-based core revenue increased by $606 million or 5.4% from the previous fiscal year to $11,817 million. This was mainly driven by the effects of strong pricing. Adjusted EBITDA increased by $357 million, or 9.1%, versus the previous fiscal year, to reach $4,302 million, despite an increase in expenses mainly caused by increases in raw material costs, continued investment in brands, and personnel expenses. Adjusted EBITDA at constant rates of exchange grew by 22.5% from the previous fiscal year.

As a result of the above, revenue increased by ¥44.4 billion, or 4.6%, from the previous fiscal year to ¥1,010.7 billion, core revenue increased by ¥48.5 billion, or 5.4%, from the previous fiscal year to ¥943.1 billion, and adjusted EBITDA increased by ¥28.5 billion, or 9.1%, from the previous fiscal year to ¥343.3 billion.

The JT Group completed its acquisition of Nakhla, a major global company engaged in the manufacture and sale of waterpipe tobacco products, in March 2013. In addition, the renewal of Mild Seven under the Mevius brand name is being rolled out gradually outside Japan, and the brand will be given a globally unified design.

(Notes) 1. We have identified eight brands which serve as flagships of the JT Group's brand portfolio, Winston, Camel, Mevius (Mild Seven), Benson & Hedges, Silk Cut, LD, Sobranie and Glamour, which we collectively call the Global Flagship Brands (GFBs).

2. RYO, which is an abbreviation of Roll Your Own, signifies fine cut tobacco to be used by a customer to roll a cigarette by hand, using rolling paper. MYO, which is an abbreviation of Make Your Own, signifies fine cut tobacco to be used by a customer to make a cigarette, using a specialized tool and cigarette tubes.

* The foreign exchange rate in the fiscal year ended March 31, 2013 was ¥79.81 per U.S. dollar, representing a ¥0.01 year-on-year yen depreciation, compared with ¥79.80 per U.S. dollar in the previous fiscal year.
The exchange rates of major currencies against the U.S. dollar are as follows.

Foreign exchange rate per U.S. dollar	27th term FY2011	28th term FY2012
Ruble	29.40 rubles	31.07 rubles
Pounds sterling	0.63 pounds sterling	0.63 pounds sterling
Euro	0.72 euros	0.78 euros

Pharmaceutical Business

	[Billions of yen]	Change [%]
Revenue	53.2	12.1
Adjusted EBITDA	(12.7)	Negative ¥10.0 billion in the previous fiscal year

In the pharmaceutical business, we strove to strengthen its earnings base through speedy and smooth market launch of compounds in late-stage developments. Regarding development and market launches, JT obtained approval to manufacture and market "Stribild® Combination Tablets," which contains anti-HIV drug JTK-303, in Japan in March 2013, and our subsidiary Torii Pharmaceutical Co., Ltd. launched the product on May 14, 2013.

Gilead Sciences, Inc., which is our licensee, obtained a marketing approval for the combination tablet from the US FDA and the product was launched accordingly. A marketing application for the combination tablet is currently being considered by the EMA and others. Gilead Sciences, Inc. has also submitted a marketing application for JTK-303 as mono agent to the US FDA and EMA, among others.

In addition, an application to manufacture and market the hyperphosphatemia drug JTT-751 in Japan was filed by JT in January 2013.

With respect to TO-194SL, a sublingual immunotherapy drug for Japanese cedar pollinosis, Torii Pharmaceutical Co., Ltd. filed an application to manufacture and market it in Japan in December 2012.

A marketing application for an MEK inhibitor compound out-licensed by JT was submitted in August 2012 to the US FDA and in February 2013 to the EMA by GlaxoSmithKline, which is our licensee.

Revenue in the current fiscal year increased by ¥5.8 billion, or 12.1%, from the previous fiscal year to ¥53.2 billion, mainly due to increased sales of products of Torii Pharmaceutical Co., Ltd. including REMITCH® CAPSULES, an oral antipruritus drug for hemodialysis patients, and Truvada® Tablets, an anti-HIV drug, as well as milestone revenue related to progress in development of an original JT compound that has been out-licensed. Adjusted EBITDA was negative ¥12.7 billion (compared to negative ¥10.0 billion in the previous fiscal year) due mainly to an increase in research and development expenses as a result of progress in development.

Beverage Business

	[Billions of yen]	Change [%]
Revenue	185.5	(1.7)
Adjusted EBITDA	12.4	(14.8)

In the beverage business(Note), we continued working to strengthen our flagship coffee brand “Roots” and to grow our sales network primarily through Japan Beverage Holdings Inc., a Group company that operates vending machines. In conjunction with our efforts to steadily grow the business through these initiatives, we are implementing initiatives to bolster its profitability.

Sales volume of JT’s products in the current fiscal year reached a record high, with year-on-year growth in sales of “Roots” bottle canned coffee and “Momono Tennen sui,” which has been popular with many customers over a long period of years, outperforming the previous fiscal year’s results in all sales channels.

Revenue in the current fiscal year decreased by ¥3.3 billion, or 1.7%, from the previous fiscal year to ¥185.5 billion despite the increase in sales volume of JT’s products. This was mainly the result of a decrease in revenue from cup vending machines in the vending machines sales channel. Adjusted EBITDA decreased by ¥2.2 billion, or 14.8%, from the previous fiscal year to ¥12.4 billion. This was mainly due to the revenue decline, as well as an unfavorable sales channel mix.

(Note) The Group changed its organization structure effective July 1, 2012, and the “Beverage Business” and the “Processed Food Business,” which were previously combined in “Food Business,” became individual reportable segments used by management in deciding how to allocate resources and in assessing performance. Accordingly, the “Food Business” has been split into the “Beverage Business” and the “Processed Food Business.”

Processed Food Business

	[Billions of yen]	Change [%]
Revenue	168.7	(1.1)
Adjusted EBITDA	7.4	35.8

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

Revenue in the current fiscal year decreased by ¥1.9 billion, or 1.1% from the previous fiscal year to ¥168.7 billion, despite sales growth in staple food products, mainly due to a revenue decline caused by our withdrawal from the processed fishery products business in December 2012. If the impact of our withdrawal from the processed fishery products business is excluded, revenue increased by ¥4.9 billion, or 3.3% from the previous fiscal year to ¥152.6 billion.

Adjusted EBITDA increased by ¥1.9 billion, or 35.8% from the previous fiscal year to ¥7.4 billion, mainly because of sales growth in staple food products and the recording of litigation expenses in the previous fiscal year, despite the impact of soaring raw material prices.

2. Status of capital expenditures

In this fiscal year, we made capital expenditures totaling ¥137.5 billion.

In the domestic tobacco business, we spent ¥71.2 billion, mainly on measures to streamline manufacturing processes; strengthen our ability to respond flexibly to supply and demand fluctuations with regard to an increasingly diverse range of products; and develop new products. In the international tobacco business, we invested ¥37.5 billion mainly for improvements in product specifications in addition to improvement, maintenance and renewals of production capability. In the pharmaceutical business, we spent ¥5.8 billion on enhancing and strengthening research and development structures and the like. In the beverage business, we invested ¥12.0 billion for maintenance and renewals of vending machines. In the processed food business, we invested ¥4.6 billion in improvement, maintenance and renewals of production capability.

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

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

3. Status of financing

No items to report.

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

No items to report.

5. Business transfers from other companies

No items to report.

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

No items to report.

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

No items to report.

8. Trends in assets and operating results

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

	IFRS		
	26th term FY2010	27th term FY2011	28th term FY2012
Revenue (Millions of yen)	2,059,365	2,033,825	2,120,196
Profit before income taxes (Millions of yen)	385,242	441,355	509,560
Profit attributable to owners of the parent company (Millions of yen)	243,315	320,883	343,612
Basic earnings per share (Yen)	25,414	33,701	181.07
Total assets (Millions of yen)	3,655,201	3,667,007	3,852,639
Total equity (Millions of yen)	1,601,311	1,714,626	1,892,012

	Japanese GAAP
	25th term FY2009
Net sales (Millions of yen)	6,134,695
Ordinary income (Millions of yen)	255,377
Net income (Millions of yen)	138,448
Net income per share (Yen)	14,451
Total assets (Millions of yen)	3,872,595
Net assets (Millions of yen)	1,723,278

(Notes)
1. Although the consolidated financial statements of the JT Group are prepared based on IFRS effective from the 27th term, the figures for the 26th term are shown based on IFRS. For the 25th term, the figures are shown based on Japanese GAAP. Under Japanese GAAP (for the 25th term), the amount equivalent to tobacco excise taxes is included in net sales and cost of sales, whereas under IFRS (for the 26th term through the 28th term), the amount equivalent to tobacco excise taxes is not included in revenue and cost of sales.
2. JT conducted a share split at a ratio of 200 to one with July 1, 2012 as effective date. Consequently, basic earnings per share are calculated on the assumption that this share split was conducted at the beginning of the 28th term.
3. Figures presented for the 25th term are rounded down to the nearest unit.

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

	25th term FY2009	26th term FY2010	27th term FY2011	28th term FY2012
Net sales (Millions of yen)	2,052,654	749,252	734,902	781,067
Ordinary income (Millions of yen)	161,606	182,819	198,071	210,568
Net income (Millions of yen)	107,361	32,216	142,726	149,773
Net income per share (Yen)	11,206	3,365	14,990	78.93
Total assets (Millions of yen)	3,027,503	2,879,354	3,016,651	2,784,914
Net assets (Millions of yen)	1,901,759	1,854,401	1,924,739	1,714,529

(Notes)
1. The figures were prepared based on Japanese GAAP.
2. Effective from the 27th term, the JT Group changed its accounting policy to a method that excludes the amount equivalent to tobacco excise taxes from net sales and cost of sales, in order to disclose the actual conditions of the business more properly. As a result, this accounting policy change is retrospectively applied to the figures presented for the 26th term.
3. JT conducted a share split at a ratio of 200 to one with July 1, 2012 as effective date. Consequently, net income per share is calculated on the assumption that this share split was conducted at the beginning of the 28th term.
4. Figures presented for the 25th term are rounded down to the nearest unit.

9. Issues to be addressed

(1) Basic management policy

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

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

In order to accomplish, we have set “The JT Group Way” as code of conduct which all of the JT Group members should make apply. 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 medium- to long-term profit growth. In addition, we believe that the pursuit of the “4S” model will lead to a consistent increase in corporate value in the medium to long term and therefore that it is the best approach to serve the interests of all stakeholders.

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

In April 2012 the JT Group formulated its “Business Plan 2012,” a three-year plan that is renewed each year on a rolling basis in order to speed up the Group’s ability to respond appropriately to unexpected changes in accordance with its recognition that strengthening its “adaptability to a changing environment” is an important theme. Through the plan, the Group intends to carry on strategies that have hitherto been implemented for the Group’s long-term vision of becoming a “Company committed to global growth that provides consumers diversified value uniquely available from JT” while also taking them to a higher level.

In the “Business Plan 2012,” in accordance with the “4S” model concept, which constitutes the JT Group’s management principles, the Group stated its intention to carry out medium- to long-term allocation of management resources with a high priority attached to business investment that contributes to sustainable medium- to long-term profit growth. Accordingly, as its the group-wide profit targets, the JT Group is aiming for a mid to high single-digit annual average adjusted EBITDA growth rate at constant rates of exchange over the medium to long term. In the fiscal year ended March 31, 2013, the Group achieved a growth rate of 15.1% over the fiscal year ended March 31, 2012, far exceeding its target of 5.2%, primarily due to strong momentum in the tobacco business. The Group also made significant progress in its further pursuit of competitive returns for shareholders in order to be on par with global players in the FMCG business[Note 1], for which the Group’s aim is to realize a consolidated dividend payout ratio[Note 2] of 40% by the fiscal year ending March 31, 2014 and a ratio of 50% in the medium term, exceeding its target of 35.9% in the fiscal year ended March 31, 2013 with a ratio of 37.6%. For adjusted EPS[Note 3] growth rate at constant rates of exchange, for which the Group’s target is high single-digit annual average growth rate over the medium to long term, in the fiscal year ended March 31, 2013 the Group achieved growth of 27.3% over the fiscal year ended March 31, 2012. As a part of efforts to secure returns for shareholders, and to increase capital efficiency and ease the impact of offerings of JT shares on the stock market, JT carried out an acquisition of treasury stock totaling ¥250.0 billion in February 2013.

In the “Business Plan 2013,” which has been formulated in accordance with the Group’s rolling business plan schedule, the Group has maintained its commitment to achieving sustainable profit growth through business investment and retained its medium- to long-term profit targets unchanged. For adjusted EBITDA growth rate on constant rates of exchange, the Group is aiming for mid to high single-digit growth over the medium to long term and 6.1% growth over the fiscal year ended March 31, 2013 in the fiscal year ending March 31, 2014. With respect to shareholder returns, the Group is targeting a consolidated dividend payout ratio of 40% in the fiscal year ending March 31, 2014 and a ratio of 50% in the fiscal year 2015. For adjusted EPS growth rate at constant rates of exchange, the Group has maintained its target of a high single-digit annual average growth rate over the medium to long term.

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

- Tobacco Business: Grow adjusted EBITDA at mid to high single-digit rate per annum over the medium to long term in the core business and profit growth engine of the JT Group
  - Domestic: Highly competitive platform of profitability
  - International: Strengthen its role as the Group’s profit growth engine

- Pharmaceutical Business: Strive to establish stronger profit platform through rapid and efficient market launch of compounds in late phases of clinical trials and value maximization of each product

- Beverage Business: Strengthen the business base for future growth in order to make further profit contribution to the JT Group

- Processed Food Business: Strive to achieve operating profit margin on par with industry average and aim to make profit contribution to the JT Group

(Notes) 1. Fast Moving Consumer Goods (daily consumer durables)

2. Consolidated dividend payout ratio is obtained by dividing annual dividend per share by basic earnings per share.

3. Adjusted EPS = (Profit or loss attributable to owners of the parent company ± adjustment items (income and costs)* ± tax and minority interests adjustments) / (weighted-average common shares + increased number of ordinary shares under subscription rights to shares)
   * Adjustment items (income and costs): Impairment losses on goodwill ± restructuring income and costs ± others

In order to achieve the consolidated medium- 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.

In addition to IFRS, which was introduced in the fiscal year ended March 31, 2012, preparations are now underway to unify the fiscal year-ends of all Group companies to December effective from the fiscal year ending December 31, 2014.

We will work to strengthen our CSR initiatives further with an emphasis on the pursuit of high-level, well-balanced stakeholder satisfaction based on the “4S” model, which constitutes JT’s management principles.

Uncertainties continue to grow in the business environment as a result of uncertain global economic trends, geopolitical risks and others. Against this background, the JT Group will make further advances in the “adaptability to a changing environment” it has developed hitherto, while also doing its utmost to achieve sustained growth in the medium to long term.

10. Main business contents

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

(Note) The Group changed its organization structure effective July 1, 2012, and the “Beverage Business” and the “Processed Food Business,” which were previously combined in “Food Business,” became individual reportable segments used by management in deciding how to allocate resources and in assessing performance. Accordingly, the “Food Business” has been split into the “Beverage Business” and the “Processed Food Business.”

11. Status of important subsidiaries

Company name	Capital	Equity ownership (%)	Main business
TS Network Co., Ltd.	(Millions of yen) 460	74.5	Distribution of tobacco products
Japan Filter Technology Co., Ltd.	(Millions of yen) 461	87.6	Manufacture and sale of filters for tobacco products
JT International S.A.	(Thousand of CHF) 1,215,425	(100.0)	Manufacture and sale of tobacco products
Gallaher Ltd.	(Thousand of GBP) 172,495	(100.0)	Manufacture and sale of tobacco products
Torii Pharmaceutical Co., Ltd.	(Millions of yen) 5,190	53.5	Manufacture and sale of prescription drugs
TableMark Co., Ltd.	(Millions of yen) 47,503	100.0	Manufacture and sale of processed foods
JT Beverage Inc.	(Millions of yen) 90	100.0	Sale of beverages
Japan Beverage Holdings Inc.	(Millions of yen) 500	67.6	Sale of beverages by vending machine

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

2. There were 230 consolidated subsidiaries in this fiscal year, including 8 above-mentioned important subsidiaries, as well as 12 affiliates accounted for by the equity method. In addition, consolidated revenue for this fiscal year amounted to ¥2.1201 trillion (up 4.2% year on year) with consolidated profit attributable to owners of the parent company at ¥343.6 billion (up 7.1% year on year).

12. Major lenders

Lender	Outstanding balance (Millions of yen)
Mizuho Bank , Ltd.	31,040

13. Major sales offices and factories

(1) JT

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

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

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

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

(2) Subsidiaries

TS Network Co., Ltd. (Tokyo)

Japan Filter Technology Co., Ltd. (Tokyo)

JT International S.A. (Switzerland)

Gallaher Ltd. (U.K.)

Torii Pharmaceutical Co., Ltd. (Tokyo)

TableMark Co., Ltd. (Tokyo)

JT Beverage Inc. (Tokyo)

Japan Beverage Holdings Inc. (Tokyo)

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

14. Status of employees

(1) Employees of the JT Group

Business segment	Number of employees (Person)
Domestic Tobacco Business	11,043
International Tobacco Business	24,397
Pharmaceutical Business	1,744
Beverage Business	4,912
Processed Food Business	6,563
Common company-wide services within JT	848
Total	49,507

(Notes) 1. The above number of employees indicates the number of working employees.

2. The number of employees in foreign subsidiaries in which the fiscal year end date falls on December 31 is calculated using the number of employees as of December 31, 2012.

(2) Employees of JT

Male/Female	Number of employees (Person)	Year on year increase (decrease) (Person)	Average age (Year old)	Average years of service (Year)
Male	7,873	(60)	44.3	22.8
Female	1,052	49	38.0	16.2
Total or average	8,925	(11)	43.6	22.0

(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 stock 182,510,100 shares)

3. Number of shareholders: 189,537

4. Major shareholders

Name of shareholders	Number of shares held (Share)	Equity ownership (%)
The Minister of Finance	666,933,800	36.70
State Street Bank and Trust Company	52,667,589	2.90
Japan Trustee Services Bank, Ltd. (Trust Account)	52,047,200	2.86
The Master Trust Bank of Japan, Ltd. (Trust Account)	45,316,400	2.49
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	33,800,000	1.86
State Street Bank and Trust Company	31,006,706	1.71
Goldman Sachs and Company Regular Account	25,167,031	1.38
JPMorgan Chase Bank 380055	19,666,814	1.08
State Street Bank and Trust Company 505223	19,539,365	1.08
HSBC BANK PLC A/C THE CHILDRENS INVESTMENT MASTER FUND	19,247,400	1.06

(Note) Equity ownership is calculated after deducting treasury stock (182,510,100 shares).

5. Other important matters regarding shares

(1) JT conducted a share split at a ratio of 200 to one ordinary share with July 1, 2012 as effective date. As a result, the total number of shares authorized increased by 7,960,000,000 shares to 8,000,000,000 shares, and the total number of shares issued increased by 1,990,000,000 shares to 2,000,000,000 shares. On the same date, JT adopted a unit share system which sets a share trading unit to 100 shares.

(2) As a part of efforts to secure returns for shareholders, and to increase capital efficiency and ease the impact on the stock market of the Minister of Finance’s fourth offering of JT shares, JT carried out an acquisition of treasury stock by resolution of a Board of Directors meeting held on February 25, 2013. The details of the acquisition are as follows:

Class and number of shares acquired	86,805,500 shares of ordinary shares
Acquisition price	¥249,999,840,000
Acquisition date	February 27, 2013
Acquisition method	Off-auction own share repurchase trading in the Tokyo Stock Exchange, Inc. (ToSTNeT-3)

III. Matters Concerning Subscription Rights to Shares

1. Total number and others of subscription rights to shares as of March 31, 2013

(1) Total number of subscription rights to shares:

4,845 units

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

Ordinary shares 969,000 shares

(200 share per subscription right to shares)

2. Status of subscription rights to shares held by Directors and Auditors of JT as of March 31, 2013

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

Ordinary shares 324,400 shares

(200 share per subscription right to shares)

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

¥1 per share

(3) Assignment of subscription rights to shares

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

(4) Conditions for exercising subscription rights to shares

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

(5) Status of ownership by Directors and Auditors of JT

Category	Year granted	Payment due upon allotment of subscription rights to shares	Exercise period of subscription rights to shares	Number of units	Number of shareholders
Director	FY2007	¥581,269 per unit	From January 9, 2008 to January 8, 2038	96	6
	FY2008	¥285,904 per unit	From October 7, 2008 to October 6, 2038	145	7
	FY2009	¥197,517 per unit	From October 14, 2009 to October 13, 2039	366	7
	FY2010	¥198,386 per unit	From October 5, 2010 to October 4, 2040	320	7
	FY2011	¥277,947 per unit	From October 4, 2011 to October 3, 2041	367	7
	FY2012	¥320,000 per unit	From October 10, 2012 to October 9, 2042	328	7

(Note) JT conducted a share split at a ratio of 200 to one ordinary share with July 1, 2012 as effective date. Therefore, the number of shares to be delivered upon exercise of each subscription right to shares has been changed from one share to 200 shares effective from the allotment made in FY2012. The number of shares to be delivered upon exercise of each subscription right to shares for subscription rights issued before the share split that were unexercised as of July 1, 2012 has also been changed from one share to 200 shares.

3. Status of subscription rights to shares granted to employees of JT from April 1, 2012 to March 31, 2013

(1) Class and number of shares under subscription rights to shares apply:

Ordinary shares 80,200 shares

(200 share per subscription right to shares)

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

¥320,000 per share

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

¥1 per share

(4) Exercise period of subscription rights to shares

From October 10, 2012 to October 9, 2042

(5) Assignment of subscription rights to shares

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

(6) Conditions for exercising subscription rights to shares

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

(7) Status of granting to employees of JT

401 subscription rights to shares were granted to 17 Executive Officers *(sikkoyakuin)* (excluding persons serving as Directors) of JT.

IV. Matters Concerning Directors and Auditors of JT

1. Directors and Auditors

Position	Name	Responsibility	Significant concurrent positions outside the Company
Chairman of the Board	Hiroshi Kimura		Asahi Glass Co., Ltd. Independent Director
President, Chief executive officer and Representative Director	Mitsuomi Koizumi		
Representative Director and Executive Deputy President	Yasushi Shingai	Assistant to CEO in Compliance, Strategy, HR, General Administration, Legal and Operational Review & Business Assurance	
Representative Director and Executive Deputy President	Noriaki Okubo	Assistant to CEO in Pharmaceutical Business, Beverage Business and Processed Food Business	
Representative Director and Executive Deputy President *	Akira Saeki	President, Tobacco Business	JT International Group Holding B.V. Chairman
Member of the Board and Executive Deputy President, *	Hideki Miyazaki	Assistant to CEO in CSR, Finance and Communications	
Member of the Board	Mutsuo Iwai		JT International S.A. Executive Vice President
Member of the Board *	Motoyuki Oka		
Member of the Board *	Main Kohda		Novelist Member of the Board of Governors, Japan Broadcasting Corporation
Audit & Supervisory Board Member	Hisao Tateishi		
Audit & Supervisory Board Member *	Futoshi Nakamura		
Audit & Supervisory Board Member	Koichi Ueda		Koichi Ueda Law Office Attorney at Law
Audit & Supervisory Board Member	Yoshinori Imai		

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

2. Auditors Hisao Tateishi, Koichi Ueda and Yoshinori Imai are Outside Auditors.

3. Members of the Board Motoyuki Oka and Main Kohda and Auditors Koichi Ueda and Yoshinori Imai were notified as independent officers (directors and auditors) to the financial instruments exchange.

4. Auditor Futoshi Nakamura has relevant knowledge about financing and accounting as he was the Senior Manager of Accounting Division of JT.
5. The asterisk * denotes Members of the Board and Auditors who have assumed their offices on June 22, 2012.
6. Chairman of the Board Yoji Wakui, Executive Deputy President, Representative Director Munetaka Takeda, Executive Deputy President, Representative Director Masakazu Shimizu and Standing Auditor Gisuke Shiozawa retired on June 22, 2012.
7. Member of the Board Mutsuo Iwai is scheduled to retire from the significant concurrent position of JT International S.A. Executive Vice President on May 31, 2013, and assume the position of Chief Strategy Officer of JT on June 1, 2013.

2. Remunerations for Directors and Auditors

(1) Total remunerations for Directors and Auditors

Category	Directors		Auditors		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	12	346	5	96	17	442
Directors' bonus	5	198	-	-	5	198
Stock option grants	7	105	-	-	7	105
Total	-	650	-	96	-	746

(Notes) 1. For Directors' bonuses, the amounts planned to be paid are shown.
2. For stock option grants, the total amounts granted during this fiscal year are shown.

(2) Policy concerning the remuneration amount for Directors and Auditors or the remuneration calculation method thereof and the method of determining the policy

The Company has the Compensation Advisory Panel in place as a non-statutory advisory body to the Board of Directors in order to increase objectivity and transparency regarding the remuneration of Directors and Auditors. The Compensation Advisory Panel, which holds meetings several times a year, holds deliberations and makes reports in accordance with its advice on such matters as the Company's policy, system and calculation method regarding remuneration for its Directors and Executive Officers *(sikkoyakuin)*, and monitors the status of remuneration for Directors and Auditors 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 Auditors.

Outside members of Compensation Advisory Panel

Outside Director	Motoyuki Oka
Outside Director	Main Kohda
Outside Auditor	Koichi Ueda
Outside Auditor	Yoshinori Imai

In light of reports by the Compensation Advisory Panel, JT's basic concept of remuneration for Directors and Auditors is as follows:

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

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

The composition of the remuneration for Directors is as follows:

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

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

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

In the light of the role of Auditors, which is primarily to conduct audits on legal compliance, their remuneration consists solely of the “basic remuneration.”

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

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

3. Matters concerning Outside Directors and Outside Auditors

(1) Significant concurrent positions outside the Company

Category	Name	Organizations where concurrent positions are held	Position
Director	Main Kohda	Novelist	
		Japan Broadcasting Corporation	Member of the Board of Governors
Auditor	Koichi Ueda	Koichi Ueda Law Office	Attorney at Law

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

(2) Major activities during this fiscal year

Category	Name	Status of main activities
Director	Motoyuki Oka	Attended 9 out of 10 meetings of the Board of Directors held during this fiscal year since he assumed office on June 22, 2012. Mr. Oka asked questions and made remarks where necessary at these meetings, as a director.
	Main Kohda	Attended all 10 meetings of the Board of Directors held during this fiscal year since she assumed office on June 22, 2012. Ms. Kohda asked questions and made remarks where necessary at these meetings, as a director.
Auditor	Hisao Tateishi	Attended all 16 meetings of the Board of Directors, as well as all 16 meetings of the Audit Board held during this fiscal year. Mr. Tateishi asked questions and made remarks where necessary at these meetings, as an auditor.
	Koichi Ueda	Attended all 16 meetings of the Board of Directors, as well as all 16 meetings of the Audit Board held during this fiscal year. Mr. Ueda asked questions and made remarks where necessary at these meetings, as an auditor.
	Yoshinori Imai	Attended 15 out of 16 meetings of the Board of Directors, as well as all 16 meetings of the Audit Board held during this fiscal year. Mr. Imai asked questions and made remarks where necessary at these meetings, as an auditor.

(3) Outline of limited liability agreements

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

(4) Total amount of remunerations

Category	Outside Director		Outside Auditor		Total	
	Number to be paid (Person)	Amount to be paid (Millions of yen)	Number to be paid (Person)	Amount to be paid (Millions of yen)	Number to be paid (Person)	Amount to be paid (Millions of yen)
Basic remuneration	2	23	3	60	5	83

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:	¥320 million
ii)	Fees for tasks other than audit attestation based on Article 2, paragraph 1 of the Certified Public Accountants Act:	¥19 million

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

¥515 million

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

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

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

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

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

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

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

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

i) Compliance system

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

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

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

(Internal reporting system)

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

ii) System to ensure the reliability of financial reporting

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

iii) Internal audit system

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

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

i) Storage and management of minutes

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

Moreover, concerning the minutes of meetings of the Executive Committee, JT makes sure to properly stores and manages documents in accordance with internal rules on Executive Committee, etc.

ii) Storage and management of other information

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

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

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

JT has established internal policies, rules and manuals for the management of risk of loss relating to monetary and financial affairs, and ensures that relevant reports are made to the Executive Committee on a quarterly basis via Chief Financial Officer.

With regard to identifying and reporting the risk of loss relating to other affairs, in accordance with authority delegated to each department and division as per the Responsibilities/Authorities Allocation Rules, responsible departments and divisions take on a supervisory role creating all types of committees to conduct proper management and, depending on the level of importance, report risks to the Executive Committee or refer them to same for deliberation.

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

ii) Preparedness for possible emergencies

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

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

i) Board of Directors

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

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

ii) Proper delegation of authority and system of responsibilities

The Executive Committee, comprising JT's President and other members appointed by the President, discusses important management issues, particularly management policy and basic plans regarding overall business operations of JT, in addition to matters to be referred to the Board of Directors.

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

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

In order to enable prompt decision-making, the departments and divisions responsible for business execution are specified by the "Responsibilities/Authorities Allocation Rules."

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

i) Mission of the JT Group

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

ii) Group management

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

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

(6) System for employees assisting Auditors in their duties in the event such employees were requested by Auditors

i) Establishment of Auditor's Office

JT has created an Auditor's Office as an organization supporting the Auditors in performing their duties.

ii) Allocation of staff

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

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

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

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

ii) Prohibition of concurrent assignments

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

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

i) Reporting to the Audit Board

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

ii) Attendance at important meetings

Auditors are allowed to attend not only meetings of the Board of Directors but also other important meetings.

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

(9) Other systems to ensure effective auditing by Auditors

i) Cooperation with audits and auditing expenses

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

ii) Coordination between the Operational Review and Business Assurance Division and Compliance Office and the Auditors

The Operational Review and Business Assurance Division and the Compliance Office maintain cooperation with Auditors by exchanging information.

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

Consolidated Statement of Financial Position

(As of March 31, 2013)

(Millions of yen)

Account title	Amount	Account title	Amount
Current assets		**Current liabilities**	
Cash and cash equivalents	142,713	Trade and other payables	312,741
Trade and other receivables	387,837	Bonds and borrowings	44,301
Inventories	473,042	Income tax payables	85,714
Other financial assets	29,103	Other financial liabilities	8,550
Other current assets	177,858	Provisions	5,256
Subtotal	1,210,552	Other current liabilities	656,305
Non-current assets held-for-sale	2,594	Subtotal	1,112,867
Total current assets	1,213,146	Liabilities directly associated with non-current assets held-for-sale	101
		Total current liabilities	1,112,968
Non-current assets		**Non-current liabilities**	
Property, plant and equipment	672,316	Bonds and borrowings	270,399
Goodwill	1,316,476	Other financial liabilities	18,844
Intangible assets	348,813	Retirement benefit liabilities	343,095
Investment property	58,995	Provisions	4,786
Retirement benefit assets	14,825	Other non-current liabilities	113,226
		Deferred tax liabilities	97,309
Investments accounted for using the equity method	22,940	Total non-current liabilities	847,658
Other financial assets	71,781		
Deferred tax assets	133,348	**Total liabilities**	**1,960,627**
Total non-current assets	2,639,493	**Equity**	
		Share capital	100,000
		Capital surplus	736,411
		Treasury shares	(344,573)
		Other components of equity	(155,462)
		Retained earnings	1,469,749
		Equity attributable to owners of the parent company	1,806,125
		Non-controlling interests	85,887
		Total equity	1,892,012
Total assets	**3,852,639**	**Total liabilities and equity**	**3,852,639**

Consolidated Statement of Income

(Year ended March 31, 2013)

(Millions of yen)

Account title	Amount
Revenue	2,120,196
Cost of sales	(899,392)
Gross profit	1,220,804
Other operating income	42,165
Share of profit in investments accounted for using the equity method	2,775
Selling, general and administrative expenses	(733,385)
Operating profit	532,360
Financial income	5,493
Financial costs	(28,292)
Profit before income taxes	509,560
Income taxes	(158,042)
Profit for the year	351,518
Attributable to:	
Owners of the parent company	343,612
Non-controlling interests	7,906

Consolidated Statement of Changes in Equity

(Year ended March 31, 2013)

(Millions of yen)

	Equity attributable to owners of the parent company						
				Other components of equity			
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income
As of April 1, 2012	100,000	736,410	(94,574)	1,028	(387,228)	(309)	10,146
Profit for the year	–	–	–	–	–	–	–
Other comprehensive income (loss)	–	–	–	–	215,845	121	4,691
Comprehensive income (loss) for the year	–	–	–	–	215,845	121	4,691
Acquisition of treasury shares	–	–	(250,000)	–	–	–	–
Disposal of treasury shares	–	1	1	(2)	–	–	–
Share-based payments	–	–	–	247	–	–	–
Dividends	–	–	–	–	–	–	–
Changes in the ownership interest in a subsidiary without a loss of control	–	–	–	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	–	–	–	–	(2)
Other increase (decrease)	–	–	–	–	–	–	–
Total transactions with the owners	–	1	(249,999)	245	–	–	(2)
As of March 31, 2013	100,000	736,411	(344,573)	1,274	(171,383)	(187)	14,835

(Millions of yen)

	Equity attributable to owners of the parent company				Non-controlling interests	Total equity
	Other components of equity		Retained earnings	Total		
	Actuarial gains (losses) on defined benefit retirement plans	Total				
As of April 1, 2012	―	(376,363)	1,268,577	1,634,050	80,576	1,714,626
Profit for the year	―	―	343,612	343,612	7,906	351,518
Other comprehensive income (loss)	(28,201)	192,456	―	192,456	382	192,838
Comprehensive income (loss) for the year	(28,201)	192,456	343,612	536,068	8,288	544,356
Acquisition of treasury shares	―	―	―	(250,000)	―	(250,000)
Disposal of treasury shares	―	(2)	―	0	―	0
Share-based payments	―	247	―	247	―	247
Dividends	―	―	(114,258)	(114,258)	(4,061)	(118,319)
Changes in the ownership interest in a subsidiary without a loss of control	―	―	17	17	(522)	(505)
Transfer from other components of equity to retained earnings	28,201	28,199	(28,199)	―	―	―
Other increase (decrease)	―	―	―	―	1,606	1,606
Total transactions with the owners	28,201	28,444	(142,439)	(363,993)	(2,977)	(366,970)
As of March 31, 2013	―	(155,462)	1,469,749	1,806,125	85,887	1,892,012

Nonconsolidated Balance Sheet

(As of March 31, 2013)

(Millions of yen)

Account title	Amount	Account title	Amount
ASSETS		**LIABILITIES**	
Current assets	323,391	**Current liabilities**	679,416
Cash and deposits	35,069	Accounts payable–trade	15,536
Accounts receivable–trade	57,493	Short-term loans payable	272
Securities	11,960	Current portion of long-term loans payable	20,040
Merchandise and finished goods	28,563	Lease obligations	5,514
Semi-finished goods	60,991	Accounts payable–other	50,441
Work in process	4,150	National tobacco excise taxes payable	93,579
Raw materials and supplies	33,685	National tobacco special excise taxes payable	14,473
Advance payments–trade	547	Local tobacco excise taxes payable	108,284
Prepaid expenses	4,788	Income taxes payable	66,111
Deferred tax assets	15,283	Accrued consumption taxes	23,871
Short-term loans receivable from subsidiaries and affiliates	51,230	Cash management system deposits received	263,458
Other	19,655	Provision for bonuses	13,475
Allowance for doubtful accounts	(23)	Other	4,361
Noncurrent assets	2,461,523	**Noncurrent liabilities**	390,970
Property, plant and equipment	319,666	Bonds payable	180,000
Buildings	110,326	Long-term loans payable	30,000
Structures	3,136	Lease obligations	11,810
Machinery and equipment	78,250	Provision for retirement benefits	157,387
Vehicles	1,673	Asset retirement obligations	688
Tools, furniture and fixtures	31,916	Lease and guarantee deposits received	4,545
Land	87,046	Long-term accounts payable–other	6,540
Construction in progress	7,319	**Total liabilities**	1,070,385
		NET ASSETS	
Intangible assets	28,008	**Shareholders' equity**	1,699,822
Patent right	111	**Capital stock**	100,000
Right of trademark	4,421	**Capital surplus**	736,411
Software	17,462	Legal capital surplus	736,400
Other	6,014	Other capital surplus	11
		Retained earnings	1,207,984
Investments and other assets	2,113,849	Legal retained earnings	18,776
Investment securities	38,898	Other retained earnings	1,189,208
Stocks of subsidiaries and affiliates	2,019,809	Reserve for reduction entry	43,744
Investments in capital of subsidiaries and affiliates	782	Special account for reduction entry	10,675
		General reserve	955,300
Long-term loans receivable	250	Retained earnings brought forward	179,489
Long-term loans receivable from subsidiaries and affiliates	11,093	**Treasury stock**	(344,573)
		Valuation and translation adjustments	13,433
Long-term prepaid expenses	7,162	Valuation difference on available-for-sale securities	13,433
Deferred tax assets	22,473		
Other	13,814	**Subscription rights to shares**	1,274
Allowance for doubtful accounts	(432)	**Total net assets**	1,714,529
Total assets	2,784,914	**Total liabilities and net assets**	2,784,914

Nonconsolidated Statement of Income

(Year ended March 31, 2013)

(Millions of yen)

Account title	Amount	
Net sales		781,067
Cost of sales		272,683
Gross profit		508,384
Selling, general and administrative expenses		299,227
Operating income		209,157
Non-operating income		
Interest income	520	
Dividends income	4,707	
Other	2,859	8,086
Non-operating expenses		
Interest expenses	1,212	
Interest on bonds	2,087	
Financial support for domestic leaf tobacco growers	373	
Other	3,003	6,675
Ordinary income		210,568
Extraordinary income		
Gain on sales of noncurrent assets	33,463	
Other	1,737	35,200
Extraordinary loss		
Loss on sales of noncurrent assets	380	
Loss on retirement of noncurrent assets	7,370	
Impairment loss	2,344	
Other	763	10,857
Income before income taxes		234,911
Income taxes−current	84,245	
Income taxes−deferred	892	85,138
Net income		149,773

Nonconsolidated Statement of Changes in Net Assets

(Year ended March 31, 2013)

(Millions of yen)

	Shareholders' equity											
		Capital surplus			Retained earnings							
						Other retained earnings						
	Capital stock	Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Reserve for reduction entry	Special account for reduction entry	General reserve	Retained earnings brought forward	Total retained earnings	Treasury stock	Total shareholders' equity
As of April 1, 2012	100,000	736,400	10	736,410	18,776	37,113	10,595	955,300	150,684	1,172,469	(94,574)	1,914,305
Changes of items during the period												
Provision of reserve for reduction entry	–	–	–	–	–	13,073	–	–	(13,073)	–	–	–
Reversal of reserve for reduction entry	–	–	–	–	–	(6,442)	–	–	6,442	–	–	–
Provision of reserve for special account for reduction entry	–	–	–	–	–	–	10,675	–	(10,675)	–	–	–
Reversal of reserve for special account for reduction entry	–	–	–	–	–	–	(10,595)	–	10,595	–	–	–
Dividends from surplus	–	–	–	–	–	–	–	–	(114,258)	(114,258)	–	(114,258)
Net income	–	–	–	–	–	–	–	–	149,773	149,773	–	149,773
Purchase of treasury stock	–	–	–	–	–	–	–	–	–	–	(250,000)	(250,000)
Disposal of treasury stock	–	–	1	1	–	–	–	–	–	–	1	2
Net changes of items other than shareholders' equity	–	–	–	–	–	–	–	–	–	–	–	–
Total changes of items during the period	–	–	1	1	–	6,631	79	–	28,805	35,515	(249,999)	(214,483)
As of March 31, 2013	100,000	736,400	11	736,411	18,776	43,744	10,675	955,300	179,489	1,207,984	(344,573)	1,699,822

(Millions of yen)

	Valuation and translation adjustments		Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
As of April 1, 2012	9,406	9,406	1,028	1,924,739
Changes of items during the period				
Provision of reserve for reduction entry	–	–	–	–
Reversal of reserve for reduction entry	–	–	–	–
Provision of reserve for special account for reduction entry	–	–	–	–
Reversal of reserve for special account for reduction entry	–	–	–	–
Dividends from surplus	–	–	–	(114,258)
Net income	–	–	–	149,773
Purchase of treasury stock				(250,000)
Disposal of treasury stock				2
Net changes of items other than shareholders' equity	4,027	4,027	245	4,273
Total changes of items during the period	4,027	4,027	245	(210,210)
As of March 31, 2013	13,433	13,433	1,274	1,714,529

INDEPENDENT AUDITOR'S REPORT

April 30, 2013

To the Board of Directors of
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC

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

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Satoshi Iizuka (Seal)

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Koji Ishikawa (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 March 31, 2013 of Japan Tobacco Inc. (the "Company") and its consolidated subsidiaries, and the related consolidated statements of income and changes in equity for the fiscal year from April 1, 2012 to March 31, 2013, 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 in accordance with the provision of the second sentence of Article 120, paragraph 1 of the Ordinance on Accounting of Companies, which permits preparation of consolidated financial statements with the omission of some disclosure items 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 which are prepared with omission of some disclosure items required under IFRS in accordance with the provision of the second sentence of Article 120, paragraph 1 of the Ordinance on Accounting of Companies, present fairly, in all material respects, the financial position of Japan Tobacco Inc. and its consolidated subsidiaries as of March 31, 2013, and the results of their operations for the year then ended.

Interest

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

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

INDEPENDENT AUDITOR'S REPORT

April 30, 2013

To the Board of Directors of
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC

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

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Satoshi Iizuka (Seal)

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Koji Ishikawa (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 March 31, 2013 of Japan Tobacco Inc. (the "Company"), and the related nonconsolidated statements of income and changes in net assets for the 28th fiscal year from April 1, 2012 to March 31, 2013, 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 Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 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 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 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 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 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 financial position of Japan Tobacco Inc. as of March 31, 2013, 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 the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

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