[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.]

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Provisions to base upon:	Article 24, paragraph 1 of the Financial Instruments and Exchange Act
Filing to:	Director-General of the Kanto Local Finance Bureau
Date of filing:	June 21, 2013
Business year:	28th term (from April 1, 2012 to March 31, 2013)
Company name (Japanese):	日本たばこ産業株式会社 (*Nihon Tabako Sangyo Kabushiki-Kaisha*)
Company name (English):	JAPAN TOBACCO INC.
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Places where the document to be filed is available for public inspection:	Japan Tobacco Inc. Saitama Sales Office (55-1, Shimocho 1-chome, Omiya-ku, Saitama-shi, Saitama)
	Japan Tobacco Inc. Chiba Sales Office (5-13, Tsubakimori 5-chome, Chuo-ku, Chiba-shi, Chiba)
	Japan Tobacco Inc. Yokohama Sales Office (3-1, Kinkocho, Kanagawa-ku, Yokohama-shi, Kanagawa)
	Japan Tobacco Inc. Nagoya Sales Office (12-1, Iseyama 2-chome, Naka-ku, Nagoya-shi, Aichi)
	Japan Tobacco Inc. Osaka Sales Office (5-10, Oyodo-minami 1-chome, Kita-ku, Osaka-shi, Osaka)
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A. Company Information

I. Overview of the JT Group

1. Trends in principal management benchmarks

(1) Management benchmarks (consolidated)

Term	International Financial Reporting Standards		
	26th term	27th term	28th term
Accounting period	From April 1, 2010 to March 31, 2011	From April 1, 2011 to March 31, 2012	From April 1, 2012 to March 31, 2013
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 for the year (Millions of yen)	248,736	328,559	351,518
Profit attributable to owners of the parent company (Millions of yen)	243,315	320,883	343,612
Comprehensive income (loss) for the year (Millions of yen)	(48,967)	192,143	544,356
Total equity (Millions of yen)	1,601,311	1,714,626	1,892,012
Total assets (Millions of yen)	3,655,201	3,667,007	3,852,639
Equity attributable to owners of the parent company per share (Yen)	160,179.52	858.09	993.75
Basic earnings per share (Yen)	25,414.33	168.50	181.07
Diluted earnings per share (Yen)	25,407.09	168.44	180.99
Ratio of equity attributable to owners of the parent company to total assets (%)	41.73	44.56	46.88
Ratio of profit to equity attributable to owners of the parent company (%)	15.30	20.31	19.98
Price earnings ratio (PER) (Times)	11.82	13.83	16.57
Net cash flows from (used in) operating activities (Millions of yen)	406,847	551,573	466,608
Net cash flows from (used in) investing activities (Millions of yen)	(125,993)	(103,805)	(147,928)
Net cash flows from (used in) financing activities (Millions of yen)	(185,379)	(279,064)	(569,473)
Cash and cash equivalents at the end of the year (Millions of yen)	244,240	404,740	142,713
Number of employees [Separately, average number of temporary employees] (Person)	48,472 [11,611]	48,529 [10,702]	49,507 [9,313]

Notes: 1. Effective from the 27th term, the consolidated financial statements are prepared based on International Financial Reporting Standards (hereinafter, "IFRS").

2. The yen amounts are rounded to the nearest million.

3. Revenue does not include consumption taxes.
4. JT conducted a share split at a ratio of 200 to one with July 1, 2012 as effective date. Consequently, equity attributable to owners of the parent company per share, basic earnings per share and diluted earnings per share are calculated on the assumption that this share split was conducted at the beginning of the 27th term.

Term	Japanese GAAP			
	24th term	25th term	26th term	27th term
Accounting period	From April 1, 2008 to March 31, 2009	From April 1, 2009 to March 31, 2010	From April 1, 2010 to March 31, 2011	From April 1, 2011 to March 31, 2012
Net sales (Millions of yen)	6,832,307	6,134,695	2,432,639	2,547,060
Ordinary income (Millions of yen)	307,586	255,377	313,066	362,728
Income before income taxes and minority interests (Millions of yen)	262,143	276,054	281,147	345,028
Net income (Millions of yen)	123,400	138,448	145,366	227,399
Comprehensive income (loss) (Millions of yen)	–	–	(110,352)	117,047
Net assets (Millions of yen)	1,624,288	1,723,278	1,571,751	1,610,535
Total assets (Millions of yen)	3,879,803	3,872,595	3,544,107	3,472,612
Net assets per share (Yen)	162,087.74	172,139.61	156,996.72	160,570.98
Net income per share (Yen)	12,880.90	14,451.67	15,183.52	23,882.77
Diluted net income per share (Yen)	12,879.77	14,448.89	15,179.19	23,873.42
Equity ratio (%)	40.02	42.58	42.18	44.03
Return on equity (ROE) (%)	6.80	8.65	9.25	15.04
Price earnings ratio (PER) (Times)	20.33	24.08	19.79	19.51
Net cash flows from (used in) operating activities (Millions of yen)	275,271	320,024	399,638	551,617
Net cash flows from (used in) investing activities (Millions of yen)	(65,008)	(84,057)	(119,407)	(104,530)
Net cash flows from (used in) financing activities (Millions of yen)	(217,470)	(250,398)	(184,951)	(278,383)
Cash and cash equivalents at the end of the year (Millions of yen)	167,257	154,368	244,240	404,740
Number of employees [Separately, average number of temporary employees] (Person)	47,977 [11,736]	49,665 [11,870]	48,472 [11,611]	48,529 [10,702]

Notes:
1. Audits pursuant to Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act have not been conducted for the figures for the 26th term and the 27th term.
2. Effective from the 27th term, the method used for the consolidated financial statements based on Japanese GAAP has been changed to one which excludes the amount equivalent to tobacco excise taxes from net sales and cost of sales. As a consequence, the consolidated financial statements based on Japanese GAAP for the 26th term are presented reflecting retrospective application of this accounting policy change.
3. Effective from the 27th term, the “Accounting Standard for Earnings Per Share” (ASBJ Statement No. 2, June 30, 2010) and the “Guidance on Accounting Standard for Earnings Per Share” (ASBJ Guidance No. 4, June 30, 2010) are applied. As a consequence, diluted net income per share for the 26th term (Japanese GAAP) is presented reflecting retrospective application of this accounting policy change.
4. Foreign subsidiaries classified under the JT Group’s international tobacco business apply IFRS effective from the first quarter of the 27th term. As a consequence, the figures for the 27th term presented above are consolidated closing figures based on Japanese GAAP that include the portion of the international tobacco business to which IFRS is applied. In addition, all figures for the 26th term are consolidated closing figures based on Japanese GAAP that reflect retrospective application of this accounting policy change related to the international tobacco business.
5. Whereas the JT Group previously discarded fractional amounts of less than ¥1 million, effective from the 26th term, they are rounded to the nearest million.
6. Net sales do not include consumption taxes.

(2) Filing company's management benchmarks (non-consolidated)

Term	24th term	25th term	26th term	27th term	28th term
Accounting period	From April 1, 2008 to March 31, 2009	From April 1, 2009 to March 31, 2010	From April 1, 2010 to March 31, 2011	From April 1, 2011 to March 31, 2012	From April 1, 2012 to March 31, 2013
Net sales (Millions of yen)	2,173,552	2,052,654	749,252	734,902	781,067
Ordinary income (Millions of yen)	160,200	161,606	182,819	198,071	210,568
Net income (Millions of yen)	89,637	107,361	32,216	142,726	149,773
Capital stock (Millions of yen)	100,000	100,000	100,000	100,000	100,000
Total number of shares issued (Thousands of shares)	10,000	10,000	10,000	10,000	2,000,000
Net assets (Millions of yen)	1,845,443	1,901,759	1,854,401	1,924,739	1,714,529
Total assets (Millions of yen)	2,857,330	3,027,503	2,879,354	3,016,651	2,784,914
Net assets per share (Yen)	192,595.36	198,452.58	194,679.73	1,010.20	942.65
Cash dividends per share (Yen) [Interim dividends per share] (Yen)	5,400 [2,600]	5,800 [2,800]	6,800 [2,800]	10,000 [4,000]	68 [30]
Net income per share (Yen)	9,356.60	11,206.74	3,365.00	74.95	78.93
Diluted net income per share (Yen)	9,355.78	11,204.58	3,364.04	74.92	78.89
Equity ratio (%)	64.6	62.8	64.4	63.8	61.5
Return on equity (ROE) (%)	4.90	5.73	1.72	7.56	8.24
Price earnings ratio (PER) (Times)	27.99	31.05	89.30	31.09	38.01
Dividend payout ratio (%)	57.7	51.8	202.1	66.7	82.5
Number of employees [Separately, average number of temporary employees] (Person)	8,908 [1,164]	8,961 [1,349]	8,928 [1,387]	8,936 [1,393]	8,925 [1,390]

Notes:
1. The financial statements of the filing company are prepared based on Japanese GAAP.
2. Effective from the 27th term, the method used for the financial statements has been changed to one which excludes the amount equivalent to tobacco excise taxes from net sales and cost of sales. As a consequence, the financial statements for the 26th term are presented reflecting retrospective application of this accounting policy change.
3. Effective from the 27th term, the "Accounting Standard for Earnings Per Share" (ASBJ Statement No. 2, June 30, 2010) and the "Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No. 4, June 30, 2010) are applied. As a consequence, diluted net income per share for the 26th term is presented reflecting retrospective application of this accounting policy change.
4. Cash dividend per share for the 25th term of ¥5,800 includes the 25th anniversary commemorative dividend of ¥200.
5. Whereas JT previously discarded fractional amounts of less than ¥1 million, effective from the 26th term, they are rounded to the nearest million.
6. Net sales do not include consumption taxes.
7. JT conducted a share split at a ratio of 200 to one with July 1, 2012 as effective date. Consequently, net assets per share, net income per share and diluted net income per share are calculated on the assumption that this share split was conducted at the beginning of the 27th term. However, total number of shares issued and cash dividends per share are not calculated with the impact of the share split taken into consideration.

2. History

(1) Background of JT's transition to stock company

Before it became a stock company, Japan Tobacco Inc. (hereinafter, "JT") was formerly Japan Tobacco and Salt Public Corporation, or JTS. JTS was established in June 1, 1949 with the "Aim to bring soundness and efficiency to the operation of the national government monopolies." JTS, serving as the main body for conducting operations of the tobacco monopoly system and other government monopolies, contributed to establishing stable supply of tobacco and securing tobacco-derived financial revenues.

However, the growth in demand for cigarettes in Japan began to slow in the mid-1970s as the result of demographic trends and growing concern about health risks associated with smoking. This trend continued, such that growth in industry sales essentially stopped. In addition to the structural change, the Japanese domestic tobacco market was virtually opened to foreign tobacco suppliers, triggering competition between domestic and foreign tobacco products in Japan, and foreign countries stepped up pressure on Japan to take further market-opening measures that were difficult to implement within the framework of the monopoly tobacco sales system. Amid such pressure as well as moves toward the reform of government-run public corporations, Ad Hoc Commission on Administrative Reform was established in March 1981 to conduct research on the public corporation system. In its third report (July 30, 1982), the commission proposed drastic reform of the monopoly system and the public corporation system.

In response to this proposal, the government conducted a comprehensive review of these systems and drafted bills to:

- Abolish the tobacco monopoly law in order to liberalize tobacco imports and establish a tobacco business law in order to make necessary adjustments related to the tobacco business.
- Abolish the JTS law, reorganize JTS as stock company so as to enable it to pursue rational corporate management as much as possible and establish the Japan Tobacco Inc. Act, which provides for a necessary minimum level of regulation in light of the corporation's need to compete with foreign tobacco companies on an equal footing in the domestic market following the liberalization of tobacco imports.

These bills were enacted on August 3, 1984 in the 101st session of the Diet and promulgated on August 10 of the same year.

(2) Status of JT after its incorporation

JT was incorporated on April 1, 1985, pursuant to the Japan Tobacco Inc. Act (Act No. 69 of August 10, 1984; hereinafter, the "JT Act"), and all of the start-up capital was provided by the Japan Tobacco and Salt Public Corporation, or JTS. When incorporated, JT succeeded all the rights and obligations of JTS.

The main changes since the incorporation of JT are as follows:

Date	Details of change
April 1985	Japan Tobacco Inc. was incorporated.
April 1985	The Business Development Division was established to promote active development of new businesses. Subsequently until July 1990, in order to reinforce the promotion system for each business, this division was reformed and business departments were established dealing with medicine, food, etc.
March 1986	Fukuoka and Tosu Factories closed and Kitakyushu Factory built to modernize and rationalize tobacco production. Subsequently until June 1996, nine more tobacco factories were closed down in further moves towards rationalization of the tobacco production system.
October 1988	The communication name “JT” was introduced.
July 1991	The Head Office was relocated from Minato-ku to Shinagawa-ku to make way for the construction of the new Head Office building.
September 1993	The Central Pharmaceutical Research Institute was established to reinforce JT’s internal pharmaceutical research and development capabilities.
October 1994	The initial public offering of JT shares held by the Japanese government took place. (394,276 shares) JT shares were listed on the First Section of the Tokyo, Osaka and Nagoya Stock Exchanges.
November 1994	JT shares were listed on the Kyoto, Hiroshima, Fukuoka, Niigata and Sapporo Stock Exchanges.
May 1995	The Head Office was relocated from Shinagawa-ku to Minato-ku.
June 1996	The second public offering of JT shares held by the Japanese government took place. (272,390 shares)
April 1997	In accordance with the abolition of the salt monopoly, JT ended its salt monopoly business. The Tobacco Mutual Aid Pension scheme was united with the Employees’ Pension scheme.
April 1998	JT signed an agreement with Unimat Corporation to form a business alliance in the soft drinks business and acquired a majority stake in the company.
December 1998	JT acquired a majority stake in Torii Pharmaceutical Co., Ltd. through a tender offer.
May 1999	JT acquired the non-US tobacco operations of RJR Nabisco Inc.
July 1999	JT acquired the food business of Asahi Kasei Corporation, including eight subsidiaries such as Asahi Foods Corporation.
October 1999	Through the business alliance with Torii Pharmaceutical Co., Ltd., research and development in the medical pharmaceutical business was concentrated in JT while promotion functions were united within Torii Pharmaceutical.
March 2003	In order to establish a basis for future profit growth in the domestic tobacco business, the Sendai, Nagoya and Hashimoto Factories were closed down.
October 2003	JT acquired 45,800 of its own shares in order to expand its management options.
March 2004	In order to establish a basis for future profit growth in the domestic tobacco business, the Hiroshima, Fuchu, Matsuyama and Naha Factories were closed down.
June 2004	The third public offering of JT shares held by the Japanese government took place. (289,334 shares)
November 2004 to March 2005	JT acquired 38,184 of its own shares in order to expand its management options.
March 2005	In order to establish a basis for future profit growth in the Japanese domestic tobacco business, the Ueda, Hakodate, Takasaki, Takamatsu, Tokushima, Usuki, Kagoshima and Miyakonojo Factories were closed down.
April 2006	JT ceased to produce, sell and use Marlboro brand cigarette exclusively in Japan upon the expiration of the license term.
April 2007	JT acquired shares issued of the Gallaher Group Plc of the United Kingdom through an acquisition method under English act known as a scheme of arrangement.
January 2008	JT acquired the shares of Katokichi Co., Ltd. through a tender offer.
March 2009	In order to restructure the domestic tobacco business in ways to make it more competitive, Kanazawa Factory was closed down.
March 2010	In order to restructure the domestic tobacco business in ways to make it more competitive, Morioka and Yonago Factories were closed down.
February 2011 to March 2011	JT acquired 58,630 of its own shares as part of its efforts to increase shareholder returns and in order to improve capital efficiency.
March 2011	In order to restructure the domestic tobacco business in ways to make it more competitive, Odawara Factory was closed down.
March 2012	In order to restructure the domestic tobacco business in ways to make it more competitive, Hofu Factory was closed down.

Date	Details of change
February 2013	The Mild Seven brand was renewed as “Mevius” in Japan.
February 2013	JT repurchased 86,805,500 of its own shares as part of its efforts to increase shareholder returns, to improve capital efficiency and ease the impact on the stock market from the government’s sale of JT shares it holds.
March 2013	The fourth public offering of JT shares held by the Japanese government took place. (253,261,800 shares)

Note: The stock split of 5-for-1 was conducted as of April 1, 2006 and the stock split of 200-for-1 was conducted as of July 1, 2012.

3. Business description

Our management principles are based on the pursuit of the “4S” model. We will balance the interests of consumers, shareholders, employees and wider society, and fulfill our responsibilities towards them, aiming to exceed their expectations..

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 achieving our mission, we have set “The JT Group Way” as code of conduct which all of the JT Group members are committed to: “fulfilling the expectations of our consumers and behave responsibly”, “striving for quality in everything we do through continuous improvement”, and “leveraging diversity across the JT Group”.

The main business activities operated by JT, its 230 consolidated subsidiaries and 12 companies accounted for by the equity method, and the relationship of each company to the Group’s business activities are stated below.

The following five segments are the same as the segmentation of reportable segments in “V. Accounting, 1. Financial statements, (1) Financial statements, Notes to consolidated financial statements, 6. Operating segments, (1) Outline of reportable segments.”

Effective from the second quarter ended September 30, 2012, the segmentation of reportable segments has been changed. For details, please refer to “V. Accounting, 1. Financial statements, (1) Financial statements, Notes to consolidated financial statements, 6. Operating segments, (1) Outline of reportable segments.”

The JT Group is a global company operating the domestic and international tobacco businesses, pharmaceutical business, beverage business and processed food business.

Domestic Tobacco Business

The domestic tobacco business consists of the manufacture and sale of tobacco products.

JT manufactures and sells tobacco products, and TS Network Co., Ltd. conducts distribution-related operations such as distribution of JT’s tobacco products and wholesale of foreign tobacco products (imported tobacco products). Japan Filter Technology Co., Ltd. and other subsidiaries manufacture materials.

Major subsidiaries and affiliates

TS Network Co., Ltd., JT Logistics Co., Ltd., Japan Filter Technology Co., Ltd., Fuji Flavor Co., Ltd., JT Engineering Inc.

Besides the companies named above, there are 10 consolidated subsidiaries and 2 companies accounted for by the equity method.

International Tobacco Business

The international tobacco business consists of the manufacture and sale of tobacco products with JT International S.A. as the core company.

Major subsidiaries and affiliates

JT International S.A., Gallaher Ltd., JTI Marketing and Sales CJSC, LLC Petro, Liggett-Ducat CJSC, JT International Germany GmbH, JTI Tütün Urunleri Sanayi A.S., JTI-Macdonald Corp.

Besides the companies named above, there are 147 consolidated subsidiaries and 6 companies accounted for by the equity method.

Pharmaceutical Business

The pharmaceutical business consists of research and development, manufacture and sale of prescription drugs.

JT concentrates on research and development while Torii Pharmaceutical Co., Ltd. manufactures and promotes sales of drugs (including JT's products).

Major subsidiaries and affiliates

Torii Pharmaceutical Co., Ltd., Akros Pharma Inc.

Besides the companies named above, there are 2 consolidated subsidiaries.

Beverage Business

The beverage business consists of the manufacture and sale of beverages.

JT develops products while JT Beverage Inc., Japan Beverage Holdings Inc. and certain other subsidiaries sell them.

Major subsidiaries and affiliates

JT Beverage Inc., Japan Beverage Holdings Inc.

Besides the companies named above, there are 15 consolidated subsidiaries.

Processed Food Business

In the processed food business, TableMark Co., Ltd. and certain other subsidiaries are engaged in manufacturing and selling of frozen and room-temperature processed foods, bakery products and seasonings.

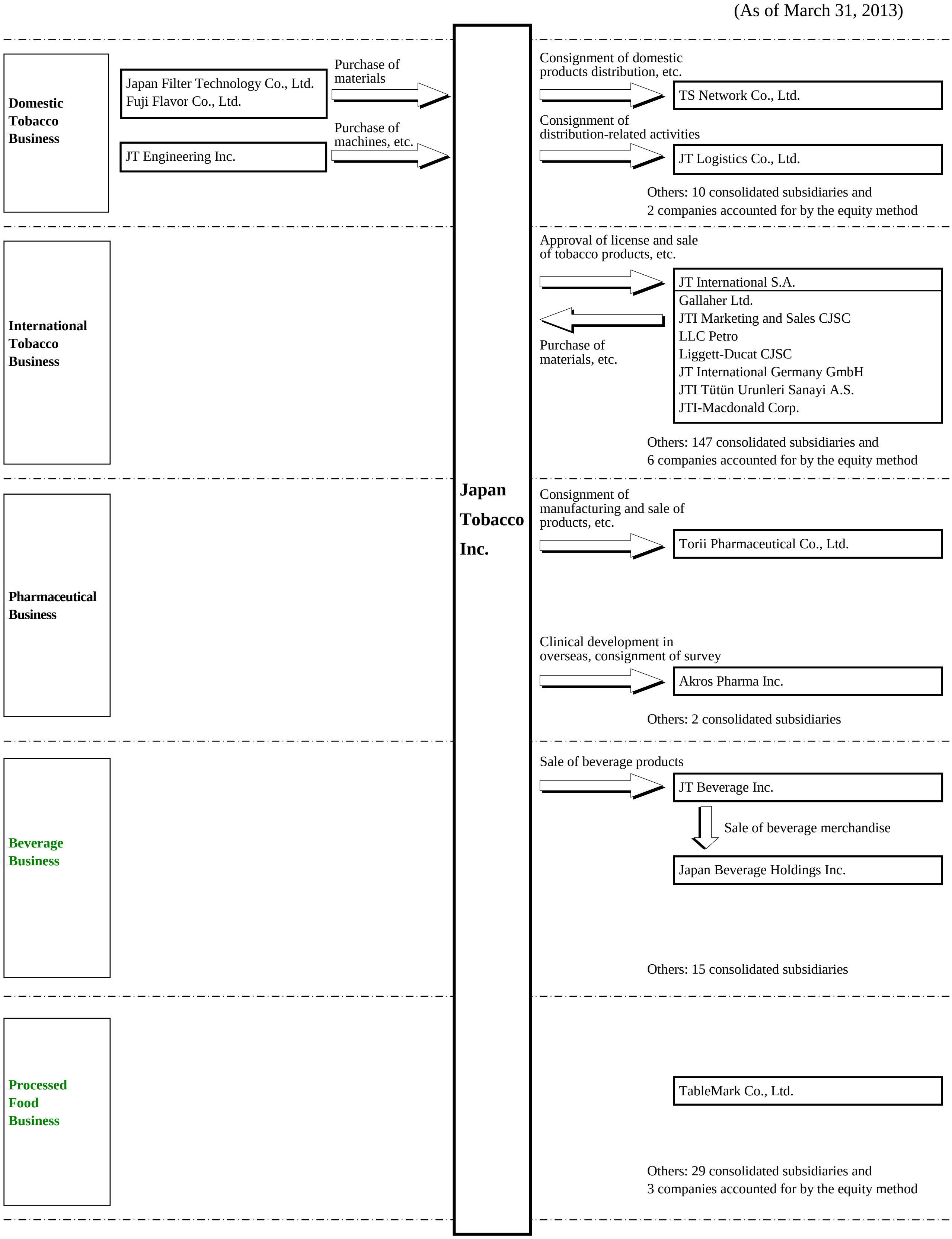
Major subsidiaries and affiliates

TableMark Co., Ltd.

Besides the companies named above, there are 29 consolidated subsidiaries and 3 companies accounted for by the equity method.

In addition to the reportable segments mentioned above, the JT Group runs businesses, etc. relating to the rent of real estate, etc. There are 9 consolidated subsidiaries and 1 company accounted for by the equity method deemed as subsidiaries and affiliates not affiliated to any reportable segment.

The following business activities diagram show the matters described above.



* In addition to the reportable segments mentioned above, the JT Group runs businesses, etc. relating to the rent of real estate, etc. There are 9 consolidated subsidiaries and 1 company accounted for by the equity method deemed as subsidiaries and affiliates not affiliated to any reportable segment.

An overview of each of the fields of research and development, procurement, manufacturing and sales, etc. in each business is as follows.

Tobacco Business

The JT Group's tobacco business (the JT Group's tobacco business is managed separately for domestic and overseas markets. The tobacco business' reportable segments are accordingly divided into "domestic tobacco business" and "international tobacco business") has the third largest sales volume in the world (excluding China National Tobacco Corporation) and operates in over 120 markets. Our portfolio includes 3 of the top 10 selling global brands.

<Research and development>

We are committed to strengthening our R&D capabilities to ensure a long-term competitive advantage. Our focus areas in the R&D activities are the development of new leaf tobacco varieties, improvement of tobacco leaf processing, enhancement of taste, upgrade of manufacturing technology, and continuous progress on emerging product development capabilities. We aim to add value to our products in these focus areas in a cost efficient manner. We have established a global research platform in Japan, which focuses on the fundamental research and product technology development. To best meet consumers' needs and preferences, our market teams are continuously engaged in the product development.

<Procurement of tobacco leaves>

The supply of tobacco leaves, raw materials used in manufacturing tobacco products, is affected by a variety of factors, such as climate conditions, agricultural input prices, and energy costs. As a result of an increase in costs, the supply of tobacco leaves has been unstable, leading to the fluctuations in tobacco leaf prices. Given these circumstances, the JT Group aims to secure a stable supply and ensure competitive leaf purchase prices. This will be achieved through further vertical integration and strengthening of our relationships with our leaf suppliers.

- Procurement of non-Japan origin tobacco leaf

The JT Group sources leaves both internally, from major tobacco leaf producing countries (the United States, Brazil, Malawi, etc.), and externally, mainly from the two leading international suppliers.

Our internal source was established in 2009, when we acquired the tobacco leaf suppliers (in Brazil and in Africa), and we set up a U.S. joint venture operation. Since then, our efforts have been focused on ensuring the stable procurement through vertical integration, strengthening quality control by supporting farmers, and reinforcing the leaf procurement organization by developing our expertise in this area.

- Procurement of Japan origin tobacco leaves

In Japan, the Tobacco Business Act ("Ordinance") requires us to enter into purchase contracts with tobacco farmers every year and purchase the entire usable tobacco harvest. The aggregate cultivation area size and leaf prices for the subsequent year are determined respecting the recommendations from the Leaf Tobacco Deliberative Council(Note).

Note: The Leaf Tobacco Deliberative Council is a council which confers on important matters concerning the cultivation and purchase of domestically grown leaf tobacco in response to inquiries by the JT representatives. The council consists of no more than 11 members, who represent domestic leaf tobacco growers as well as appointees from the academia appointed by JT with the approval of the Minister of Finance (MOF).

<Manufacturing>

We devote our efforts to manufacture quality tobacco products that strengthen consumers' confidence. Our global manufacturing footprint include 9 factories in Japan (6 tobacco manufacturing and 3 tobacco-related factories), and 30 factories in 26 other countries (including tobacco-related factories). In a limited number of cases, we also partner with competing manufacturers under contracts and or license agreements to manufacture our products.

<Marketing>

To enhance brand loyalty, we are conducting extensive and effective marketing activities in accordance to the various regulations and standards.

Globally, our marketing activities are focused predominately on GFBs(Note), while complementing our brand portfolio by promoting local brands as well.

Note: We have identified eight brands which constitute the core 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).

<Retail prices>

In setting a retail price for a product, we consider various factors, including positioning of the brand, perceived value of the product, retail price of competing products, and our margin. In addition, there are regulations that influence our price-setting decisions. For example, some countries adopt a fixed retail price requirement, and forms of excise taxation on tobacco products (specific and/or ad valorem) differ among the countries. Retail price changes most often occur in case of tax increase. Globally, governments increase taxes to secure tax revenues and promote public health.

<Sales (distribution)>

To ensure that our products are delivered to consumers, we use optimal distribution networks for each market in accordance with the legal constraints, established local business practices, and other factors. Our distribution networks can be independent distribution networks or local agencies and distributors.

There are various sales channels for tobacco products; chain stores such as convenience stores, gas stations and supermarkets, small independent retailers and vending machines. The contribution of each channel to the total industry sales varies from market to market. Accordingly, we develop different trade marketing initiatives for each market, depending on the focus channels as well as consumer trend and competitors' strategies.

Pharmaceutical Business

JT commenced the pharmaceutical business in 1987. Our mission is to build world-class, unique R&D capabilities and reinforce our market presence through innovative drugs. The pharmaceutical business is currently focusing on the development, production, and sale of prescription drugs.

In December 1998, the JT Group acquired a majority of the outstanding shares in Torii Pharmaceutical Co., Ltd. (hereinafter, "Torii Pharmaceutical"). After the acquisition, all production as well as sales and promotion functions were integrated under Torii Pharmaceutical, while all R&D functions were grouped under JT.

In April 2000, we established an R&D base outside Japan by adding a clinical development function to Akros Pharma Inc., a JT Group company based in the state of New Jersey, United States.

In order to establish and strengthen our earnings base, we are enhancing our R&D pipeline, exploring opportunities for strategic in- or out-licensing and strengthening collaboration with license partners.

<Research and development>

- Overview

R&D activities are the foundation of the JT's pharmaceutical business and are critical for our long-term growth and profitability. Our R&D activities focus mainly on the fields of glucose and lipid metabolism, virus research and immune disorders and inflammation.

Through the pharmaceutical business the JT Group invested ¥30.7 billion in R&D during the year ended March 31, 2013 and ¥24.9 billion in the year ended March 31, 2012.

- R&D process

JT's Central Pharmaceutical Research Institute is responsible for discovery research, drug development, and pre-clinical trial research. JT's pharmaceutical development division and Akros Pharma Inc. undertake clinical trials and handle the application process to receive certification for any new drugs. Concerning compounds out-licensed for development and commercialization outside Japan, the licensees implement the subsequent processes.

<Production>

The JT Group's pharmaceutical products are produced by Torii Pharmaceutical or contract manufacturers outside the JT Group.

<Sales and promotion>

- Sales and promotion outside Japan

At present, the JT Group does not have its own sales organization for pharmaceutical products outside Japan. We out-license the right to develop and commercialize outside Japan for a certain compounds in the development stage and receive royalties from our partners linked to their sales performance.

- Sales and promotion in Japan

Torii Pharmaceutical is mainly responsible for sales of our pharmaceutical products to pharmaceutical wholesalers and promotion to medical facilities. Promotional activities are conducted by around 460 medical representatives (MRs) stationed at Torii Pharmaceutical's 14 sales branches across Japan.

REMITCH, the treatment drug of pruritus in hemodialysis patients and Truvada, an anti-HIV drug, are our main products among others.

Beverage and Processed Food Businesses

In the JT Group's beverage and processed food businesses, we operate production and sales of beverages and processed foods, respectively, in Japan.

JT started its beverage business in 1988. In the beverage business, we are striving to further strengthen the flagship brand "Roots" and to enhance the sales network that centers on our subsidiary Japan Beverage Holdings Inc. (hereinafter, "Japan Beverage"), a vending machine operator. Through these efforts, we aim to steadily grow the beverage business and enhance its profitability.

Since its start in 1998, we have been expanding the processed food business through organic growth as well as business investments in the form of M&As and strategic partnerships. Now it is managed by our subsidiary TableMark Co., Ltd. and its group companies (hereinafter, "TableMark").

In 2008, we acquired Katokichi Co., Ltd., a major frozen food manufacturing company in Japan, through a tender offer. The JT Group's processed food operations were transferred over to Katokichi as part of the integration. In 2010, Katokichi changed its corporate name to TableMark to pursue synergies and foster a sense of unity within the group. The business pillars of TableMark, which operates mainly in Japan, include frozen and room-temperature processed foods, mainly staple food products such as frozen noodles, frozen rice, packed rice and frozen bread bakery chain outlets in the Tokyo metropolitan area and seasonings, including yeast, kelp and bonito extracts, combination seasonings and processed seasonings for direct consumer consumption such as oyster sauce. Major processed food products include “Reito-Sanuki-Udon” (frozen noodles), “Takitate-Gohan” (packed rice) and the “Vertex” yeast extract seasonings in particular.

<Research and development>

Regarding R&D, we devote our efforts to the development of innovative products that meet consumers’ needs and preferences.

In the beverages business, we search for new materials, develop new products and reform existing brands such as “Roots,” develop new containers and production technology. For our flagship brand “Roots,” we adopted the high-temperature, short-time (HTST) method for the production of canned coffee, becoming the first company to use the method for canned coffee. This method considerably reduces the time needed for heat sterilization, thereby limiting flavor loss and making it possible to replicate the taste of freshly brewed coffee.

Regarding processed food business, we have developed frozen bread products which allow consumers to enjoy the taste of freshly baked bread at home. TableMark’s original techniques for fermentation, baking and freezing recreate and preserve the taste and texture of fresh bread.

<Procurement>

The first step to produce safe foods is to procure safe and high-quality raw materials. For the procurement, the JT Group reviews quality assurance certificates submitted by its suppliers. We also carry out monitoring inspections to check agrochemical residues as well as conduct regular inspections at processing factories to ensure compliance with the JT Group’s internal standards, in addition to the Food Sanitation Act and other relevant laws. Our inspection for agrochemical residues is strictly based on a “positive list system,” as specified by the Food Sanitation Act.

Furthermore, we examine the safety of production sites for raw materials which are procured from overseas for our processed food business. Concerning agricultural farms, we check not only soil and water, but also how products are cultivated and how agrochemicals are handled. Breeding farms and fish farms are also inspected.

<Production>

In the beverage business, the JT Group outsources production of all beverages, except for certain bottled drinking water, to our partner factories in the domestic beverage field, which monitor strictly their production process and product quality. We maintain strong partnerships with our partner factories to retain competitive production capabilities and secure a stable supply source. Progress is being made to secure HACCP and FSSC22000 certification at all of our partner factories.

In the processed food business, the JT Group operates 19 factories in Japan and 8 outside Japan. We outsource production of some processed foods to domestic and international contract manufacturers. All of the JT Group’s 27 factories in and outside Japan, as well as our business partners’ factories which produce our frozen foods, have achieved the ISO 22000 certification. Under the ISO 22000 standard, continuous improvements are made following effective rules to control sanitation and other key issues. These rules are set based on the HACCP concept and their effectiveness is tested using scientific evidence.

<Marketing>

In the beverage business, by examining numerous data and research, target consumers, price-range and

sales channels are determined, while the most suitable and original marketing plan is developed. Also, mass media advertising and in-store promotions are conducted.
In the processed food business, we analyze the market from consumers' point of view and, by combining the technology owned by TableMark, we strive to provide products with new values to expand the market and increase our place there. We strive for effective marketing in order to improve consumer awareness of our products.

<Sales and distribution>

In the beverage business, products are sold in vending machines primarily through our Group company Japan Beverage, one of the leading vending machine operators in Japan. Our products are also sold in convenience stores and supermarket chains. Promotions in each of these channels are offered in order to enhance our sales volume.
In the processed food business, we strive to enhance profitability through sales division structure optimization and our initiatives to increase our presence in supermarkets and convenience stores, by offering a wider range of products while also seeking better shelf space.

<Food safety>

To ensure that consumers can continue to enjoy our products safely, the JT Group has established independent food safety management divisions which are responsible for overall food safety controls of our beverage and processed food businesses. Cross functional food safety initiatives within the JT Group are promoted - for example, the function of TableMark's Tokyo Quality Control Center is utilized for the beverage business. We seek assessment and advice on our initiatives from external food safety experts for the processed food business. We reflect the experts' knowledge and viewpoints in our business by actively incorporating them into food safety controls.

Details of the food safety activities, including the discussions described in the above "Procurement" and "Production" sections, are disclosed on our website.

4. Status of subsidiaries and affiliates

As of March 31, 2013

Name	Location	Capital (Millions of yen)	Principal business	Holding rate of voting rights (%)	Relationship				
					Interlocking of officers, etc.		Financial assistance	Business relationship	Facility leasing
					Officer of JT	Employee of JT			
(Consolidated subsidiaries) 230 companies									
TS Network Co., Ltd.	Taito-ku, Tokyo	460	Domestic tobacco	74.5	No	Yes	No	Consignment of tobacco products distribution, etc.	Yes
JT Logistics Co., Ltd.	Shibuya-ku, Tokyo	207	Domestic tobacco	100.0	No	Yes	No	Consignment of tobacco products and raw materials distribution	Yes
Japan Filter Technology Co., Ltd. *1	Shibuya-ku, Tokyo	461	Domestic tobacco	87.6	No	Yes	No	Purchase of filter for tobacco products	Yes
Fuji Flavor Co., Ltd.	Hamura-shi, Tokyo	196	Domestic tobacco	100.0	No	Yes	Yes	Purchase of flavors for tobacco products	No
JT Engineering Inc. *1	Sumida-ku, Tokyo	200	Domestic tobacco	100.0	No	Yes	No	Purchase of machines, etc.	Yes
JT International Group Holding B.V. *1, 4	Netherlands	Thousands of USD 1,800,372	International tobacco	100.0	Yes	Yes	No	No	No
JT International Holding B.V. *1	Netherlands	Thousands of USD 1,800,372	International tobacco	100.0 (100.0)	No	Yes	No	No	No
JT International S.A. *1	Swiss	Thousands of CHF 1,215,425	International tobacco	100.0 (100.0)	Yes	No	No	Approval of license and sale of tobacco products, etc.	No
Gallaher Ltd. *1	U.K.	Thousands of GBP 172,495	International tobacco	100.0 (100.0)	No	No	No	No	No
JTI Marketing and Sales CJSC *2	Russia	Thousands of RUB 108,700	International tobacco	100.0 (100.0)	No	No	No	No	No
LLC Petro	Russia	Thousands of RUB 328,439	International tobacco	100.0 (100.0)	No	No	No	No	No
Liggett-Ducat CJSC	Russia	Thousands of RUB 260,366	International tobacco	100.0 (100.0)	No	No	No	No	No
JT International Germany GmbH	Germany	Thousands of EUR 37,394	International tobacco	100.0 (100.0)	No	No	No	No	No
JTI Tütün Urunleri Sanayi A.S.	Turkey	Thousands of TRY 148,825	International tobacco	100.0 (100.0)	No	No	No	No	No
JTI-Macdonald Corp. *1	Canada	Thousands of CAD 535,021	International tobacco	100.0 (100.0)	No	No	No	No	No
Torii Pharmaceutical Co., Ltd. *3	Chuo-ku, Tokyo	5,190	Pharmaceutical	54.5	No	Yes	No	Consignment of manufacturing and sale of products, etc.	Yes
Akros Pharma Inc.	U.S.A.	Thousand of USD 1	Pharmaceutical	100.0 (100.0)	No	Yes	No	Clinical development in overseas, consignment of survey	No
JT Beverage Inc.	Shinagawa-ku, Tokyo	90	Beverage	100.0	No	Yes	Yes	Consignment of selling beverages, etc.	Yes
Japan Beverage Holdings Inc.	Shinjuku-ku, Tokyo	500	Beverage	67.6	No	Yes	No	Sale of beverages through JT Beverage Inc.	Yes
TableMark Co., Ltd. *1	Chuo-ku, Tokyo	47,503	Processed food	100.0	No	Yes	Yes	No	Yes
Other 210 companies *1									
(Companies accounted for by the equity method) 12 companies									

Notes: 1. Descriptions in the "Principal business" column are names of segments.

2. The figures in parentheses in the “Holding rate of voting rights” column are indirect holding rates included in the figures outside the parentheses.
3. “Interlocking of officers, etc.” includes interlocking of officers of associated companies and secondment of officers of JT.
4. With regard to foreign subsidiaries at which the closing dates of the accounting period fall on December 31, the above shows the situation as of December 31, 2012.
5. *1: These companies are classified as specified subsidiaries. Companies that fall under the category of specified subsidiaries included in “Other 210 companies” are as follows.
   JTI (UK) MANAGEMENT LTD, JT Canada LLC Inc., Gallaher Europe Finance, Austria Tabak GmbH
   Specified subsidiary JT Canada LLC II Inc. was dissolved in April 2012 due to capital improvement.
6. *2: Revenue of JTI Marketing and Sales CJSC (excluding revenue among the consolidated companies) exceed 10% of consolidated revenue of the JT Group.

Name	Major profit/loss information (Millions of yen)				
	Revenue	Profit before income taxes	Profit for the year	Total equity	Total assets
JTI Marketing and Sales CJSC	240,221	56,121	44,147	12,474	90,405

7. *3: This company files Annual Securities Report.
8. *4 This company changed its trade name from JT Europe Holding B,V. in October 2012.
9. Consolidated subsidiary Green Foods Co., Ltd. is insolvent, with liabilities exceeding assets by ¥10,101 million. Green Foods Co., Ltd. suspended business operations in December 2012.

5. Status of employees

(1) Consolidated companies

(As of March 31, 2013)

Segment	Number of employees (Person)
Domestic Tobacco Business	11,043 [3,893]
International Tobacco Business	24,397 [1,649]
Pharmaceutical Business	1,744 [164]
Beverage Business	4,912 [360]
Processed Food Business	6,563 [3,162]
Common company-wide services within the filing company, etc.	848 [85]
Total	49,507 [9,313]

Notes: 1. The number of employees indicates the number of working employees, and the average number of temporary employees during this fiscal year is given in parentheses separately.

2. The number of employees in foreign subsidiaries in which the closing dates of the accounting period fall on December 31 is calculated using the number of employees as of December 31, 2012.

3. The number of employees in the “Common company-wide services within the filing company, etc.” row is the number of those working for departments unclassifiable to specific segments, such as the administrative department.

(2) Filing company (JT)

(As of March 31, 2013)

Number of employees (Person)	Average age (Year old)	Average years of service (Year)	Average annual salary (Yen)
8,925 [1,390]	43.6	22.0	8,683,569

The numbers of employees by segment are as follows.

Segment	Number of employees (Person)
Domestic Tobacco Business	7,628 [1,387]
Pharmaceutical Business	739 [0]
Beverage Business	62 [2]
Common company-wide services within the filing company, etc.	496 [1]
Total	8,925 [1,390]

Notes: 1. The number of employees indicates the number of working employees, and the average number of temporary employees during this fiscal year is given in parentheses separately.

2. The number of employees in the “Common company-wide services within the filing company, etc.” row is the number of those working for departments unclassifiable to specific segments, such as the administrative department.

3. The number of employees includes contract employees (91), employees on leave (96) and employees transferred to JT (75), but excludes employees transferred from JT (942).

4. Average years of service includes years of service at Japan Tobacco and Salt Public Corporation.

5. Average annual salary (including taxes) includes bonuses and surplus wages.

(3) Status of labor union

In the JT Group, the labor-management relations are stable and there are no matters that should be reported.

II. Review of operations

1. Overview of operating results

(Non-GAAP financial measures)

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

Core revenue

For tobacco business, core revenue is disclosed additionally as a breakdown of revenue. Specifically, the 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.

Adjusted EBITDA

The adjusted EBITDA is, where operating profit, less depreciation and amortization and adjustment items (income and costs), etc., is presented in order to provide useful comparative information on our performance. Adjustment items (income and costs) are impairment losses on goodwill and restructuring income and costs, and others items.

Furthermore, for the international tobacco business, adjusted EBITDA at constant rates of exchange which excludes foreign exchange effects, is also presented as additional information. Adjusted EBITDA at constant rates of exchange for a relevant period in the international tobacco business is calculated using the foreign exchange rates of the prior year.

(Change in segments)

In the second quarter ended September 30, 2012, the JT Group split the former "Food Business" into two segments, the "Beverage Business" and the "Processed Food Business." For details, please refer to "V. Accounting, 1. Financial statements, (1) Financial statements, Notes to consolidated financial statements, 6. Operating segments, (1) Outline of reportable segments."

(1) Operating results

<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.

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013	Change	
	Billions of yen	Billions of yen	Billions of yen	%
Revenue	2,033.8	2,120.2	86.4	4.2
Domestic Tobacco Business	646.2	687.1	41.0	6.3
Of which, core revenue (Note)	611.9	654.0	42.1	6.9
International Tobacco Business	966.3	1,010.7	44.4	4.6
Of which, core revenue (Note)	894.6	943.1	48.5	5.4
Pharmaceutical Business	47.4	53.2	5.8	12.1
Beverage Business	188.8	185.5	(3.3)	(1.7)
Processed Food Business	170.7	168.7	(1.9)	(1.1)

* Figures exclude revenue within consolidated companies.

* Revenue includes rent received from leased properties in addition to items relating to the segments shown above. For details, please refer to "V. Accounting, 1. Financial statements, (1) Financial statements, Notes to consolidated financial statements, 6. Operating segments, (2) Revenues and performances for reportable segments."

Note: Revenue from imported tobacco delivery charges, among others, is excluded from the domestic tobacco business. Revenue from the distribution business, contract manufacturing, among others, is excluded from the international tobacco business.

<Cost of sales, other operating income, share of profit in investments accounted for using the equity method, selling, general and administrative expenses>

Cost of sales increased by ¥7.4 billion, or 0.8%, from the previous fiscal year to ¥899.4 billion, while other operating income decreased by ¥6.3 billion, or 13.1%, from the previous fiscal year to ¥42.2 billion. Share of profit in investments accounted for using the equity method increased by ¥0.7 billion, or 35.6%, from the previous fiscal year to ¥2.8 billion. Selling, general and administrative expenses increased by ¥0.2 billion, or 0.0%, from the previous fiscal year to ¥733.4 billion.

<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 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 grew by 15.1% from the previous fiscal year.

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013	Change	
	Billions of yen	Billions of yen	Billions of yen	%
Adjusted EBITDA	577.1	622.1	45.0	7.8
Domestic Tobacco Business	262.3	281.3	19.1	7.3
International Tobacco Business	314.8	343.3	28.5	9.1
Pharmaceutical Business	(10.0)	(12.7)	(2.7)	–
Beverage Business	14.6	12.4	(2.2)	(14.8)
Processed Food Business	5.4	7.4	1.9	35.8
Operating profit	459.2	532.4	73.2	15.9

* Operating profit and adjusted EBITDA include operating profit and adjusted EBITDA relating to factors other than the segments shown above. For details, please refer to “V. Accounting, 1. Financial statements, (1) Financial statements, Notes to consolidated financial statements, 6. Operating segments, (2) Revenues and performances for reportable segments.”

<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.

Operating results by segment are as follows.

Domestic Tobacco Business

Total sales volume for domestic cigarettes during the fiscal year ended March 31, 2013 increased by 7.8 billion cigarettes, or 7.2%, from the previous fiscal year to 116.2 billion cigarettes[(Note)]. 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 fiscal year ended March 31, 2013 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 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 fiscal year ended March 31, 2013, 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.

The volume of cigarettes manufactured in Japan in the fiscal year ended March 31, 2013 decreased by 1.8 billion cigarettes, or 1.3%, from the previous fiscal year to 135.5 billion cigarettes.

Note: 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.

International Tobacco Business

Among GFBs in the fiscal year ended March 31, 2013, 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) 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.

The volume manufactured overseas in the fiscal year ended March 31, 2013 increased by 6.3 billion cigarettes, or 1.6%, from the previous fiscal year to 391.5 billion cigarettes.

Note: 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	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
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

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 launched the product on May 14, 2013.

Gilead Sciences, Inc., which is our licensee, obtained marketing approval for the combination tablet from the U.S. Food and Drug Administration (hereinafter, “FDA”) and the product was launched accordingly. Marketing approval was also obtained from the European Medicines Agency (hereinafter, “EMA”) and others. Gilead Sciences, Inc. has also submitted a marketing application for JTK-303 as mono agent to the 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 filed an application to manufacture and market it in Japan in December 2012.

GlaxoSmithKline, which is our licensee, obtained marketing approval for an MEK inhibitor compound out-licensed by JT from the FDA in May 2013, and submitted a marketing application to the EMA in February 2013.

Revenue in the fiscal year ended March 31, 2013 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 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

In the beverage business, we continued working to strengthen our flagship coffee brand “Roots” and to grow our sales network primarily through Japan Beverage, 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.

In the fourth quarter ended March 31, 2013, in the flagship “Roots” brand, we launched “Toraja Blend,” in which we lavishly blended “Toarco Toraja (Note),” the “legendary coffee,” and “Hard Wild,” in which we have sought to combine the smooth bitterness of deep-roasted, high-grade coffee beans with a deep, rich taste. We also actively implemented product launches including renewing the long-selling “Momono Tennen sui” series by proposing the new option of enjoying the drink frozen by providing it in a plastic bottle that can be frozen, as well as putting the refreshing, low-calorie carbonated beverage “Momono Tennen sui Sparkling” on sale.

Partly due to the effects of these efforts, sales volume of JT’s products in the fiscal year ended March 31, 2013 reached a record high, with year-on-year growth in sales of “Roots” bottle-can coffee and “Momono Tennen sui,” outperforming the previous fiscal year’s results in all sales channels.

Revenue in the fiscal year ended March 31, 2013 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: “Toarco” and “Toraja” are registered trademarks of Key Coffee Inc.

Processed Food Business

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

In the fourth quarter ended March 31, 2013, we continued working to expand product sales with an emphasis on staple food products. Specifically, we implemented vigorous sales promotions mainly by launching 25 new products and 13 renewed products in the areas of frozen home-use products and room temperature home-use products, including three products in the new “Udon DELI” series of noodles, which include ingredients such as vegetables and combine the tastiness of udon noodles with the attractive features of pasta.

Revenue in the fiscal year ended March 31, 2013 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) Cash flows

Cash and cash equivalents at the end of the fiscal year ended March 31, 2013 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 this 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 this fiscal year were ¥143.5 billion and ¥136.6 billion, respectively.

Cash flows from (used in) operating activities

Net cash flows from operating activities during the fiscal year ended March 31, 2013 were ¥466.6 billion, compared with ¥551.6 billion provided in the previous fiscal year. The main driver was the generation of a stable cash inflow from our tobacco business. As a result of holidays for financial institutions, the amount of tobacco excise taxes paid in Japan for the previous fiscal year is for 11 months, while the amount for the fiscal year ended March 31, 2013 is for 12 months.

Cash flows from (used in) investing activities

Net cash flows used in investing activities during the fiscal year ended March 31, 2013 were ¥147.9 billion, compared with ¥103.8 billion used in the previous fiscal year, despite proceeds from the sale of investment property. This was mainly due to the purchase of property, plant and equipment and the purchase of shares of Gryson NV and Nakhla.

Cash flows from (used in) financing activities

Net cash flows used in financing activities during the fiscal year ended March 31, 2013 were ¥569.5 billion, compared with ¥279.1 billion used in the previous fiscal year. The main factors were the buy-back of shares, the payment of cash dividends, repayments of borrowings, and the redemption of bonds.

(3) Parallel disclosure

The differences between the main items in the consolidated financial statements prepared in accordance with IFRS and the equivalent items in the consolidated financial statements as prepared in accordance with Japanese GAAP are as described below.

(Amortization of goodwill)

Under Japanese GAAP, we estimated substantially the amortization period and goodwill was amortized over the years estimated; however, amortization after the date of transition to IFRS is suspended.

As a result of the impact from this change, amortization of goodwill (selling, general and administrative expenses) has decreased by ¥77,932 million for the fiscal year ended March 31, 2013 and by ¥82,547 million for the previous fiscal year under IFRS in comparison with under Japanese GAAP.

2. Status of production, orders received and sales

The JT Group conducts production and sales of broad and various products in the domestic tobacco business, international tobacco business, pharmaceutical business, beverage business and processed food business. Moreover, the types, formats, content volumes, packages, etc. of their products are broad, and major products are not based on a made-to-order basis. For this reason, size of production and orders received are presented neither in the amount of money nor in volume by segment.

Therefore, details of “production, orders received and sales” are presented in connection with the operating results by segment in “1. Overview of operating results.”

Regarding business partners which are the source for 10% or more of JT Group’s total revenue, the revenue from such partners and the percentage of total revenue are as follows.

Business partner	Fiscal year ended March 31, 2012		Fiscal year ended March 31, 2013	
	Amount (Billions of yen)	Percentage	Amount (Billions of yen)	Percentage
Megapolis Group	236.1	11.6	268.6	12.7

Note: The JT Group’s international tobacco business sells products to Megapolis Group, which runs logistics and wholesaling businesses mainly in Russia.

3. Issues to be addressed

We recognize that the business environment in which the JT Group operates is growing increasingly uncertain due to the deterioration of the global economy caused by the intensification of the European debt crisis and unstable political situations in some regions, including the Middle East. Enhancing adaptability to such a changing environment is critical to achieve sustainable profit growth by leveraging on the uncertain business environment and adequately executing business on a global scale. "Adaptability" refers to the ability to assume a wider range of contingencies than in the past, during the planning phase, and to quickly and flexibly respond to changes and events that surpass our assumptions so that we can deal with increasing uncertainty over the future. We believe that how well and how quickly companies can overcome uncertainries will be the key to determine their competitiveness.

(1) Management principle

Our management principles are based on the pursuit of the "4S" model ("S" is for satisfaction).We will balance the interests of consumers, shareholders, employees and wider society, and fulfill our responsibilities towards them, aiming to exceed their expectations.

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 achieving our mission, we have set "The JT Group Way" as code of conduct which all of the JT Group members are committed to: "fulfilling the expectations of our consumers and behave responsibly", "striving for quality in everything we do through continuous improvement", and "leveraging diversity across the JT Group".

The JT Group has attained sustainable profit growth and will continue to do so through the pursuit of the "4S" model. Since attaining sustainable profit growth requires us to continue to provide new value and satisfaction to consumers, we believe it is essential to steadily make business investments for future mid- to long-term profit growth. In addition, we believe that the pursuit of the "4S" model will lead to a consistent increase in corporate value in the mid- to long-term and therefore that it is the best approach to serve the interests of all stakeholders.

(2) Allocation of management resource

Concerning the mid-to long-term resource allocation of the JT Group, we will place top priority on business investments that will lead to sustainable profit growth in the medium and long term based on the management principles.

Of our core businesses, we regard the tobacco business as the core business and profit growth engine, so we place top priority on business investments that will lead to the sustainable profit growth of the tobacco business. In the meantime, we will invest and devote efforts to strengthen the business foundations of the pharmaceutical, beverage and processed food businesses in order to generate future profits.

JT seeks to provide shareholder returns that are attractive for a company in the global Fast-Moving Consumer Goods (FMCG) sector(Note 1). In accordance with these priorities, JT has put in place targets for the consolidated dividend payout ratio(Note 2) and adjusted earnings per share (EPS) growth rate(Note 3) at constant rates of exchange. In achieving its adjusted EPS growth rate target at constant rates of exchange, JT will base such improvements mainly on business growth, while considering share buy-backs as a complementary initiative.

Notes: 1. Fast Moving Consumer Goods (daily consumer goods)

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

3. Adjusted EPS growth rate = adjusted EPS for this fiscal year / adjusted EPS for the previous fiscal year
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.

(3) Company-wide profit targets and policy on shareholder return

The JT Group has set company-wide profit targets and a mid-to long-term guidance on shareholder return in accordance with the management principles and the resource allocation policy.

For adjusted EBITDA growth rate, which is the company-wide profit target, JT aims to achieve mid to high single-digit growth per annum over the medium to long term at constant rates of exchange.

In the area of shareholder return, in order to be on par with global players in the FMCG business, JT aims to realize a consolidated dividend payout ratio of 40% in the fiscal year ending March 31, 2014, and in the fiscal year 2015, a ratio of 50%. JT aims to achieve an adjusted EPS growth rate of high single-digit per annum over the medium to long term at constant rates of exchange.

Based on the concept of enhancing “adaptability,” starting with a new management plan from the fiscal year ended March 31, 2013, we have shifted from the previous management plan format of a three-year fixed plan (most recently used in JT-11, which covered fiscal 2009 to 2011) to a three-year rolling plan subject to annual updating, in order to appropriately respond to unexpected changes with a greater sense of urgency.

(4) Basic strategies for attaining company-wide profit targets

As basic strategies for attaining our targets, we will strive for “achieving quality top-line growth,” “strengthening cost competitiveness” and “strengthening business foundations,” implementing the strategies based on the concept of selection and focus.

Mainly, we place emphasis on “achieving quality top-line growth” and concentrating resources in key brands and product categories, in order to increase value added to products and services, as described in the following explanations of business strategies.

Concerning “strengthening cost competitiveness,” we aim at improving profitability and enhancing cash generation capability by optimizing business and corporate costs and establishing quick and efficient business operation systems, while leveraging our efforts of maintaining and enhancing quality.

Additionally, we will reinforce our business continuity capabilities, as the experience of the Great East Japan Earthquake has reminded us of the importance of doing so. We will seek to simultaneously improve business continuity capabilities and cost competitiveness.

When strengthening business foundations, it is critical to accurately identify changes in the business environment and to keep ourselves ready to readjust in order to meet challenges without being constrained by precedents. We will make continuous improvement efforts from that perspective. In addition, we will maximize synergies by leveraging the diversity of our global footprint as represented by our worldwide business operations, which are spread over more than 120 countries, and our global workforce, which represents more than 100 nationalities, and by promoting collaboration on a global scale. As we strongly believe that the quality of human resources is the key to business activity and performance, we will strengthen human resource development.

In summary, we will maintain the “4S” model as the basis of the JT Group’s management principles, enhance our ability to adapt to changes and consistently execute our growth strategy. Through these initiatives, we will achieve sustainable profit growth and continuously increase corporate value in the mid to long term.

a. Tobacco Business

The tobacco business is the JT Group’s core business and profit growth engine and aims for annual average growth at a mid to high single-digit rate over the mid-to long-term for adjusted EBITDA growth rate (at constant rates of exchange). The domestic tobacco business acts as highly competitive platform of profitability, while the international tobacco business serves as the profit growth engine of the JT Group.

<Quality top-line growth>

- Maintaining and increasing shares in our key markets through brand equity enhancement

Over the past years, our tobacco business has grown its share in most of our key markets; this performance is mainly the result of our outstanding brand portfolio.

The strength of our portfolio was demonstrated, for instance, in our market share performance during and after the global economic turmoil triggered by the Lehman Brothers collapse. Our well-balanced portfolio allowed us to capture changes in consumers' price preferences. Our market share performance was robust and enabled us to regain growth momentum at the outset of economic recovery.

In order to further grow market share, we will continue strengthening our brands, especially our Global Flagship Brands, through consistent investments.

Our Global Flagship Brands (GFBs) are Winston, Camel, Mevius (Mild Seven), Silk Cut, Benson & Hedges, LD, Sobranie and Glamour.

These eight brands have been selected to form a portfolio which most effectively and efficiently meets a variety of consumer needs on a global basis, including taste, price range and brand image, thereby, ensuring strong consumer loyalty.

The GFBs form the core of our brand portfolio. Within our GFBs, Winston, the world's No. 2 brand, and Camel, sold in more than 100 countries, are the "engine brands" that drive quality top-line growth. Mevius (Mild Seven), Silk Cut, Benson & Hedges and LD are our "stronghold brands," holding strong positions in their respective regions and contributing to the enhancement of our brand portfolio. Sobranie and Glamour are positioned as "future potential brands" with strong growth expected in the future.

Our brand investments will be heavily focused towards our GFBs, but at the same time we will also strengthen our local brands. These diverse local brands allow us to meet the unique preferences of the consumers and complement our brand portfolios in the diverse markets and regions where we are active. In the Japanese market, for example, in addition to our GFB Mevius, our focus has been on local brands Seven Stars and Pianissimo and we will continue to invest in these brands to enhance their equity. We will continue to focus our investments in innovation, as it is one of the most effective methods to enhance brand equity.

Our innovation efforts target five key elements which add value to our tobacco products: 1) tobacco blends, 2) flavors, 3) filters and other non-tobacco materials—these three are important elements to determine quality of taste—4) capability to process these innovations into products and 5) package design, which is critical to visual quality.

We recognize the growing importance of connection especially at point-of-sale for "brand communications"* with consumers, which support share gains.

* Use of mass media (TV, radio, newspapers and magazines) to promote tobacco products is severely restricted by regulations on advertisement and promotion.

With this in mind, we will enhance our trade marketing activities to improve point-of-sale visibility. Our approach will be tailored to each market, where local regulations, the key sales channels, consumers' purchasing patterns and competitors' trade marketing tactics vary greatly among one another. The approach includes, for example, building mid-to long-term partnerships with key accounts and designing unique promotional activities for each account.

- Broadening the base

Over the years, we have increased our presence as a leading global tobacco manufacturer through large-scale M&As, most notably RJR Nabisco's non-US tobacco operations in 1999 and Gallaher Group Plc. in 2007.

The geographical expansion achieved with these two acquisitions has been the main driver of our growth for over a decade. The success of these acquisitions, owing in part to the prompt postmerger integration within our business, has reinforced our global business base.

In July 2011, we reached agreement on the acquisition of Haggar Cigarette & Tobacco Factory Ltd., which has the largest market share in Sudan and also operates in the new Republic of South Sudan, and the company joined the JT Group in November 2011.

In May 2012, we reached agreement on the acquisition of Gryson NV, which is headquartered in Belgium and has established an important presence in the Roll Your Own ("RYO") and Make Your Own ("MYO") market across several European countries including France, Belgium, Luxembourg, Spain and Portugal, as well as in a number of other countries. The necessary procedures for the acquisition were completed in August 2012.

In November 2012, we reached agreement on the acquisition of Al Nakhla Tobacco Company S.A.E. and Al Nakhla Tobacco Company - Free Zone S.A.E., major global companies that are headquartered in Egypt and engaged in the manufacture and sale of waterpipe tobacco products. The necessary procedures for the acquisition were completed in March 2013.

In these ways, at the international tobacco business, we built a geographical portfolio of businesses with a good balance between high-margin markets primarily in developed countries and high-growth markets primarily in emerging countries. Moving forward, we will continue to seek out growth opportunities. The strengthening of our tobacco business base as well as expansion into emerging markets will help promote organic growth. In addition, growth opportunities will be pursued by other strategic alternatives that may arise.

- Creation of a new product category

Currently, the JT Group's tobacco business focuses mainly on conventional cigarettes, while seeking business opportunities in the existing other tobacco product categories, such as cigars and pipes.

In addition, as the business environment and consumers' needs evolve, we aim to introduce innovative new product categories, with unique value propositions. Developing an innovative new category requires understanding of consumers' preferences as well as regulations in each country or region. It is also challenging from a technological standpoint. Nevertheless, we see the creation of new categories as essential to our mid-to long-term growth, and we will aggressively invest to introduce innovative new product categories.

So far, the JT Group has launched "Zerostyle" in the Japanese market, a smokeless tobacco product which can be consumed without causing disturbance to those around the consumer.

The partnership agreement in December 2011 between the JT Group and Ploom Inc., a U.S. company, also illustrates our efforts towards this initiative.

We will continue to focus on the creation of new product categories, leveraging our own technologies as well as exploring external opportunities.

<Strengthening cost competitiveness>

Our tobacco business will persistently pursue continuous cost efficiency improvement of our operations, in particular with respect to the global supply chain, with an emphasis on agility and efficiency without compromising quality.

We will enhance our cost competitiveness by optimizing the global supply chain through various initiatives, including: further vertical integration in global leaf procurement; extended use of common non-tobacco materials; increased collaboration among suppliers; flexible procurement to benefit from attractive market prices; and improved inventory management for both tobacco and non-tobacco materials. Furthermore, enhanced productivity through realignment of manufacturing process and optimal level of capital expenditures will ensure conversion cost containment. We are also determined to improve our business continuity capability by securing options for sourcing and geographically spreading critical functions. Specifically, we will ensure a framework of multiple supply sources, optimal manufacturing capacity allocation on a global basis and diversification of production capability for priority SKUs (Stock Keeping Units).

We will improve our margin through increased cost efficiency while maintaining quality, and enhance cash flow generation by optimizing working capital and capital expenditures.

<Strengthening business foundations>

We believe that human resource development is the key driver of sustainable profit growth in the tobacco business.

The JT Group has business operations in more than 120 countries and territories and our diverse workforce of employees representing more than 100 nationalities is contributing to business execution regardless of nationality, gender and age. We maximize synergies by leveraging this diversity and promoting collaboration on a global scale.

As we believe that the quality of human resources is the key to business activity and performance, we will strengthen human resource development and enhance our ability to recruit, develop and retain employees on a global basis.

The tobacco business remains committed to increasing its presence as a leading global tobacco manufacturer and further strengthening its role as the core business and profit growth engine of the JT Group, by steadily implementing the above business strategies.

b. Pharmaceutical Business

The JT Group’s pharmaceutical business will strive to establish a stronger earnings base through the speedy and smooth market launch of compounds in late development stage and through maximization of each product value. With this goal in mind, we will concentrate business resources on three priority areas where we have R&D experience and have built up know-how: 1) glucose and lipid metabolism (diabetes, glucose disorders, obesity, etc.), 2) virus research (HIV, hepatitis C, etc.), and 3) immune disorders and inflammation (autoimmune, allergic diseases, etc.). Our immediate goal is to achieve profitability in the near future, while maintaining our continued investments in R&D to realize mid- and long-term optimization of resource allocation.

<Strengthening the earnings base>

To strengthen the earnings base, we will step up efforts to achieve speedy and smooth market launch of compounds in late development stage, and promote R&D on next-generation strategic products and seek optimum timing for out-licensing as key tasks.

As an example of work to achieve speedy and smooth market launch of compounds in late development stage, Gilead Sciences Inc., a licensee of our JTK-303 (elvitegravir) integrase inhibitor, filed applications to the FDA in October 2011 and the EMA in November 2011 for approval to market this compound in Stribild® Combination Tablets. In the U.S., we obtained FDA approval in August 2012 and the product has been launched accordingly. In Europe, approval was obtained from the EMA in May 2013. GlaxoSmithKline, which is our licensee, submitted marketing applications for an MEK inhibitor (trametinib) to the FDA in August 2012 and to the EMA in February 2013. Approval from the FDA was obtained in May 2013.

In Japan, an application to manufacture and market Stribild® Combination Tablets, which contains the anti-HIV drug JTK-303, was filed in December 2012. The application was approved in March 2013, and the product was launched in May 2013. An application to manufacture and market the hyperphosphatemia drug JTT-751 was filed in January 2013. In addition, Group company Torii Pharmaceutical filed an application to manufacture and market TO-194SL, a sublingual immunotherapy drug for Japanese cedar pollinosis, in December 2012.

Looking ahead, we will make every effort to gain regulatory approval and achieve market launch in Japan and abroad for our compounds in late development stage as soon as possible. We will also set forth a sales strategy for maximizing the value of our products on the market through enhanced cooperation with Group company Torii Pharmaceutical and licensing partners.

We recognize that "promoting R&D on next-generation strategic products and seeking optimum timing for out-licensing" is a key task from the perspective of the sustainable development of the JT Group's pharmaceutical business. Market launch of new drugs has become increasingly difficult in recent years. However, the JT Group will explore appropriate drug development opportunities by collecting information concerning unmet needs of medical facilities around the world. We will also conduct flexible research management, carefully tailored to each drug candidate.

With the intensification of worldwide R&D competition, we recognize that it is essential to define a sophisticated development strategy that takes into account of the requirements of medical facilities and implementation of clinical tests quickly. In addition, as we recognize that delivering new drugs to as many patients as possible at the earliest possible date contributes to the maximization of the value of drugs, we will continue to out-license compounds to other companies, particularly global pharmaceutical companies, and aggressively explore alliance opportunities.

We have a strong track record of out-licensing. In the year ended March 31, 2005, we licensed JTK-303, an anti-HIV drug, to Gilead Sciences, a U.S. company. In the year ended March 31, 2007, we out-licensed a pre-trial-stage new compound (MEK inhibitor) to GlaxoSmithKline and a pre-trial-stage antibody (Anti-ICOS monoclonal antibody) to MedImmune.

In order to conduct R&D activity in an effective manner, we recognize the urgent requirement of training personnel who can collect accurate information regarding unmet needs and use the information to formulate a sophisticated development strategy, as well as train personnel who can play an active role on a global scale.

c. Beverage Business and Processed Food Business

The Group changed its organization structure effective July 1, 2012, and the "Beverage Business" and the "Processed Food Business," which were previously combined in the "Food Business" segment, became individual reportable segments used by management in deciding how to allocate resources and in assessing performance. Accordingly, the "Beverage Business" and the "Processed Food Business" have been separate segments since the second quarter ended September 30, 2012.

<Quality top-line growth>

In the beverage business, we will continue to focus on our core "Roots" brand and work to foster "Momono Tennen sui" as the second pillar brand with the aim of strengthening brand impact and marketability.

We will enhance and expand our brand portfolio of attractive products meeting consumer needs based on innovative ideas in light of the analysis of sales data. At the same time, effective advertising and sales promotion plans will be developed. Through these measures we seek to enhance our competitiveness in the beverage business. In addition, we will continue to seek to enhance and improve the sales channels of our beverage vending machine operator subsidiary, Japan Beverage. This will be achieved through strengthened partnerships with our accounts and further research on consumers.

With Group company TableMark 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. Through these efforts, we aim to secure an operating profit margin that is at least level with the industry average.

Specifically, in the area of product line-up, we plan to create products that offer good value for the price from consumers’ perspective while using our unique technology. This will be achieved by improving our ability to identify consumers’ needs, generate ideas based on the identified needs, and transform the generated ideas into products. Concerning marketing, we will develop effective and efficient advertising and promotional activities in line with this product strategy and reinforce our trade marketing capabilities. By adopting these measures, we aim to further expand our market share.

<Strengthening cost competitiveness>

In the beverages business, efficiencies and effectiveness will be pursued by curbing raw materials procurement costs and by cost savings through better alignment of product and sales strategies. In addition, we are implementing initiatives to bolster our profitability, mainly through the reinforcement of cost management practices at Japan Beverage.

In the processed food business, we have a variety of cost containment programs, including strengthening our raw materials procurement capabilities, efficiently managing the distribution network, and improving the productivity of the JT Group factories. In addition, consistent group-wide efforts will be made to lower fixed costs, including more efficient use of sales activity expenditures. This will be completed through better selection and focus of promotional activities.

<Strengthening business foundations>

- Food Safety Control

JT has until now strived to enhance food safety control through three major initiatives—"reducing risk," "improving consumer response" and "strengthening the institutional capability."

We believe that these initiatives have developed a robust food safety control system that deserves to be trusted by customers. In the future, we will evolve these initiatives from four perspectives—"food safety," "food defense," "food quality" and "food communication"—so that we can deliver safe and high-quality food products for your loved ones.

Regarding "food safety," we will seek to minimize risks by utilizing food safety management systems already introduced.

Regarding "food defense," we will further promote the already implemented integrated program for risk management in order to prevent external purposeful attacks.

Regarding "food quality," we will pursue "deliciousness," which should be the fundamental quality of foods. We will also seek to enhance product added value and customer satisfaction through continued improvement in accordance with inquiries and information from customers.

Regarding "food communication," we will conscientiously listen to the voices of customers and actively provide information so as to make our activities more visible to the outside.

- Human resource development

Development of human resources that support our business activities is critically important. Competence development programs as well as appropriate career paths of our employees will be created and implemented in order to develop personnel with various skills including marketing expertise and product development knowhow.

4. Business and other risks

Listed below are items that, among those relating to the review of operations and accounting, etc. revealed in the Annual Securities Report, may significantly influence investor decisions. The following includes forward-looking statements determined, unless otherwise indicated, as of the filing date.

(1) Items relating to the business, profit structure and management policy of the JT Group

a. Significance of tobacco revenue from the Japanese market in consolidated revenue

The JT Group operates in more than 120 regions around the world, mainly in the tobacco business. Among these, tobacco revenue in the Japanese market makes a considerable contribution to the Group's revenue. Accordingly, any adverse influence on the Japanese market may negatively impact the result of the JT Group as a whole (for details of risks relating to the JT Group's tobacco business, see (2) below).

b. Business expansion

The JT Group believes that the pharmaceutical business, beverage business and processed food business will contribute to its future earnings and the Group plans to invest in these businesses, however, there are no guarantees as to the returns expected from these investments.

The JT Group worked proactively to obtain external managerial resources geared towards business expansion through such maneuvers as, for its international tobacco business, the acquisition of Gallaher Ltd. (acquired in 2007 for approximately GBP 7.5 billion, or ¥1,720.0 billion as calculated by the exchange rate at the time of the acquisition; the same applies hereinafter) as well as the non-US tobacco operations of the American firm RJR Nabisco Inc. (acquired in 1999 for approximately USD 7.8 billion, or ¥944.0 billion) and, for its processed food business, the acquisition of the Katokichi Group (now TableMark Co., Ltd.) (acquired in 2008 for approximately ¥109.0 billion). In an effort to further strengthen the business foundation, the JT Group will consider acquisitions, capital contributions, business tie-ups and cooperative systems with respect to other companies and may execute same if it is determined as a result that such activities would contribute to the future earnings of the JT Group. However, should such activities not generate the expected outcome, or should a significant, unforeseen problem be discovered after the acquisition, same may negatively affect the JT Group's business performance. Examples that may have such an impact include a failure to carry out operational, personnel, technological or organizational integration due to geographical or cultural differences; a failure to maintain sustained demand for the products of a business subject to acquisition or tie-up, or manufacture and sell said products; a failure to continue the JT Group's present operations; a failure to retain personnel with superior capabilities at an acquired business or maintain the motivation of its employees; a failure to apply the JT Group's internal control system to an acquired business; a failure to build an effective brand and product portfolio; a failure to link sales and market strategies of different product lines; or a dispersal of management's attention from the JT Group's present operations.

Also, as a result of the recording in the consolidated statements of financial position of a substantial amount of goodwill and intangible assets generated following acquisitions, the amounts of goodwill and intangible assets account for 34.2% (¥1,316.5 billion) and 9.1% (¥348.8 billion) of the consolidated total assets, respectively, as of the end of the fiscal year. The JT Group believes that the abovementioned goodwill and intangible assets appropriately reflect the future profitability that will result from the unleashing of synergy effects of each business value and integration, however, if it is determined that this expected outcome does not materialize as a result of factors such as changes in the business environment or competitive forces, or if the discount rate applied becomes higher, the JT Group may incur an impairment loss that negatively impacts our performance.

c. Effects of foreign exchange fluctuations

JT drafts its consolidated financial statements indicating all figures in yen, however, overseas

Group companies draft their financial statements in other currencies such as Russian ruble, euro, British pound, Taiwanese dollar, U.S. dollar, and Swiss franc. Accordingly, the results, assets and liabilities of overseas Group companies are converted into yen as of the date on which the consolidated financial statements of JT are drafted and indicated in yen therein. As a result, those figures are affected by fluctuations in the exchange rate of the foreign currency used by overseas Group companies in their accounts settlement with respect to the yen. The respective ratios of the JT Group’s revenue and adjusted EBITDA attributable to the international tobacco business were 47.7% and 55.2% in the current fiscal year. Especially, foreign exchange fluctuation may greatly impact consolidated financial statements with respect to the amount contributed by the expansion of the international tobacco business.

JT International Holding B.V. (hereinafter referred to as “JTIH”), which is responsible for consolidating the financial results of the JT Group’s international tobacco business, uses the U.S. dollar for its financial reporting. However, JTIH does business through consolidated subsidiaries and affiliates around the world, some of which use foreign currencies other than the U.S. dollar. This means that the JT Group’s consolidated results are affected not only by exchange rate fluctuations between the Japanese yen and the U.S. dollar but also by those between the U.S. dollar and other foreign currencies used by the consolidated subsidiaries and affiliates for their financial reporting.

In addition, any liquidation, sale or significant drop in the value of an foreign Group company whose foreign currency denominated stock, etc. was acquired by JT will result in the recording of an investment loss with respect to said company in the consolidated financial statements of JT and this loss will be affected by the exchange rate fluctuation between the yen and the foreign currency that was used to acquire said stock, etc.

Most international transactions by JT Group companies are effected in currencies other than the yen and there exists a foreign exchange risk. As an example of this risk, in the domestic tobacco business or the international tobacco business, the JT Group uses foreign-grown leaf tobacco (see h. below). While the majority of this leaf tobacco is procured in U.S. dollars, the tobacco products that contain it are sold in the local currencies of various countries. Therefore, should the U.S. dollar appreciated against these various local currencies, this may have a detrimental effect on profitability at the JT Group. Although the JT Group hedges a portion of the foreign exchange risk generated by its transactions, it is impossible to completely avoid this risk for the entire group by such hedges and there is always the possibility that foreign exchange fluctuations will negatively affect the Group’s earnings.

d. Outline of the Tax Reform Proposals

The Outline of the 2012 Tax Reform Proposals determined by the Cabinet of Japan on December 10, 2011 mentions that, in order to hold down tobacco consumption from the perspective of national health, a future tax rate increase for the tobacco excise tax is necessary. The proposals also mention that tax hikes in the tax reform proposals for 2013 or after will be decided with sufficient attention paid to tobacco consumption and tax revenue, the impact on related parties such as leaf tobacco farmers, retailers and producers, and other such considerations.

In the Outline of the 2013 Tax Reform Proposals determined by the Cabinet of Japan on January 29, 2013, there is no mention of a tobacco excise tax hike. Nevertheless, should a tax hike occur in 2014 or after, this could have a substantial effect on the JT Group’s business performance depending on the size of the hike and whether the JT Group can react to a tax increase promptly and appropriately.

e. Natural disasters and other contingency situations

The Great East Japan Earthquake that occurred in March 2011 has inflicted damage on some factories of the JT Group and raw materials suppliers, thereby creating an impact on the Group’s business operations, mainly in the domestic tobacco business. The JT Group’s losses from the Great East Japan Earthquake were ¥10,918 million in the fiscal year ended March 31, 2011 and

¥15,048 million in the fiscal year ended March 31, 2012. In addition, the Group’s share of the Japan market for cigarettes, which averaged 64.1% in the fiscal year ended March 31, 2011, fell temporarily to 20.7% in April 2011 and 43.6% in May 2011. The average market share was 54.9% in the fiscal year ended March 31, 2012 and 59.6% in the fiscal year ended March 31, 2013. Incidents related to the earthquake disaster may negatively affect the JT Group’s business performance in the future. Furthermore, future large-scale disasters in Japan or overseas, including natural disasters such as earthquakes, tsunamis, typhoons or floods, or human-made disasters such as suspension of infrastructure, political instability or bombings, or other such unforeseen emergencies, may negatively affect the JT Group’s business performance. Such effects may be caused by supply shortages from damage to suppliers; disruptions to traffic, logistics services or sales channels; suspension of utilities such as electric or water; declines in demand; or employees suffering damage in a disaster.

The earthquake and subsequent tsunami in March 2011 caused partial meltdowns at the Fukushima Daiichi Nuclear Power Plant in Japan. The JT Group is focused on conducting activities to eliminate consumers’ concerns over the radioactive pollution on tobacco leaves, and continue to deliver products free of any risk of contamination. We have established an internal standard comparable to the official standards for other agricultural products (the Food Sanitation Act does not set a standard for the maximum allowable radioactivity level in tobacco leaves). Multiple inspections are conducted, i.e. before leaf purchase, before leaf processing, before product manufacturing, and before shipping from our factories.

f. Country risk

The JT Group, in particular the tobacco business, operates in more than 120 countries around the world, and importance of the international tobacco business has been increasing. In order to achieve long-term growth, we will continue to expand the business base. Geographical expansion increases our exposure to country risks, such as a change in the political environment, a change in the economic conditions, a change in the social environment, a change in the legal system, or the occurrence of riots, terrorism or war. If materialized, these risks could negatively affect our business performances due to blockage to supply chains or distribution networks, damage to assets or facilities, or difficulties in allocation of personnel or sales management. Furthermore, the JT Group conducts business in countries that are subject to economic sanctions by the United States, the EU, Switzerland, Canada and others. Although the JT Group manages its business operations appropriately and lawfully in accordance with these various economic sanctions, if the JT Group were to violate the sanctions, it would be at risk of being subject to large monetary penalties or other such consequences. Also, if there is a development such as a change in the details of the sanctions, this may negatively affect the JT Group’s business performances by, for example, making the Group unable to continue operating in the countries subject to the sanctions. Even if the Group obeys the sanctions, simply operating in the countries subject to the sanctions may have a detrimental effect on the public image of the Group.

With regard to cash and cash equivalents held by an Iranian subsidiary of the JT Group, due to international sanctions and other factors in connection to Iran, the subsidiary’s ability to remit funds outside of Iran is restricted.

g. Economic deterioration

Although the global economy is showing signs of recovery, the outlook remains unclear primarily because of concerns about a reoccurrence of the European debt crisis and a slowdown in economic growth in emerging countries. While Japan is also showing signs of economic recovery mainly on the back of depreciation in the yen, it remains unclear whether this trend will be sustained. In many of the main markets of the JT Group’s international tobacco business including France, Italy, Russia, Spain, Taiwan, Turkey and the U.K., total demand for tobacco has declined in recent years because of economic deterioration and societal reasons such as changes in the composition of their populations. The pace of this trend has accelerated since the financial crisis of 2008. Total tobacco demand is also continuing to decline in Japan, and JT expects this trend to continue. In this way, economic deterioration and other such developments may lead to lower purchasing power and confidence among consumers, and customer demand may shift towards brands and categories in lower price ranges. There may be declines in demand for the JT Group’s beverages and processed food products for similar reasons. Such developments may negatively affect the JT Group’s business performance.

h. Instability in supplies of key materials

Approximately 40% of the raw material used in JT’s manufacture of tobacco products in Japan is leaf tobacco sourced domestically, while approximately 60% is leaf tobacco from overseas. The raw material the JT Group currently uses in its manufacture of tobacco products overseas is leaf tobacco from overseas only.

Materials, both raw and processed, are critical inputs to our products. Therefore, our ability to procure needed materials in the required quantities and at manageable costs can affect our business performance. Climate and other natural changes, and commodity markets, could affect the availability of agricultural products, such as tobacco leaves, and other natural materials procured for our beverages and processed food products. In addition to the raw inputs, global population increase and economic growth in the emerging countries could lead to an explosive increase in the consumption of resources. This could result in an increase in the costs of our raw and processed materials, as well as unavailability of those resources.

i. Difficulty in maintaining human resource competitiveness

The JT Group believes that a diversified employee base is a major factor of our competitiveness therefore, we seek to attract, develop, and retain talented people worldwide. In addition, because of our diverse business lines, our ability to attract new employees is highly competitive. However, in the particular case of tobacco business, we are aware of the negative social image placed on this business line, therefore, it is becoming major issues for us to recruit and retain talented people. Should the Group be unable to sufficiently fulfill such needs as retaining human resources, future business operations may become difficult, thus having a negative impact on the JT Group’s business performance.

j. Infringement of intellectual property rights

If the JT Group infringes the intellectual property rights of an outside party, or if an outside party infringes the JT Group’s intellectual property rights, the Group may have to pay a substantial amount of compensation for damages or court costs, or there may be a detrimental effect on the Group’s product development, commercialization and business strategy. Such occurrences may negatively affect the JT Group’s business performance.

k. Environmental regulations

The JT Group is subject to a wide variety of legal restraints both in Japan and overseas related to environmental protection with respect to hazardous substances, waste and other effects of research and development and production processes. In future, if environmental pollution or a similar problem occurs as a result of the JT Group’s business activities, or if environmental regulations are introduced or existing ones are changed, this may negatively affect the JT Group’s business performance.

(2) Risks relating to the JT Group’s tobacco business

a. Decreasing tobacco demand

In the Japanese domestic tobacco market, with the aging population and declining birth rate, growing awareness about the health risks associated with smoking and the tightening of smoking-related regulations, as well as higher tobacco excise taxes, total demand for cigarettes has continued to decline and JT expects this downward trend to continue unabated into the future. Demand overseas could also decrease depending on the economic conditions, other societal conditions, trends in regulations, and the composition of the population, although the trends in demand will vary from region to region.

Should demand decrease, sales volumes of the domestic tobacco business and shipment volume of the international tobacco business may decrease, and this may negatively affect our business performance.

b. Competition with rival companies

The JT Group is competing fiercely in both the domestic and international tobacco businesses with rivals such as Phillip Morris International and British American Tobacco.

In the Japanese domestic tobacco market, competition has intensified partly due to the diversification of smoker preferences and aggressive marketing activities by rival companies ever since the easing of regulations relating to imported tobacco products in 1985 and the abolishment of tariffs on imported cigarettes in 1987.

In overseas tobacco markets, the JT Group expanded its business by building on its self-sustaining growth and by acquiring the non-US tobacco operations of RJR Nabisco and Gallaher Ltd. As a result, its competitive relationships with global players in the international tobacco business such as Phillip Morris International and British American Tobacco as well as strong firms operating in localized markets are observed.

Each tobacco market share fluctuates under multiple factors including competition, regulations, pricing strategies, changing smoker preferences, heightened societal interest in health issues, brand strengths and economic conditions occurring in different markets not to mention short-term fluctuations caused by temporary factors such as the introduction of new products by the JT Group and other companies and the special promotional activities effected for them. A lower market share due to these factors may negatively affect the JT Group’s business performance.

c. Taxes levied on tobacco

Depending on their objectives, governments increase tobacco excises, VAT (value-added tax) and other taxes in most countries we operate, including Japan, to secure state budgets and also to promote public health.

The JT Group can predict neither increases nor changes in types of taxes or tax rates imposed on tobacco products in various countries. If tax hikes are implemented at an unexpected timing, frequency or rate of increase, or in a region where tax hikes were not anticipated, the JT Group may be unable to react to such tax hikes promptly and appropriately.

Increases in tobacco taxes may, if accompanied by a hike in retail prices, push down demand, move consumers toward lower priced brands, or cause or increase illicit product trading such as smuggling and counterfeiting. On the other hand, if there is no retail price hike, such tax increases may cause the earnings structure of the tobacco business to deteriorate. As such, either case may negatively affect the JT Group's business performance.

d. Regulations on tobacco products

- Situation in Japan

The Tobacco Business Act, related acts and statutes and voluntary standards set forth the regulations for the sale and promotion activities of tobacco products in Japan that include the indication of warning labels on tobacco product advertisements and packages that urge caution over the relationship between the consumption of tobacco products and health. In November 2003, the Ordinance for Enforcement of the Tobacco Business Act was revised including the wording of the cautions over the relationship between the consumption of tobacco products and health indicated on tobacco product packages and, starting July 2005, all tobacco products sold in Japan have been in conformity to the revised regulations. In addition, the Japanese Minister of Finance has indicated a "Guideline for Advertising of Tobacco Products" based on the Tobacco Business Act which, in March 2004, was revised with tougher language (for details, see (4) c. (i), Note 2 below). The Tobacco Institute of Japan has established voluntary standards regarding the advertising and sales promotion activities for tobacco products. All member companies, including JT, comply with these standards. Recently, cases where smoking in public areas including restaurants and office buildings has been restricted by laws and regulations and the like are on the rise in Japan. From the perspective of passive smoking prevention, various measures are being implemented and promoted by the government and governing bodies since the Ministry of Health, Labour and Welfare's establishment of the Health Promotion Act, which impose the facility manager the obligation to make efforts and the "Guidelines for Measures on Smoking in the Workplace" dealing with efforts at the workplace. JT expects such trend to continue in the future.

- Situation overseas

The World Health Organization (WHO) adopted the Framework Convention on Tobacco Control ("FCTC") at its 56th World Health Assembly held in May 2003. It came into force in February 2005 (Japanese Government accepted in June 2004). Since then, there has been a rising trend in regulations regarding sales promoting activities and the marketing of tobacco products and smoking in the international markets where JT Group's tobacco products are sold.

The purpose of the FCTC is to continuously and substantively control the proliferation of smoking. Its provisions include, among others, price and tax measures to reduce tobacco demand, non-price measures to reduce the demand for tobacco (specifically, the following is stipulated: protection from exposure to tobacco smoke, regulation of contents and emissions of tobacco products, regulation of disclosure of tobacco products, regulations on packaging and labeling of tobacco products, regulations on tobacco advertising, promotion and sponsorship), and measures relating to the reduction of the supply of tobacco (specifically, prevention of illicit trade and prohibition of sale of tobacco products to minors are stipulated). Moreover, in November 2012, the protocol to eliminate illicit trade in tobacco products was adopted at the fifth session of the Conference of the Parties.

As a general obligation, signatories to the protocol are to formulate, adopt, periodically update and review strategies, plans and programs for tobacco regulation. However, the content, scope and method of specific controls undertaken in these nations are ultimately legislated by each respective nation and are not necessarily unambiguous.

For example, in the U.K., laws including “Restrictions on the in-store display of tobacco products” and “Ban on sale of tobacco products through vending machines” are enforced. In Australia, individual packages of tobacco products must be of a prescribed color, and product names must be displayed on the packages in a prescribed location, font size, color and style. In addition, visual warning labels must take up 75% of the front side and 90% of the reverse of packages. This plain packaging (PP) legislation was passed in 2011 and came into effect in December 2012. Although we, along with several other tobacco manufacturers, challenged this PP legislation on constitutional grounds, the High Court of Australia upheld the constitutionality of the legislation in August 2012.

At present, a number of other countries including the U.K. and New Zealand are considering the implementation of similar measures. In particular, the U.K. is currently considering PP regulation that would standardize tobacco packaging by prohibiting the use of logos, colors or brand images, leaving only brand and product names displayed in a uniform color and font, in addition to health warnings.

In Russia, legislation was passed in February 2013, which includes protection from exposure to tobacco smoke and other matters related to tobacco consumption. The legislation is expected to come into effect from June 2013 and to be implemented through to 2017. It contains a number of provisions including a display ban, restrictions on sales of tobacco products in certain retail stores, a ban on advertising, sponsorship and promotions, and the introduction of minimal pricing or a ban on smoking in public places.

In the EU, “EU Tobacco Product Directive (EU TPD)” came into effect in July 2001 by which all laws, regulations and ordinances of EU member countries regarding the amount of tar, nicotine and carbon monoxide, warning labels on individual packages and outer wrappers, ingredients appearing on individual packages and descriptive expressions such as “mild,” “light,” etc. would be harmonized in the EU region. Moreover, in December 2012, the European Commission adopted a proposal to revise EU TPD. The proposed revised legislation includes, among other aspects, regulation on packaging and labeling, restriction on the use of additives, and restriction on products which are similar to tobacco products. This proposal will require approval by the European Parliament and the Council of Ministers, and any final proposal including amendments is anticipated to be adopted in 2014, coming into effect from 2015 or 2016.

- Impact on the JT Group’s business performance

Although it is impossible to predict the content of future laws, regulations and industry guidelines relating to sales activities, marketing, packaging and labeling, tobacco products and smoking, the JT Group expects regulations like the above and new regulations (including those of local governments) to diffuse across Japan and other countries where the Group sells its products.

The JT Group’s position is to support any regulation relating to tobacco that is appropriate and reasonable. Nevertheless, if regulations such as those mentioned above are tightened, or if the JT Group is unable to respond to this tightening of regulations in a timely and appropriate manner, subsequent declines in tobacco demand or market share, costs for compliance with new regulations or other factors may negatively affect the JT Group’s business performance.

e. Prohibition of “mild,” “light” and other descriptive labeling

The aforementioned FCTC includes provisions regulating descriptive labeling such as “mild” and “light.” They stipulate that signatory countries must, within three years after entry into force within their country, adopt and implement effective measures to prevent promotion of tobacco products by any means that could create an erroneous impression about the characteristics, etc. of tobacco products including the use of terms, etc. that creates false impression that a particular tobacco product is less harmful than other tobacco products (these may include terms such as “mild” and “light”). Each signatory country is establishing various measures required by FCTC.

Measures vary among signatory countries including prohibiting the use of target words or expressions such as “mild” or “light” specifically enumerated or illustrated, or the use of words that would create a false impression without specifying target words or expressions. In the future, measures over descriptive labeling, etc. such as “mild” and “light” , which would include the measures to comply with the requirements under FCTC, may prohibit the use of the word “mild” or “light.”

With respect to Japan, in accordance with the Ordinance for Enforcement of the Tobacco Business Act revised in November 2003, all tobacco products bound for the domestic market labeled with “mild,” “light,” etc. after July 2005 are subject to certain necessary measures. The JT Group plans to continue using words like “mild” and “light” in Japan in accordance with the above Ordinance (for details, see (4) c. (i), Note 2 below).

f. Illicit product trading such as smuggling and counterfeiting

One of the most serious issues in the tobacco industry is the increase of illicit trade, including smuggling and counterfeit product distribution. Motivations for illicit trade are believed to include the high profit margin of tobacco products and cross-border price gaps arising from different taxation systems and tax levels among countries. As historical evidence shows, illicit trade in a market tends to increase after a steep tax increase.

Illicitly traded products not only significantly damage the credibility of brands and the companies that own those brands, but also negatively affect governments’ tax revenues. Therefore, we and other tobacco companies are working together with governments to eliminate illicit trade.

The JT Group is making efforts towards countermeasures, such as by concluding cooperation agreements to counter illicit trade with the EU (including its member countries) and the governments of Canada and all its provinces and territories, respectively. Even so, growth in illicit trade such as smuggling and counterfeiting of tobacco products may negatively affect the JT Group’s business performance because of consequences including damage to its brand equity or the need for substantial expenses for countermeasures and the like to eliminate illicit trade.

g. Litigation

JT and some of its subsidiaries are defendants in lawsuits filed by plaintiffs seeking damages for harm allegedly caused by smoking, the marketing of tobacco products, or exposure to tobacco smoke. As of the fiscal year end date, there were a total of 28 smoking and health-related cases pending in which one or more members of the JT Group were named as defendant, including cases for which JT may have certain indemnity obligations pursuant to the agreement for JT’s acquisition of RJR Nabisco Inc.’s overseas (non-U.S.) tobacco operations. In addition, JT and some of its subsidiaries are also defendants in lawsuits other than the smoking and health-related cases.

We are unable to predict the outcome of currently pending or future lawsuits. If these actions result in a decision unfavorable to the JT Group, its business could be materially affected by, for example, the payment of a substantial amount of monetary compensation. Moreover, regardless of the results of these lawsuits, critical media coverage may reduce social tolerance of smoking, strengthen public regulations concerning smoking and prompt the filing of a number of similar lawsuits against the JT Group, forcing it to bear litigation costs and materially affecting its business performance. In addition to the smoking and health-related litigation, the JT Group may be a party to further cases should litigation occur in the future. Such litigation cases may negatively affect the business performance or manufacture, sale, import and export, etc. of tobacco products by the JT Group should their outcomes prove unfavorable.

Regarding major litigation cases to which the JT Group is a party, please refer to “V. Accounting, 1. Financial statements, (1) Financial statements, Notes to consolidated financial statements, 38.

Contingencies."

(3) Risks relating to the JT Group's pharmaceutical, beverage and processed food businesses

a. Risks relating to pharmaceutical business

The following are various risks relating to the pharmaceutical business of the JT Group.

-The JT Group may fail to develop and launch commercially valuable pharmaceutical products.

-The JT Group may have to invest an enormous amount of time and funds in research and development before it successfully develops pharmaceutical products.

-The JT Group may be forced to abandon the clinical development or sale of a pharmaceutical product that involves another company as a co-developer or a licensee on the basis of its or its partner company's judgment or due to some internal or external factors.

-Even if the JT Group succeeds in developing and launching a commercially valuable pharmaceutical product, research and development expenses may exceed the revenue generated from it.

-The JT Group may become dependent on a certain pharmaceutical product.

-The JT Group may fail to achieve efficient mass-production or outsourced manufacturing of pharmaceutical products.

-Even if a pharmaceutical product developed by the JT Group proves to be commercially successful, the success may be offset by competition with rival products developed by other companies in Japan or overseas, a government-mandated price reduction and other factors.

-The JT Group may become dependent on the license of pharmaceutical products developed by other companies and on revenues from such products.

-The JT Group may become dependent on a certain outside source for the supply of part of critical raw materials.

-If any problem arises regarding the quality of a pharmaceutical product of the JT Group or regarding information provided by the Group about such product, the Group may become the target of claims seeking product liability, etc., or may be forced to suspend sales of such product.

-JT's business performance may be affected by lawsuits concerning patents and other intellectual property rights.

-Regulation may be applied broadly, covering a full range of activities from the research and development stage to the post-launch stage of a new drug.

-The JT Group may become dependent on a certain business partner in research and development or sales of a pharmaceutical product.

-The JT Group may be forced to abandon clinical development as well as manufacturing and sale of a pharmaceutical product because of unexpected side effects or insufficient clinical trial results.

-In relation to the JT Group's use and management of radioactive or other hazardous substances, social or legal problems may arise, such as damage to the environment caused by such substances.

b. Risks relating to beverage and processed food businesses

The following are various risks relating to the beverage and processed food businesses of the JT Group.

-Products developed by the JT Group may fail to meet consumer preferences and their product lives may prove to be short.

-The JT Group's profit and loss may fluctuate due to fluctuations in the prices of raw materials (including those due to changes in the exchange rate).

-The sales of JT Group's products may be affected by weather conditions.

-The regulation of the procurement, manufacture and sale of products in Japan or overseas may be strengthened, including the possibility that additional costs may arise due to compliance with such regulation.

-The JT Group may be unable to compete with major companies with larger distribution networks, stronger development capabilities and more experience.

-The JT Group may be unable to engage in efficient marketing activities.

-The JT Group may be unable to produce, or outsource the production of, products in an efficient, stable and effective manner.

-The JT Group may outsource the production of most beverage products to other domestic manufacturers, thus becoming dependant on outside sources.

-If any problem arises regarding the quality of the JT Group's products, it may cause health damage to customers, the Group may become the target of claims seeking product liability, etc., or the reputation of the Group and its products may be undermined.

(4) Other factors which may materially affect investment decisions

a. Relations with the Japanese government and the Minister of Finance

The JT Act obligates the government to continue to hold more than one-third of all JT shares issued. As of March 31, 2013, the government held 33.35% of all JT shares issued. As a consequence, the Japanese government is able to have a substantial influence on proposals for ordinary resolutions at JT's General Meetings of Shareholders such as the election of directors. Furthermore, the Japanese government has the authority to reject proposals for special resolutions for such actions as mergers, capital reductions or amendments to the articles of incorporation.

In addition, the Minister of Finance has the authority to supervise JT under the JT Act and Tobacco Business Act. Under the JT Act, the scope of JT's businesses includes the "manufacture, sale and importation of tobacco products and ancillary businesses, as well as businesses required for attaining the objective of JT," and "business required for attaining the objective of JT" are subject to the Minister of Finance's approval. Consequently, the Minister of Finance's approval is required in order for JT to engage in new businesses outside the scope of currently-approved businesses (for details, see c. (ii) below).

As mentioned above, in addition to the Japanese government's rights as a shareholder of JT, the government has the authority to supervise JT and other powers under the JT Act and Tobacco Business Act. Since it cannot be guaranteed that the interests of the government will always coincide with the interests of other shareholders, this may have a detrimental effect on the interests of other shareholders.

Under the "Act on Special Measures for Securing Necessary Financial Resources for the Implementation of Reconstruction Measures Following the Great East Japan Earthquake" (hereinafter, the "Securing Reconstruction Resources Act"), which was promulgated on December 2, 2011, the government makes it a principle to secure revenue to fund reconstruction resources until the fiscal year ending March 31, 2023. To this end, it is required for an examination to be made of the feasibility of selling JT shares by reassessing the framework under which the government holds the shares, while taking into consideration the framework of the country's commitment to tobacco-related business based on the Tobacco Business Act and the like.

b. Purchasing of leaf tobacco

The Tobacco Business Act requires JT to annually enter into purchase contracts with tobacco growers regarding the aggregate cultivation area for specific varieties of leaf tobacco and the prices for leaf tobacco by variety and grade. JT must purchase all leaf tobacco produced pursuant to such contracts, except for any not suited for the manufacture of tobacco products. When JT decides the aggregate cultivation area and the prices of leaf tobacco for its contracts with tobacco growers, it is required to respect the opinion of the Leaf Tobacco Deliberative Council (*hatabako* *shingi kai*), which consists of members appointed by JT with the approval of the Ministry of Finance from among the representatives of domestic leaf tobacco growers and academic appointees (for details, see c. (i) below). Much like many other agricultural products in Japan, production costs for domestically-grown leaf tobacco is higher than those of foreign-grown leaf tobacco to the extent that the purchasing price for the former (before redrying) is approximately four times that of the latter (after redrying). The obligation to purchase virtually all leaf tobacco produced in Japan may have a detrimental effect on the JT Group's relative competitiveness in Japan because other global tobacco companies use foreign-grown leaf tobacco only.

c. Legal matters relating to the business of filing company

(i) Tobacco Business Act (Act No. 68 of August 10, 1984)

	Description
1. Purpose	The object of this Act is, in consideration of the tax relating to tobacco products as a portion of the treasury revenue incidental to the abolishment of the tobacco monopoly system, to promote a sound development of the tobacco industry in our country by making necessary adjustments in the production and purchase of domestically produced leaf tobacco as raw material for tobacco products and in business activities etc. of manufacture and sale of the tobacco products, whereby it will contribute to ensuring treasury revenue and a sound development of the national economy. (Article 1)
2. Cultivation and purchase of domestically grown leaf tobacco for use as raw material	(1) When intending to purchase the domestically produced leaf tobacco, Japan Tobacco Inc. (hereinafter, “JT”) shall enter into agreements in advance with those who intend to cultivate leaf tobacco for the purpose of selling it to JT regarding the cultivation area for each item of leaf tobacco and the prices for each item and each grade of the leaf tobacco. (Article 3) (2) JT shall purchase all leaf tobacco produced pursuant to such agreements, except those which are not suitable as raw materials for manufacture red tobacco. (3) In the case where JT intends to enter into an agreement, JT shall consult with the Leaf Tobacco Deliberative Council that JT establishes, and respect its opinion concerning the total cultivation area and the prices of leaf tobacco. (Articles 4 and 7) (4) The Leaf Tobacco Deliberative Council shall deliberate on the price of the leaf tobacco so that subsequent production of leaf tobacco is ensured, by taking into account the production costs, commodity prices and other economic conditions. (5) JT shall determine the regional breakdown of the aggregate cultivation area for the respective items of leaf tobacco seeking the opinion of the Japan Tobacco Growers Association (hereinafter, “JTGA”) and, within the scope of such regional breakdown, enter into agreements with growers. (Article 5) (6) If a member grower of a tobacco growers association entrusts JTGA with entering into an agreement regarding a fundamental matters of the agreements such as the price of leaf tobacco, JT shall establish said fundamental matters with JTGA and such agreement shall be deemed as a part of the agreements executed between JT and said grower. (Article 6)
3. Manufacture of tobacco products	(1) No tobacco products shall be manufactured by any party other than JT. (Article 8) (2) JT shall obtain the approval of the Minister of Finance on the maximum wholesale price for each item of tobacco products. (Article 9) (3) JT shall make efforts to ensure a smooth supply of tobacco products taking into account regional demand conditions for tobacco products. (Article 10)
4. Sale of tobacco products	(1) A party wanting to engage in the sale of tobacco products imported by themselves shall register with the Minister of Finance, who establishes necessary regulations relating to said registration and registered party (hereinafter, “Specified Distributor”). (Articles 11 to 19) (2) A party wanting to engage in the wholesaling of tobacco products shall, for the time being, register with the Minister of Finance, who establishes necessary regulations relating to said registration and registered party. (Articles 20 and 21) (3) A party wanting to engage in the retailing of tobacco products shall, for the time being, obtain the approval of the Minister of Finance, who establishes necessary regulations relating to said registration and registered party (hereinafter, “Retailer”). (Articles 22 to 32) (4) If JT and a Specified Distributor want to sell manufactured or imported tobacco products, the list price of each item, and any subsequent change thereof, shall be approved by the Minister of Finance for the time being. Necessary regulations are in place with respect to the approval: for example, the Minister of Finance shall grant approval unless it deems such price is unfair to consumers, etc. (Articles 33 to 35) (5) A Retailer is only permitted to sell tobacco products at list prices that have been approved by the Minister of Finance. (Article 36)

	Description
5. Other	(1) JT or a Specified Distributor shall indicate the wording as prescribed by Ordinance of the Ministry of Finance for warning consumers of the relationship between the consumption of tobacco products and health prior to the commencement of sale of the tobacco products that it manufactured or imported. (Article 39) (2) Advertisers of tobacco products shall give due consideration to the prevention of smoking by minors, etc. and make efforts lest such advertisement should be made to an excessive extent. The Minister of Finance may implement necessary measures with respect to advertisers. (Article 40)

Notes:

1. The so-called list price system is maintained for the time being as a means to prevent confusion in the distribution order, a well-established constant that materialized after the list price system was adopted in 1904.

   Tobacco is a luxury item different from the so-called commodities and services and, in a distribution market completely liberalized after the opening of import markets and other factors, JT and Specified Distributors stipulate prices on application (POA) to the Minister of Finance based on their respective, independent management decisions.

   Concerning the approval of list prices, JT understands that a government delegate gave the following explanation of the gist of the process at the 1984 Diet deliberations on the proposed Tobacco Business Act:

   > Pertaining to tobacco product list prices, under the Tobacco Business Act, in the event an application is made for the approval of list prices, the Minister of Finance may exceptionally deny approval if it deems such list price unfair to consumers or unfairly low in comparison with wholesale prices of domestic products or import prices of imported products. In all other cases, the Minister approves list prices in line with the spirit of Tobacco Business Act.

2. In November 2003, the Ordinance for Enforcement of the Tobacco Business Act was revised and the wording of warnings concerning tobacco consumption and health indicated on tobacco product packages was changed to specify risks related to eight items, four of which are diseases associated with direct smoking (lung cancer, heart attack, stroke and emphysema), while the other four are smoking by pregnant women, passive smoking, addiction to smoking and youth smoking. Each tobacco product package must indicate, on its main surfaces, a warning regarding at least one of the four items associated with direct smoking and at least one of the other four items. The Ordinance stipulates, among others, (1) that these warnings must be rotated throughout the year in ways to ensure that they receive equal exposure on each product item and each type of package and (2) that the display area must occupy 30% or more of the main surfaces of the package.

   In addition, the Ordinance stipulates that when wording like “mild” and “light” are used on the package, they must be accompanied by a warning that clarifies that such words do not mean that the risk to their health is lower than other tobacco products so as to prevent consumers from misunderstanding the relationship between the consumption of tobacco products and health. JT has been adhering to this rule since July 1, 2005.

   In addition, in March 2004, the Ministry of Finance revised the “Guideline for Advertising of Tobacco Products,” which stipulates that the outdoor advertising of tobacco products (posters, billboards, etc.) shall generally be prohibited and specifies matters concerning the indication and content of the health warnings that accompany tobacco advertising.

(ii) Japan Tobacco Inc. Act (Act No. 69 of August 10, 1984)

	Description
1. Purpose	Japan Tobacco Inc. (“JT”) is a stock company whose purpose is to engage in business related to the manufacture, sale, and importation of tobacco products in order to attain the objectives set forth in Article 1 of the Tobacco Business Act. (Article 1)
2. Stock	The Japanese government must continue to hold more than one-third of all Japan Tobacco Inc. (“JT”) shares issued (excluding shares of a class for which it is provided that the voting rights may not be exercised for all the matters that are subject to resolution at the shareholders meeting; the same shall apply to the following items). (Article 2, paragraph 1) Whenever JT intends to solicit subscribers for an issuance of shares or subscription rights to shares of JT, or deliver shares (excluding own shares), subscription rights to shares (excluding subscription rights to treasury shares), or issuance of bonds with subscription rights to shares (excluding bonds with subscription rights to treasury shares) at the time of share exchange, the approval of the Minister of Finance is required. (Article 2, paragraph 2) The disposal of JT shares held by the government shall be effectuated within the maximum range stipulated by resolution of the Diet based on the budget of the corresponding year. (Article 3)
3. Scope of business	JT shall engage in the following businesses in order to attain the objectives stated in 1 above. (1) business of manufacture, sale and importation of tobacco products (2) business incidental or relating to the business in the preceding item (3) other business required for attaining the object of JT JT shall obtain authorization from the Minister of Finance before engaging in any business corresponding to (3) above. (Article 5)
4. Monitoring	(1) The appointment or dismissal of directors, executive officers (*sikkoyaku at a company with committees*), and audit & supervisory board members require authorization from the Minister of Finance. (Article 7) (2) Amendments to JT’s articles of incorporation, appropriations of surplus (except disposal of losses), and any merger, corporate split, or dissolution of JT require authorization from the Minister of Finance. (Article 8) (3) JT shall formulate a business plan prior to each business year and obtain authorization from the Minister of Finance. Any change thereof also requires authorization from same. (Article 9) (4) Within three months after the closing of each business year, JT shall issue its balance sheet, statement of income, and business report to the Minister of Finance. (Article 10) (5) Transfers of manufacturing facilities or similar material assets require authorization from the Minister of Finance. (Article 11) (6) The Minister of Finance shall monitor JT in accordance with this Act as well as the Tobacco Business Act and may implement necessary measures in the execution of same. (Articles 12 and 13)

Note: Previously, the Japanese government was required to continue to hold at least half of JT’s total shares as at the time of its establishment (in the event of a share split or consolidation of shares, this is to be adjusted in accordance with the split or consolidation ratio) and more than one-third of all JT shares issued. However, the JT Act has been revised based on the Securing Reconstruction Resources Act, which was promulgated on December 2, 2011, and the Japanese government must now continue to hold more than one-third of all JT shares issued.

JT subsequently made an acquisition of treasury stock in February 2013, and the government sold shares of JT in March 2013. As a result, the government’s holding ratio of the total number of JT shares issued has fallen from 50.01% to 33.35%.

(iii) Acts relating to tobacco excise taxes (including tobacco special excise taxes)

	Description			
	National Tobacco Excise Tax	National Tobacco Special Excise Tax	Local Tobacco Excise Tax	
1. Tax item (Note 1)	Tobacco Excise Tax	Tobacco Special Excise Tax	Prefectural Tobacco Excise Tax (also applies to Tokyo)	Municipal Tobacco Excise Tax (also applies to special wards)
2. Taxpayers (Note 2)	Manufacturers of tobacco products or those who removes tobacco products from bonded areas		Manufacturers of tobacco products, specified distributors or wholesalers selling to retailers	
3. Tax base (Note 3)	Number of cigarettes removed from the manufacturing site or bonded area (for tobacco products other than cigarettes, prescribed cigarette count conversion)		Number of cigarettes relating to sales to retailers (for tobacco products other than cigarettes, prescribed cigarette count conversion)	
4. Tax rate (Note 4)	¥5,302 per 1,000 cigarettes	¥820 per 1,000 cigarettes	¥860 per 1,000 cigarettes	¥5,262 per 1,000 cigarettes
Former third-class products (Note 5)	¥2,517 per 1,000 cigarettes	¥389 per 1,000 cigarettes	¥411 per 1,000 cigarettes	¥2,495 per 1,000 cigarettes
5. Declaration and payment (Note 6)	Tobacco product manufacturers are to declare and pay taxes for each month's shipment by the end of the following month. Parties removing tobacco products from bonded areas are to declare and pay taxes by the time of extraction		For sales of tobacco products relating to sales locations of retailers located within a given prefecture, a declaration and payment of taxes is to be made to that prefecture for each month's transfer by the end of the following month	For sales of tobacco products relating to sales locations of retailers located within a given municipality, a declaration and payment of taxes is to be made to that municipality for each month's transfer by the end of the following month

Notes:

1. Article 3 of the Tobacco Excise Tax Act, Article 4 of the Act Concerning Special Measures for Financing Debt Transferred to the General Accounts, and Article 1, paragraph 2 and Articles 4 and 5 of the Local Tax Act
2. Article 4 of the Tobacco Excise Tax Act, Article 5 of the Act Concerning Special Measures for Financing Debt Transferred to the General Accounts, and Article 74-2, paragraph 1 and Article 465, paragraph 1 of the Local Tax Act
3. Article 10 of the Tobacco Excise Tax Act, Article 7 of the Act Concerning Special Measures for Financing Debt Transferred to the General Accounts, and Articles 74-4 and 467 of the Local Tax Act
4. Article 11, paragraph 1 of the Tobacco Excise Tax Act, Article 8, paragraph 1 of the Act Concerning Special Measures for Financing Debt Transferred to the General Accounts, and Articles 74-5 and 468 of the Local Tax Act
5. Article 2 of the Supplemental Provisions of the Tobacco Excise Tax Act, Article 8, paragraph 2 of the Act Concerning Special Measures for Financing Debt Transferred to the General Accounts, and Articles 12-2 and 30-2 of the Supplemental Provisions of the Local Tax Act
6. Articles 17 to 20 of the Tobacco Excise Tax Act, Article 12 of the Act Concerning Special Measures for Financing Debt Transferred to the General Accounts, and Articles 74-10 and 473 of the Local Tax Act
7. Concerning "4. Tax rate"

   The term "Former third-class products" refers to tobacco products stipulated as third-class cigarettes in the Tobacco Product Price Act, repealed on April 1, 1985. These are same products as those at the time of abolishment, and, for the time being, the aforementioned tax rates are applied.
8. (i) In the event the tax system relating to tobacco subject to high excise taxes is examined, on a general basis, as part of a revision of the tax system by the government each year and the tax system is revised, a decision is made upon the deliberation and resolution of the legislature subsequent to the determination of government policy through deliberation by the Tax System Council and other bodies. Relevant government policy is determined once cabinet approval of a bill is secured following the cabinet's approval of an outline of the tax reform proposal.

   (ii) See the following page for revisions to the tax system relating to tobacco after the April 1985 transfer from the monopoly profit system to the tobacco consumption tax system.

[Main movements relating to the tobacco tax system and JT's responses]

Month/Year	Item	Description	JT's response
May 1986	1986 Tax Reform	Tax increase equivalent to ¥900 per 1,000 cigarettes	Fixed price revised by amount equivalent to tax increase
April 1989	1989 Tax Reform	Following the introduction of the consumption tax, "tobacco consumption tax" changed to "tobacco excise tax" and taxation formula unified to a unit tax	Basically, fixed price revision unnecessary
April 1997	1997 Tax Reform	[Revision of Local Tax Act] Local Tobacco Excise Tax revenue transferred from the Prefectural Tobacco Excise Tax to the Municipal Tobacco Excise Tax	Fixed price revision unnecessary
		[Revision of Consumption Tax Act] Consumption tax rate revised from 3% to 5%	Prices raised by ¥10 per pack for some brands in an effort to revise fixed prices overall by the amount equivalent to the consumption tax rate revision
December 1998	1998 Tax Reform	Act Concerning Special Measures for Financing Debt Transferred to the General Accounts established and ¥820 per 1,000 cigarettes of Tobacco Special Excise Tax introduced	Basically, price per cigarette raised by ¥1
May 1999	1999 Tax Reform	[Revision of Special Taxation Measures Act and Local Tax Act] Tax revenue transferred from Tobacco Excise Tax to Prefectural Tobacco Excise Tax and Municipal Tobacco Excise Tax	Fixed price revision unnecessary
July 2003	2003 Tax Reform	Acts revising a portion of the Income Tax Act, Local Tax Act, among others, established and tax increase by ¥820 per 1,000 cigarettes	Price per cigarette raised by approx. ¥1
July 2006	2006 Tax Reform	Acts revising a portion of the Income Tax Act, Local Tax Act, among others, established and tax increase by ¥852 per 1,000 cigarettes	Amount equivalent to tax increase shifted to fixed price of all brands with some prices increased higher than said amount
October 2010	2010 Tax Reform	Acts revising a portion of the Income Tax Act, Local Tax Act, among others, established and tax increase by ¥3,500 per 1,000 cigarettes	With exception of some brands, prices increased higher than the amount equivalent to tax increase

5. Important operational contracts, etc.

No items to report

6. Research and development activities

Research and development activities are mainly undertaken at JT's Tobacco Science Research Center and Central Pharmaceutical Research Institute, which have 765 staffers.

Research and development expenses for the entire JT Group over the fiscal year amounts to ¥56.9 billion and the research objectives and research and development expenses by each segment are as follows.

Please note that the aforementioned research and development expenses includes ¥0.7 billion relating to basic research not affiliated to any segment (plant biotechnology related research, etc.) and conducted by JT corporate division.

(1) Domestic and international tobacco businesses

We are committed to strengthening our R&D capabilities to ensure a long-term competitive advantage. Our focus areas in the R&D activities are the development of new leaf tobacco varieties, improvement of tobacco leaf processing, enhancement of taste, upgrade of manufacturing technology, and continuous progress on emerging product development capabilities. We aim to add value to our products in these focus areas in a cost efficient manner. We have established a global research platform in Japan which, focuses on the fundamental research and product technology development. To best meet consumers' needs and preferences, our market teams are continuously engaged in the product development.

Research and development expenses relating to the domestic tobacco business amounts to ¥19.0 billion with that of the international tobacco business amounting to ¥5.8 billion.

(2) Pharmaceutical business

R&D activities are the foundation of the JT's pharmaceutical business and are critical for our long-term growth and profitability. Our R&D activities focus mainly on the fields of glucose and lipid metabolism, virus research and immune disorders and inflammation.

Through the pharmaceutical business the JT Group invested ¥30.7 billion in R&D during the year ended March 31, 2013 and ¥24.9 billion in the year ended March 31, 2012.

(3) Beverage and processed food businesses

Regarding R&D in the beverage and processed food businesses, we devote our efforts to the development of innovative products that meet consumers' needs and preferences.

Research and development expenses for the beverage and processed food businesses is ¥0.6 billion.

7. Analysis of financial position, operating results and cash flow position

(1) Significant accounting policies

a. Adoption of IFRS

Having acquired RJR Nabisco's non-U.S. tobacco operations in 1999 and Gallaher Group Plc. in the United Kingdom in 2007, the JT Group has been growing steadily as a global company and is now operating in more than 120 countries and territories. In this context, the JT Group has decided to opt for an early adoption of the IFRS from the year ended March 31, 2012. A decision based on the Japanese authorities' permission for the listed companies conducting financial and business activities internationally to adopt IFRS voluntarily from the year ended March 31, 2010. Upon the adoption of IFRS, the JT Group aims to diversify the group's sources of financing through international markets and to improve quality of business management.

b. Significant accounting estimates and judgment on estimates

Preparation of consolidated financial statements of the Group requires the management to make estimates and assumptions in order to measure income, expenses, assets and liabilities, and disclose contingencies as of the fiscal year end date. These estimates and assumptions are based on the best judgment of the management, considering past results and various factors deemed to be appropriate as of the fiscal year end date. Given their nature, actual results may differ from those estimates and assumptions.

The estimates and assumptions are continuously reviewed by the management. The effects of a change in the estimates and assumptions are recognized prospectively, including the period reviewed.

As for the estimates and assumptions that may have a material effect on the amounts recognized in the consolidated financial statements of the JT Group, please refer to "V. Accounting, 1. Financial statements, (1) Financial statements, Notes to consolidated financial statements, 4. Significant accounting estimates and judgments."

c. Closing date of foreign subsidiaries in the international tobacco business

The closing date of the JTIH Group, which operates the JT Group's international tobacco business, is December 31. Although there is a three-month difference between the fiscal year of the JTIH Group (the year from January 1 to December 31) and that of JT (the year from April 1 to March 31), since seasonal and periodical fluctuations of the performance of the Group's international tobacco business have been relatively small, the impact from this difference in the reporting period on the Group's consolidated financial position and operating results is limited. With respect to significant transactions or events that occurred during the time gap, the Group makes necessary adjustments and appropriate arrangements in order to assist the users of financial statements to properly understand and assess the consolidated financial position and operating results of the Group.

For more details, please refer to "V. Accounting, 1. Financial statements, (1) Financial statements, Notes to consolidated financial statements, 2. Basis of preparation, (6) Reporting period of JT International Holding B.V. and its subsidiaries."

(2) Analysis of business results for the fiscal year

a. 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.

b. Cost of sales, other operating income, share of profit in investments accounted for using the equity method, selling, general and administrative expenses

Cost of sales increased by ¥7.4 billion, or 0.8%, from the previous fiscal year to ¥899.4 billion, while other operating income decreased by ¥6.3 billion, or 13.1%, from the previous fiscal year to ¥42.2 billion. Share of profit in investments accounted for using the equity method increased by ¥0.7 billion, or 35.6%, from the previous fiscal year to ¥2.8 billion. Selling, general and administrative expenses increased by ¥0.2 billion, or 0.0%, from the previous fiscal year to ¥733.4 billion.

c. 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 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 grew by 15.1% from the previous fiscal year.

d. 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.

(3) Basis policies of financing activities

JT Group’s basic policies of financing activities are as follows.

a. Group Cash Management Systems

To maximize the total group cash efficiency, we give first priority to utilizing internal financing mainly by the Group Cash Management Systems (CMS), where legally permissible and economically viable.

b. External financing

Short-term working capital needs are normally financed through short-term borrowings from financial institutions or through commercial paper, or a combination of both; mid- to long-term financing is done through long-term borrowings from financial institutions, bond or equity, or a combination of those.

For secure and efficient financing, we continue to diversify our financing means as well as the financial institutions, and set up secure financing means, such as committed facilities.

c. External investments

Investments with financial institutions should be transacted ensuring safety, liquidity and optimal yield. Speculative dealings in pursuit of profit margin are not allowed.

d. Financial risk management

We are exposed to financial risks such as credit risk, liquidity risk, foreign exchange risk, interest rate risk, and market price risk. We manage such risks according to our risk management policies and procedures to avoid or mitigate such risks. The major financial risk management status is reported quarterly to the Executive Committee.

It is our policy that derivatives are only used if it is intended to mitigate risks of transactions for actual business needs, and speculative and trading transactions are not allowed.

For more details on financial risk management, please refer to “V. Accounting, 1. Financial statements, (1) Financial statements, Notes to consolidated financial statements, 35. Financial instruments, (2) Financial risk management to (7) Market price fluctuation risk.”

(4) Analysis of capital resources and liquidity of funds

a. Funding requirements

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

b. Resources of funds

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

<Cash flows>

Net cash flows from operating activities in the fiscal year ended March 31, 2013 came to ¥466.6 billion, while net cash flows used in investing activities and financing activities were ¥147.9 billion and ¥569.5 billion, respectively. Cash and cash equivalents on a consolidated basis at March 31, 2013 after adjusting the effect of exchange rate changes, decreased by ¥262.0 billion from the previous fiscal year to ¥142.7 billion (end of previous fiscal year balance of ¥404.7 billion).

<Interest-bearing debt>

Amounts of interest-bearing debt of the JT Group to be repaid or redeemed as of March 31, 2013 are as follows.

(Billions of yen)

	Book value	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term borrowings as loans	23.8	23.8	–	–	–	–	–
Short-term lease obligations	4.3	4.3	–	–	–	–	–
Long-term borrowings as loans (current portion)	20.5	20.5	–	–	–	–	–
Long-term borrowings as loans	33.2	–	1.2	31.1	0.1	0.1	0.6
Bonds	237.2	–	157.3	40.0	–	20.0	20.0
Long-term lease obligations	8.2	–	3.1	2.1	1.4	0.8	0.8

Total	327.2	48.6	161.7	73.2	1.5	20.9	21.4

Long-term debt

Bonds issued (including the current portion) as of March 31, 2012 and as of March 31, 2013 accounted for ¥320.5 billion and ¥237.2 billion respectively and long-term borrowings as loans from financial institutions (including the current portion) accounted for ¥127.5 billion and ¥53.6 billion respectively. Annual interest rates applicable to yen-denominated long-term borrowings outstanding as of March 31, 2012 and March 31, 2013 ranged from 0.93% to 5.30% and from 1.15% to 5.30%, respectively. Annual interest rates for long-term borrowings denominated in other currencies ranged from 0.43% to 9.00% for those outstanding as of March 31, 2012 and from 0.43% to 5.90% for those outstanding as of March 31, 2013. Long-term lease obligations totaled ¥6.9 billion as of March 31, 2012 and ¥8.2 billion as of March 31, 2013.

As of March 31, 2013, our long-term debt was rated Aa3 (stable) by Moody's Japan K.K., A+ (positive) by Standard & Poor's Ratings Japan K.K., and AA (stable) by Rating and Investment Information, Inc. (R&I), all with a "stable" outlook. These ratings are among the highest ratings for international tobacco companies.

These ratings are affected by a number of factors such as developments in our major business markets, the quality of execution of our business strategies, and general economic trends that are beyond our control. The ratings may be withdrawn or revised at any time. Each rating should be evaluated separately from other ratings. Under the JT Act, bonds issued by JT are secured by statutory preferential rights to the property of JT. These rights give bondholders precedence over unsecured creditors in seeking repayment, with the exception of national and local taxes and other statutory obligations.

Short-term debt

Short-term borrowings from financial institutions totaled ¥43.5 billion as of March 31, 2012 and ¥23.8 billion as of March 31, 2013, of which borrowings denominated in the currencies other than Japanese yen were ¥32.0 billion and ¥20.7 billion, respectively. There was no commercial paper outstanding as of March 31, 2012 and as of March 31, 2013. Annual interest rates applicable to yen-denominated short-term borrowings ranged from 0.48% to 2.20% as of March 31, 2012, and from 0.46% to 2.10% as of March 31, 2013. Annual interest rates applicable to short-term borrowings denominated in other currencies ranged from 1.60% to 27.00% as of March 31, 2012, and from 1.07% to 41.00% as of March 31, 2013. Short-term lease obligations totaled ¥3.9 billion as of March 31, 2012 and ¥4.3 billion as of March 31, 2013.

c. Liquidity

We have historically had, and expect to continue to have, significant cash flows from operating activities. Cash flows from operating activities were ¥551.6 billion in the year ended March 31, 2012 and ¥466.6 billion in the year ended March 31, 2013. We expect that cash generated from operating activities will continue to be stable and cover funds needed for regular business activities. On March 31, 2013, we had ¥444.6 billion in committed lines of credit from major financial institutions both domestic and international, none of which was used. In addition, we have a domestic commercial paper program, uncommitted lines of credit, and a domestic bond shelf registration.

III. Facilities

1. Outline of capital expenditures

In this fiscal year, we made capital expenditures totaling ¥137.4 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 spent ¥12.0 billion on maintenance and renewals of vending machines. In the processed food business, we spent ¥4.6 billion on improvement, maintenance and renewals of production capability.

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

* Capital expenditures include outlays on property, plants and equipment such as land, buildings and structures; machinery; vehicles and others; and intangible assets such as goodwill, trademark, software and others that are necessary for enhancing the productivity of our factories and other facilities, strengthening our competitiveness, and operating in various business fields.

2. Main facilities

Main facilities of the JT Group (JT and its consolidated subsidiaries) are as follows.

(1) Filing company (JT)

(As of March 31, 2013)

Office and factory name (Location)	Segment	Description	Book value (Millions of yen)						Number of employees (Person)
			Land		Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total	
			Size (thousand m^2)	Amount					
Kita-kanto Factory (Utsunomiya-shi, Tochigi) *1	Domestic Tobacco	Tobacco manufacturing facilities	150	2,062	6,898	27,183	1,112	37,255	397
Tokai Factory (Iwata-shi, Shizuoka) *1	Domestic Tobacco	Tobacco manufacturing facilities	223	2,309	6,533	9,287	341	18,470	336
Kansai Factory (Fushimi-ku, Kyoto-shi)	Domestic Tobacco	Tobacco manufacturing facilities	116	5,831	7,743	19,123	613	33,310	493
Kyushu Factory (Chikushino-shi, Fukuoka)	Domestic Tobacco	Tobacco manufacturing facilities	166	4,042	2,803	7,755	317	14,916	255
Other factories (5) (Municipality) *1	Domestic Tobacco	Mainly tobacco manufacturing facilities	452	2,215	8,475	13,793	726	25,209	704
Tobacco Science Research Center (Aoba-ku, Yokohama-shi) *1	Domestic Tobacco	Research and development facilities	35	642	3,540	1	943	5,125	71
Central Pharmaceutical Research Institute (Takatsuki-shi, Osaka)	Pharmaceutical	Research and development facilities	95	2,730	14,867	8	1,282	18,886	580
Head Office (Minato-ku, Tokyo)	General administration	Other	7	21,487	23,645	15	1,761	46,908	1,676
Domestic Sales Offices (25) (Municipality)	Domestic Tobacco (includes administration)	Other, etc.	67	4,440	4,457	1,134	2,250	12,282	1,005

(2) Domestic subsidiaries

(As of March 31, 2013)

Office and factory name (Location)	Segment	Description	Book value (Millions of yen)						Number of employees (Person)
			Land		Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total	
			Size (thousand m²)	Amount					
TS Network Co., Ltd. Head Office and other 32 distribution bases, etc. (Head Office: Taito-ku, Tokyo) *1 *2	Domestic Tobacco	Distribution facilities	18	458	4,974	2,011	419	7,860	1,356
Japan Filter Technology Co., Ltd. Head Office and other 3 factories, etc. (Head Office: Shibuya-ku, Tokyo) *1	Domestic Tobacco	Material manufacturing facilities	158	2,179	3,508	6,778	171	12,637	434
Torii Pharmaceutical Co., Ltd. Head Office, other factories and branch offices, etc. (Head Office: Chuo-ku, Tokyo) *2	Pharmaceutical	Pharmaceuticals manufacturing facility and other	59	702	3,784	1,535	492	6,514	969
Japan Beverage Holdings Inc. Head Office and other business locations, etc. (Head Office: Shinjuku-ku, Tokyo) *2	Beverage	Sales and distribution facilities	62	3,055	1,712	2,784	11,310	18,862	191
TableMark Co., Ltd. Head Office and other 8 factories, etc. (Head Office: Chuo-ku, Tokyo) *1, *2	Processed Food	Frozen food production facilities	215	6,226	10,480	9,042	346	26,095	1,454

(3) Foreign subsidiaries

(As of December 31, 2012)

Office and factory name (Location)	Segment	Description	Book value (Millions of yen)						Number of employees (Person)
			Land		Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total	
			Size (thousand m²)	Amount					
Gallaher Ltd. (U.K.)	International Tobacco	Tobacco manufacturing facilities	536	4,313	8,761	15,099	1,184	29,356	1,543
LLC Petro (Russia) *2	International Tobacco	Tobacco manufacturing facilities	187	23	7,349	23,507	1,971	32,850	1,420
Liggett-Ducat CJSC (Russia) *2	International Tobacco	Tobacco manufacturing facilities	32	–	61	4,428	419	4,908	885
JT International Germany GmbH (Germany)	International Tobacco	Tobacco manufacturing facilities	345	271	9,713	21,124	1,241	32,350	1,736
JTI Tütün Urunleri Sanayi A.S. (Turkey)	International Tobacco	Tobacco manufacturing facilities	149	166	1,606	6,277	81	8,129	460
JTI-Macdonald Corp. (Canada)	International Tobacco	Tobacco manufacturing facilities	47	18	1,016	2,677	232	3,944	506

Notes: 1. Companies marked with *1 have land leased to entities other than the Group companies.
2. Companies marked with *2 have land leased from entities other than the Group companies.
3. Book values include lease assets.

3. Plans for new installation and retirement of facilities

Regarding the mid- to long-term resource allocation of the JT Group, we will place top priority on business investments that will lead to sustainable profit growth in the mid- to long-term based on our management principles. Of the reportable segments, we position the domestic and international tobacco businesses as the core business and profit growth engine and place top priority on business investments that will lead to their sustainable profit growth. Meanwhile, regarding the pharmaceutical, beverage and processed food businesses, we will devote efforts to strengthening business foundations to generate future profits, so we will make investments to that end.

Based on this policy, we plan capital expenditures (facility construction and expansion) totaling ¥195.0 billion in the year following the fiscal year ending March 31, 2014.

As JT and JT Group companies have wide-ranging plans for capital expenditure, figures are disclosed by segment.

Our actual capital expenditures may differ significantly from the planned figures mentioned above as a result of a number of factors including those presented in “II. Review of operations, 4. Business and other risks.”

Segment	Capital expenditure plan for the year ending March 31, 2014 (Billions of yen)	Main purpose of investment	Funding
Domestic Tobacco Business	63.0	Expenditures for the development and reinforcement of production and sales facilities for strengthening brand equity	Internally generated funds
International Tobacco Business	94.0	Expenditures for the improvement of product specifications, the expansion of production capacity and the maintenance and upgrading of facilities	Same as above
Pharmaceutical Business	4.0	Expenditures for the development and reinforcement of R&D capabilities	Same as above
Beverage Business	12.0	Expenditures for the development and reinforcement of sales facilities	Same as above
Processed Food Business	8.0	Expenditures for the expansion of production capacity and the maintenance and upgrading of facilities	Same as above

Note: There were no plans for sales or retirement of important facilities except for the regular renewal of facilities.

* Capital expenditures include outlays on property, plants and equipment such as land, buildings and structures; machinery; vehicles and others; and intangible assets such as goodwill, trademark, software and others that are necessary for enhancing the productivity of our factories and other facilities, strengthening our competitiveness, and operating in various business fields.

IV. Filing company

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

(1) Total number of shares authorized, etc.

a. Total number of shares authorized

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

b. Number of shares issued

Class	Number of shares issued (Share; as of March 31, 2013)	Number of shares issued (Share; as of the date of filing: June 21, 2013)	Name of financial instruments exchange where the stock of JT is traded or the name of authorized financial instruments firms association where JT is registered	Details
Ordinary shares	2,000,000,000	2,000,000,000	Tokyo Stock Exchange (First Section) Osaka Securities Exchange (First Section)	(Note 2)
Total	2,000,000,000	2,000,000,000	–	–

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

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

(2) Status of subscription rights to shares

Subscription rights to shares issued pursuant to the Companies Act are as follows.

a. Resolution of a meeting of the Board of Directors on December 21, 2007

	As of March 31, 2013	As of May 31, 2013
Number of subscription rights to shares	399 units	399 units
Of which, the number of treasury subscription rights to shares	–	–
Class of shares to be issued upon exercise of subscription rights to shares	Ordinary shares (JT's standard class of shares with no rights limitations.)	Same as left
Number of shares to be issued upon exercise of subscription rights to shares	79,800 shares (Notes 1, 4)	79,800 shares (Notes 1, 4)
Paying due upon exercise of subscription rights to shares	¥1 per share	Same as left
Exercise period of subscription rights to shares	From January 9, 2008 to January 8, 2038	Same as left
Issue price of shares in cases where shares will be issued as a result of exercise of subscription rights to shares	¥581,269 per unit	Same as left
Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares	a. Capital amount that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be a half of the maximum capital increase amount obtained by the calculation pursuant to Article 17, paragraph 1 of the Corporate Accounting Rules. If the obtained figure has a fraction less than ¥1, the figure is rounded up to the nearest yen. b. Capital reserves that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be the amount obtained by subtracting the capital amount to be increased as specified in a. above from the maximum capital increase amount described in a. above.	Same as left
Conditions for exercising subscription rights to shares	a. The person who is a holder of subscription rights to shares and is recorded in the registry of subscription rights to shares (hereinafter, "Subscription rights to shares Holder") may exercise his/her subscription rights to shares only if he/she forfeit his/her all position as director (including *sikkoyaku* at a company with committees), audit & supervisory board member and executive officer (*sikkoyakuin*) of JT. b. In cases where Subscription rights to shares Holders waive their subscription rights to shares, they cannot exercise those subscription rights to shares.	Same as left
Assignment of subscription rights to shares	The approval of the Board of Directors is required for the assignment of subscription rights to shares.	Same as left
Matters regarding surrogate payments	–	–
Provisions for acquiring subscription rights to shares	(Note 2)	Same as left
Matters regarding delivery of subscription rights to shares accompanied by reorganization	(Note 3)	Same as left

Notes: 1. The class of shares to be issued upon exercise of subscription rights to shares shall be ordinary shares. The number of shares to be issued upon exercise of each stock acquisition right (hereinafter, "Number of Shares Granted") shall be one.

However, in cases where JT conducts stock split (including stock allotment without contribution; hereinafter, the same shall apply to description of stock split) or stock consolidation of ordinary shares of JT after the date on which JT allots subscription rights to shares (hereinafter, "Allotment Date"), the Number of Shares Granted shall be adjusted according to the following formula.

Number of Shares Granted after adjustment	=	Number of Shares Granted before adjustment	×	Ratio of stock split or stock consolidation

Any fraction of less than one share that occurs as a result of the above adjustment shall be rounded down to two decimal places.

In the case of a stock split, the Number of Shares Granted after adjustment shall be applied on and after the date following the base date (if the base date is not specified, on and after the effective date), while in the case of stock consolidation, it shall be applied on and after the effective date. However, in cases where stock split is conducted subject to approval of the proposal to reduce surplus and increase capital or reserve fund at the General Meeting of Shareholders of JT and where the base date for stock split is set on or before the date of conclusion of that General Meeting of Shareholders, the Number of Shares Granted after adjustment shall be applied retrospectively to the date following that base date, on and after the date following the date of conclusion of that General Meeting of Shareholders.

In addition, in cases where the adjustment of the Number of Shares Granted is proper, JT shall conduct adjustments deemed necessary after the Allotment Date.

When adjusting the Number of Shares Granted, JT shall notify Subscription rights to shares Holders or make public notice of necessary information by the date before the date on which the Number of Shares Granted after adjustment is applied. However, in cases where the notice or public notice by the date before the date of the application is impracticable, JT shall later do so as soon as possible.

2. In cases where proposal a., b. or c. below is approved at the General Meeting of Shareholders of JT (if a resolution by the General Meeting of Shareholders is not necessary, it is read as "in cases where the resolution of a meeting of the Board of Directors or the decision by the representative executive officer (*sikkoyaku* at a company with committees) is made"), JT may acquire subscription rights to shares on the date separately provided for by the Board of Directors.
   In this case, JT shall, in exchange for acquiring each stock acquisition right, deliver money at the amount obtained by multiplying the value per share calculated according to the following formula by the Number of Shares Granted (if adjusted pursuant to Note 1 above, the Number of Shares Granted after adjustment) to the Subscription rights to shares Holders of respective such subscription rights to shares.

   Value per share = Closing price for regular transactions of ordinary shares of JT on the Tokyo Stock Exchange (if there is no closing price, the base price thereof on the following business day) on the date on which such proposal is approved at the General Meeting of Shareholders of JT (if a resolution by the General Meeting of Shareholders is not necessary, it is read as "the resolution of a meeting of the Board of Directors or the decision by the representative executive officer (*sikkoyaku* at a company with committees) is made") – ¥1

   a. Proposal to ask approval of a contract of merger where JT is not to be the surviving company
   b. Proposal to ask approval of a contract or plan of company split where JT would be the split company
   c. Proposal to ask approval of a share exchange contract or share transfer plan where JT becomes a wholly-owned subsidiary

3. In cases where JT merges (limited to cases where JT is to be extinguished as a result of the merger), splits and absorbs or splits and incorporates (limited to cases where JT becomes the split company in either case), or exchanges or transfers shares (limited to cases where JT becomes a wholly-owned subsidiary in either case) (collectively, hereinafter, "Reorganization"), JT shall, in each case, deliver subscription rights to shares of the companies as listed in Article 236, paragraph 1, item (viii), sub-items (a) to (e) of the Companies Act (hereinafter, the "Company Subject to Reorganization") to the Subscription rights to shares Holders that have subscription rights to shares existing immediately before the effective date of the Reorganization, which is either the effective date of absorption-type merger when it is an absorption-type merger, the consolidation date of a company as a result of the consolidated-type merger when it is a consolidated-type merger, the effective date of absorption-type company split when it is an absorption-type company split, the incorporation date of a company as a result of the incorporation-type company split when it is an incorporation-type company split, the effective date of share exchange when it is a share exchange, or the incorporation date of a wholly-owning parent company as a result of the share transfer when it is a share transfer (hereinafter, "Remaining Subscription rights to shares"). However, it is subject to a condition that the provision that the subscription rights to shares of the Company Subject to Reorganization shall be delivered pursuant to the provisions of the items below, is specified in the absorption-type merger contract, consolidated-type merger contract, absorption-type company split contract, incorporation-type company split plan, share exchange contract or share transfer plan.
   a. Number of subscription rights to shares to be delivered of the Company Subject to Reorganization
      Subscription rights to shares whose number is identical to the number of the Remaining Subscription rights to shares held by Subscription rights to shares Holder
   b. Class of shares of the Company Subject to Reorganization to be issued upon exercise of subscription rights to shares
      Ordinary shares of the Company Subject to Reorganization
   c. Number of shares of the Company Subject to Reorganization to be issued upon exercise of subscription rights to shares
      To be determined in the same manner as Note 1 above, taking into consideration terms and other conditions of the Reorganization.
   d. Value of property to be contributed when subscription rights to shares are exercised
      The value of the property to be contributed when each stock acquisition right to be delivered is exercised shall be the amount obtained by multiplying the paid-in amount after Reorganization as specified below by the number of

shares of the Company Subject to Reorganization to be issued upon exercise of each stock acquisition right, which is decided pursuant to c. above. The paid-in amount after Reorganization shall be ¥1 per share of the shares of the Company Subject to Reorganization that would be delivered by exercising the delivered subscription rights to shares.

e. Period during which subscription rights to shares can be exercised
From the effective date of the Reorganization to the expiration date of the period during which such subscription rights to shares can be exercised as specified in “Exercise period of subscription rights to shares” mentioned above.

f. Matters regarding capital and capital reserves that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares
To be determined in the same manner as “Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares” mentioned above.

g. Restrictions on transferring of subscription rights to shares
Transferring the subscription rights to shares is subject to approval of the Board of Directors of the Company Subject to Reorganization.

h. Provisions for acquiring subscription rights to shares
To be determined in the same manner as Note 2 above.

i. Other conditions for exercising subscription rights to shares
To be determined in the same manner as “Conditions for exercising subscription rights to shares” mentioned above.

4. JT conducted a share split at a ratio of 200 to one ordinary share with July 1, 2012 as effective date. As a consequence, the number of shares to be issued upon exercise of the subscription rights to shares issued before this share split has been adjusted at a ratio of 200 to one share and is presented accordingly.

b. Resolution of a meeting of the Board of Directors on September 19, 2008

	As of March 31, 2013	As of May 31, 2013
Number of subscription rights to shares	547 units	547 units
Of which, the number of treasury subscription rights to shares	–	–
Class of shares to be issued upon exercise of subscription rights to shares	Ordinary shares (JT's standard class of shares with no rights limitations.)	Same as left
Number of shares to be issued upon exercise of subscription rights to shares	109,400 shares (Notes 1, 4)	109,400 shares (Notes 1, 4)
Paying due upon exercise of subscription rights to shares	¥1 per share	Same as left
Exercise period of subscription rights to shares	From October 7, 2008 to October 6, 2038	Same as left
Issue price of shares in cases where shares will be issued as a result of exercise of subscription rights to shares	¥285,904 per unit	Same as left
Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares	a. Capital amount that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be a half of the maximum capital increase amount obtained by the calculation pursuant to Article 17, paragraph 1 of the Corporate Accounting Rules. If the obtained figure has a fraction less than ¥1, the figure is rounded up to the nearest yen. b. Capital reserves that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be the amount obtained by subtracting the capital amount to be increased as specified in a. above from the maximum capital increase amount described in a. above.	Same as left
Conditions for exercising subscription rights to shares	a. The person who is a holder of subscription rights to shares and is recorded in the registry of subscription rights to shares (hereinafter, "Subscription rights to shares Holder") may exercise his/her subscription rights to shares only if he/she forfeit his/her all position as director (including *sikkoyaku* at a company with committees), audit & supervisory board member and executive officer (*sikkoyakuin*) of JT. b. In cases where Subscription rights to shares Holders waive their subscription rights to shares, they cannot exercise those subscription rights to shares.	Same as left
Assignment of subscription rights to shares	The approval of the Board of Directors is required for the assignment of subscription rights to shares.	Same as left
Matters regarding surrogate payments	–	–
Provisions for acquiring subscription rights to shares	(Note 2)	Same as left
Matters regarding delivery of subscription rights to shares accompanied by reorganization	(Note 3)	Same as left

Notes: 1. to 4. Same as Notes 1. to 4. of subscription rights to shares pursuant to a. Resolution of a meeting of the Board of Directors on December 21, 2007.

c. Resolution of a meeting of the Board of Directors on September 28, 2009

	As of March 31, 2013	As of May 31, 2013
Number of subscription rights to shares	1,153 units	1,153 units
Of which, the number of treasury subscription rights to shares	–	–
Class of shares to be issued upon exercise of subscription rights to shares	Ordinary shares (JT's standard class of shares with no rights limitations.)	Same as left
Number of shares to be issued upon exercise of subscription rights to shares	230,600 shares (Notes 1, 4)	230,600 shares (Notes 1, 4)
Paying due upon exercise of subscription rights to shares	¥1 per share	Same as left
Exercise period of subscription rights to shares	From October 14, 2009 to October 13, 2039	Same as left
Issue price of shares in cases where shares will be issued as a result of exercise of subscription rights to shares	¥197,517 per unit	Same as left
Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares	a. Capital amount that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be a half of the maximum capital increase amount obtained by the calculation pursuant to Article 17, paragraph 1 of the Corporate Accounting Rules. If the obtained figure has a fraction less than ¥1, the figure is rounded up to the nearest yen. b. Capital reserves that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be the amount obtained by subtracting the capital amount to be increased as specified in a. above from the maximum capital increase amount described in a. above.	Same as left
Conditions for exercising subscription rights to shares	a. The person who is a holder of subscription rights to shares and is recorded in the registry of subscription rights to shares (hereinafter, "Subscription rights to shares Holder") may exercise his/her subscription rights to shares only if he/she forfeit his/her all position as director (including *sikkoyaku* at a company with committees), audit & supervisory board member and executive officer (*sikkoyakuin*) of JT. b. In cases where Subscription rights to shares Holders waive their subscription rights to shares, they cannot exercise those subscription rights to shares.	Same as left
Assignment of subscription rights to shares	The approval of the Board of Directors is required for the assignment of subscription rights to shares.	Same as left
Matters regarding surrogate payments	–	–
Provisions for acquiring subscription rights to shares	(Note 2)	Same as left
Matters regarding delivery of subscription rights to shares accompanied by reorganization	(Note 3)	Same as left

Notes: 1. to 4. Same as Notes 1. to 4. of subscription rights to shares pursuant to a. Resolution of a meeting of the Board of Directors on December 21, 2007.

d. Resolution of a meeting of the Board of Directors on September 17, 2010

	As of March 31, 2013	As of May 31, 2013
Number of subscription rights to shares	979 units	979 units
Of which, the number of treasury subscription rights to shares	–	–
Class of shares to be issued upon exercise of subscription rights to shares	Ordinary shares (JT's standard class of shares with no rights limitations.)	Same as left
Number of shares to be issued upon exercise of subscription rights to shares	195,800 shares (Notes 1, 4)	195,800 shares (Notes 1, 4)
Paying due upon exercise of subscription rights to shares	¥1 per share	Same as left
Exercise period of subscription rights to shares	From October 5, 2010 to October 4, 2040	Same as left
Issue price of shares in cases where shares will be issued as a result of exercise of subscription rights to shares	¥198,386 per unit	Same as left
Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares	a. Capital amount that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be a half of the maximum capital increase amount obtained by the calculation pursuant to Article 17, paragraph 1 of the Corporate Accounting Rules. If the obtained figure has a fraction less than ¥1, the figure is rounded up to the nearest yen. b. Capital reserves that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be the amount obtained by subtracting the capital amount to be increased as specified in a. above from the maximum capital increase amount described in a. above.	Same as left
Conditions for exercising subscription rights to shares	a. The person who is a holder of subscription rights to shares and is recorded in the registry of subscription rights to shares (hereinafter, "Subscription rights to shares Holder") may exercise his/her subscription rights to shares only if he/she forfeit his/her all position as director (including *sikkoyaku* at a company with committees), audit & supervisory board member and executive officer (*sikkoyakuin*) of JT. b. In cases where Subscription rights to shares Holders waive their subscription rights to shares, they cannot exercise those subscription rights to shares.	Same as left
Assignment of subscription rights to shares	The approval of the Board of Directors is required for the assignment of subscription rights to shares.	Same as left
Matters regarding surrogate payments	–	–
Provisions for acquiring subscription rights to shares	(Note 2)	Same as left
Matters regarding delivery of subscription rights to shares accompanied by reorganization	(Note 3)	Same as left

Notes: 1. to 4. Same as Notes 1. to 4. of subscription rights to shares pursuant to a. Resolution of a meeting of the Board of Directors on December 21, 2007.

e. Resolution of a meeting of the Board of Directors on September 16, 2011

	As of March 31, 2013	As of May 31, 2013
Number of subscription rights to shares	1,038 units	1,038 units
Of which, the number of treasury subscription rights to shares	–	–
Class of shares to be issued upon exercise of subscription rights to shares	Ordinary shares (JT’s standard class of shares with no rights limitations.)	Same as left
Number of shares to be issued upon exercise of subscription rights to shares	207,600 shares (Notes 1, 4)	207,600 shares (Notes 1, 4)
Paying due upon exercise of subscription rights to shares	¥1 per share	Same as left
Exercise period of subscription rights to shares	From October 4, 2011 to October 3, 2041	Same as left
Issue price of shares in cases where shares will be issued as a result of exercise of subscription rights to shares	¥277,947 per unit	Same as left
Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares	a. Capital amount that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be a half of the maximum capital increase amount obtained by the calculation pursuant to Article 17, paragraph 1 of the Corporate Accounting Rules. If the obtained figure has a fraction less than ¥1, the figure is rounded up to the nearest yen. b. Capital reserves that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be the amount obtained by subtracting the capital amount to be increased as specified in a. above from the maximum capital increase amount described in a. above.	Same as left
Conditions for exercising subscription rights to shares	a. The person who is a holder of subscription rights to shares and is recorded in the registry of subscription rights to shares (hereinafter, “Subscription rights to shares Holder”) may exercise his/her subscription rights to shares only if he/she forfeit his/her all position as director (including *sikkoyaku* at a company with committees), audit & supervisory board member and executive officer (*sikkoyakuin*) of JT. b. In cases where Subscription rights to shares Holders waive their subscription rights to shares, they cannot exercise those subscription rights to shares.	Same as left
Assignment of subscription rights to shares	The approval of the Board of Directors is required for the assignment of subscription rights to shares.	Same as left
Matters regarding surrogate payments	–	–
Provisions for acquiring subscription rights to shares	(Note 2)	Same as left
Matters regarding delivery of subscription rights to shares accompanied by reorganization	(Note 3)	Same as left

Notes: 1. to 4. Same as Notes 1. to 4. of subscription rights to shares pursuant to a. Resolution of a meeting of the Board of Directors on December 21, 2007.

f. Resolution of a meeting of the Board of Directors on September 21, 2012

	As of March 31, 2013	As of May 31, 2013
Number of subscription rights to shares	729 units	729 units
Of which, the number of treasury subscription rights to shares	–	–
Class of shares to be issued upon exercise of subscription rights to shares	Ordinary shares (JT's standard class of shares with no rights limitations.)	Same as left
Number of shares to be issued upon exercise of subscription rights to shares	145,800 shares (Note 1)	145,800 shares (Note 1)
Paying due upon exercise of subscription rights to shares	¥1 per share	Same as left
Exercise period of subscription rights to shares	From October 10, 2012 to October 9, 2042	Same as left
Issue price of shares in cases where shares will be issued as a result of exercise of subscription rights to shares	¥320,000 per unit	Same as left
Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares	a. Capital amount that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be a half of the maximum capital increase amount obtained by the calculation pursuant to Article 17, paragraph 1 of the Corporate Accounting Rules. If the obtained figure has a fraction less than ¥1, the figure is rounded up to the nearest yen. b. Capital reserves that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be the amount obtained by subtracting the capital amount to be increased as specified in a. above from the maximum capital increase amount described in a. above.	Same as left
Conditions for exercising subscription rights to shares	a. The person who is a holder of subscription rights to shares and is recorded in the registry of subscription rights to shares (hereinafter, "Subscription rights to shares Holder") may exercise his/her subscription rights to shares only if he/she forfeit his/her all position as director (including *sikkoyaku* at a company with committees), audit & supervisory board member and executive officer (*sikkoyakuin*) of JT. b. In cases where Subscription rights to shares Holders waive their subscription rights to shares, they cannot exercise those subscription rights to shares.	Same as left
Assignment of subscription rights to shares	The approval of the Board of Directors is required for the assignment of subscription rights to shares.	Same as left
Matters regarding surrogate payments	–	–
Provisions for acquiring subscription rights to shares	(Note 2)	Same as left
Matters regarding delivery of subscription rights to shares accompanied by reorganization	(Note 3)	Same as left

Notes: 1. The class of shares to be issued upon exercise of subscription rights to shares shall be ordinary shares. The number of shares to be issued upon exercise of each stock acquisition right (hereinafter, "Number of Shares Granted") shall be 200.

However, in cases where JT conducts stock split (including stock allotment without contribution; hereinafter, the same shall apply to description of stock split) or stock consolidation of ordinary shares of JT after the date on which JT allots subscription rights to shares (hereinafter, "Allotment Date"), the Number of Shares Granted shall be adjusted according to the following formula.

$$\text{Number of Shares Granted after adjustment} = \text{Number of Shares Granted before adjustment} \times \text{Ratio of stock split or stock consolidation}$$

Any fraction of less than one share that occurs as a result of the above adjustment shall be rounded down to two decimal places.

In the case of a stock split, the Number of Shares Granted after adjustment shall be applied on and after the date following the base date (if the base date is not specified, on and after the effective date), while in the case of stock consolidation, it shall be applied on and after the effective date. However, in cases where stock split is conducted subject to approval of the proposal to reduce surplus and increase capital or reserve fund at the General Meeting of Shareholders of JT and where the base date for stock split is set on or before the date of conclusion of that General Meeting of Shareholders, the Number of Shares Granted after adjustment shall be applied retrospectively to the date following that base date, on and after the date following the date of conclusion of that General Meeting of Shareholders.

In addition, in cases where the adjustment of the Number of Shares Granted is proper, JT shall conduct adjustments deemed necessary after the Allotment Date.

When adjusting the Number of Shares Granted, JT shall notify Subscription rights to shares Holders or make public notice of necessary information by the date before the date on which the Number of Shares Granted after adjustment is applied. However, in cases where the notice or public notice by the date before the date of the application is impracticable, JT shall later do so as soon as possible.

2. and 3. Same as Notes 2. and 3. of subscription rights to shares pursuant to a. Resolution of a meeting of the Board of Directors on December 21, 2007.

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

No items to report

(4) Details of rights plan

No items to report

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

Date	Fluctuation in the number of shares issued (Thousands of shares)	Balance of shares issued (Thousands of shares)	Fluctuation in capital stock (Millions of yen)	Balance of capital stock (Millions of yen)	Fluctuation in capital reserve (Millions of yen)	Balance of capital reserve (Millions of yen)
July 1, 2012	1,990,000	2,000,000	–	100,000	–	736,400

Note: JT conducted a share split at a ratio of 200 to one share with July 1, 2012 as effective date. Consequently, the balance of shares issued increased by 1,990,000 thousand shares to 2,000,000 thousand shares.

(6) Shareholder composition

(As of March 31, 2013)

Category	Shareholder composition (100 shares in one share unit)								Shares less than one unit (Share)
	Public sector	Financial institutions	Financial instruments business operators	Other corporations	Foreign investors: Companies, etc.	Foreign investors: Individuals	Individuals, etc.	Total	
Number of shareholders (Person)	1	202	52	2,383	777	40	185,846	189,301	–
Number of shares held (Share)	6,669,338	2,996,038	230,636	217,285	6,708,278	346	3,177,963	19,999,884	11,600
Holding rate of shares (%)	33.35	14.98	1.15	1.09	33.54	0.00	15.89	100.00	–

Notes: 1. 1,825,101 units of treasury shares are included in “Individuals, etc.”

2. The number of “Other corporations” includes 336 units in the name of Japan Securities Depository Center, Inc.

(7) Status of major shareholders

(As of March 31, 2013)

Name of shareholder	Address	Number of shares held (Share)	Percentage of number of shares held in the total number of shares issued (%)
The Minister of Finance	1-1, Kasumigaseki 3-chome, Chiyoda-ku, Tokyo, Japan	666,933,800	33.35
State Street Bank and Trust Company (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	P.O.BOX 351 BOSTON, MASSACHUSETTS 02101 U.S.A. (11-1, Nihonbashi 3-chome, Chuo-ku, Tokyo, Japan)	52,667,589	2.63
Japan Trustee Services Bank, Ltd. (Trust Account)	8-11, Harumi 1-chome, Chuo-ku, Tokyo, Japan	52,047,200	2.60
The Master Trust Bank of Japan, Ltd. (Trust Account)	11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo, Japan	45,316,400	2.27
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	Harumi Island Triton Square Office Tower Z, 8-12, Harumi 1-chome, Chuo-ku, Tokyo, Japan	33,800,000	1.69
State Street Bank and Trust Company (Standing proxy: Mizuho Corporate Bank, Ltd., Settlement Sales Department)	P.O.BOX 351 BOSTON, MASSACHUSETTS 02101 U.S.A. (16-13, Tsukishima 4-chome, Chuo-ku, Tokyo, Japan)	31,006,706	1.55
Goldman Sachs and Company Regular Account (Standing proxy: Goldman Sachs Japan Co., Ltd.)	200 WEST STREET NEW YORK, NY, USA (Roppongi Hills Mori Tower, 10-1, Roppongi 6-chome, Minato-ku, Tokyo, Japan)	25,167,031	1.26
JPMorgan Chase Bank 380055 (Standing proxy: Mizuho Corporate Bank, Ltd., Settlement Sales Department)	270 PARK AVENUE, NEW YORK , NY 10017, UNITED STATES OF AMERICA (16-13, Tsukishima 4-chome, Chuo-ku, Tokyo, Japan)	19,666,814	0.98
State Street Bank and Trust Company 505223 (Standing proxy: Mizuho Corporate Bank, Ltd., Settlement Sales Department)	P.O. BOX 351 BOSTON, MASSACHUSETTS 02101 U.S.A. (16-13, Tsukishima 4-chome, Chuo-ku, Tokyo, Japan)	19,539,365	0.98
HSBC BANK PLC A/C THE CHILDRENS INVESTMENT MASTER FUND (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	8 CANADA SQUARE, LONDON E145HQ (11-1, Nihonbashi 3-chome, Chuo-ku, Tokyo, Japan)	19,247,400	0.96
Total	–	965,392,305	48.27

Notes: 1. In addition to the above, JT held 182,510,100 shares of ordinary shares as treasury stock.
2. In February and March 2013, the government (Minister of Finance) sold a total of 333,333,200 of its shares in JT.

(8) Status of voting rights

a. Shares issued

(As of March 31, 2013)

Classification	Number of shares (Share)	Number of voting rights	Details
Shares without voting rights	–	–	–
Shares with restricted voting rights (Treasury stock, etc.)	–	–	–
Shares with restricted voting rights (Other)	–	–	–
Shares with full voting rights (Treasury stock, etc.)	Ordinary shares 182,510,100	–	(Note 2)
Shares with full voting rights (Other)	Ordinary shares 1,817,478,300	18,174,783	(Note 2)
Shares less than one unit	Ordinary shares 11,600	–	–
Total number of shares issued	2,000,000,000	–	–
Total number of voting rights	–	18,174,783	–

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

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

b. Treasury stock, etc.

(As of March 31, 2013)

Name of shareholder	Address	Number of shares held under own name (Share)	Number of shares held under the name of others (Share)	Total number of shares held (Share)	Percentage of number of shares held in the total number of shares issued (%)
Japan Tobacco Inc.	2-1, Toranomon 2-chome, Minato-ku, Tokyo, Japan	182,510,100	–	182,510,100	9.13
Total	–	182,510,100	–	182,510,100	9.13

(9) Stock options

JT has adopted a system of stock options that involves the issuance of subscription rights to shares in accordance with the Companies Act.

Details are as follows.

(By resolution of the Board of Directors at a meeting held on December 21, 2007)

The Board of Directors at a meeting held on December 21, 2007, resolved to issue subscription rights to shares as share remuneration type stock options to JT Directors and Executive Officers (*sikkoyakuin*) in accordance with the Companies Act.

Resolution date	December 21, 2007
Positions and number of persons granted	Directors 11 persons Executive Officers (*sikkoyakuin*) (excluding persons serving as Director) 16 persons
Class of shares to be issued upon exercise of subscription rights to shares	See "(2) Status of subscription rights to shares"
Number of shares	46,600 shares to Directors, 38,600 shares to Executive Officers (*sikkoyakuin*), total 85,200 shares (200 shares per stock acquisition right) (Notes 1, 2)
Paying due upon exercise of subscription rights to shares	See "(2) Status of subscription rights to shares"
Exercise period of subscription rights to shares	Same as above
Conditions for exercising subscription rights to shares	Same as above
Assignment of subscription rights to shares	Same as above
Matters regarding surrogate payments	–
Matters regarding delivery of subscription rights to shares accompanied by reorganization	See "(2) Status of subscription rights to shares"

Notes: 1. In cases where JT conducts stock split (including stock allotment without contribution; hereinafter, the same shall apply to description of stock split) or stock consolidation of ordinary shares of JT after the date on which JT allots subscription rights to shares (hereinafter, "Allotment Date"), the number of shares to which each stock acquisition right applies (hereinafter, "Number of Shares Granted") shall be adjusted according to the following formula.

$$\text{Number of Shares Granted after adjustment} = \text{Number of Shares Granted before adjustment} \times \text{Ratio of stock split or stock consolidation}$$

Any fraction of less than one share that occurs as a result of the above adjustment shall be rounded down to two decimal places.

In the case of a stock split, the Number of Shares Granted after adjustment shall be applied on and after the date following the base date (if the base date is not specified, on and after the effective date), while in the case of stock consolidation, it shall be applied on and after the effective date. However, in cases where stock split is conducted subject to approval of the proposal to reduce surplus and increase capital or reserve fund at the General Meeting of Shareholders of JT and where the base date for stock split is set on or before the date of conclusion of that General Meeting of Shareholders, the Number of Shares Granted after adjustment shall be applied retrospectively to the date following that base date, on and after the date following the date of conclusion of that General Meeting of Shareholders.

In addition, in cases where the adjustment of the Number of Shares Granted is proper, JT shall conduct adjustments deemed necessary after the Allotment Date.

When adjusting the Number of Shares Granted, JT shall notify holders of subscription rights to shares being recorded in the registry of subscription rights to shares or make public notice of necessary information by the date before the date on which the Number of Shares Granted after adjustment is applied. However, in cases where the notice or public notice by the date before the date of the application is impracticable, JT shall later do so as soon as possible.

2. JT conducted a share split at a ratio of 200 to one ordinary share with July 1, 2012 as effective date. As a consequence, the number of shares to be issued upon exercise of the subscription rights to shares issued before this share split has been adjusted at a ratio of 200 to one share and is presented accordingly.

(By resolution of the Board of Directors at a meeting held on September 19, 2008)

The Board of Directors at a meeting held on September 19, 2008, resolved to issue subscription rights to shares as share remuneration type stock options to JT Directors and Executive Officers (*sikkoyakuin*) in accordance with the Companies Act.

Resolution date	September 19, 2008
Positions and number of persons granted	Directors 11 persons Executive Officers (*sikkoyakuin*) (excluding persons serving as Director) 14 persons
Class of shares to be issued upon exercise of subscription rights to shares	See "(2) Status of subscription rights to shares"
Number of shares	63,000 shares to Directors, 46,400 shares to Executive Officers (*sikkoyakuin*), total 109,400 shares (200 shares per stock acquisition right) (Notes 1, 2)
Paying due upon exercise of subscription rights to shares	See "(2) Status of subscription rights to shares"
Exercise period of subscription rights to shares	Same as above
Conditions for exercising subscription rights to shares	Same as above
Assignment of subscription rights to shares	Same as above
Matters regarding surrogate payments	–
Matters regarding delivery of subscription rights to shares accompanied by reorganization	See "(2) Status of subscription rights to shares"

Notes 1. and 2.: Same as Notes 1. and 2. of (By resolution of the Board of Directors at a meeting held on December 21, 2007).

(By resolution of the Board of Directors at a meeting held on September 28, 2009)

The Board of Directors at a meeting held on September 28, 2009, resolved to issue subscription rights to shares as share remuneration type stock options to JT Directors and Executive Officers (*sikkoyakuin*) in accordance with the Companies Act.

Resolution date	September 28, 2009
Positions and number of persons granted	Directors 9 persons Executive Officers (*sikkoyakuin*) (excluding persons serving as Director) 14 persons
Class of shares to be issued upon exercise of subscription rights to shares	See "(2) Status of subscription rights to shares"
Number of shares	125,200 shares to Directors, 105,400 shares to Executive Officers (*sikkoyakuin*), total 230,600 shares (200 shares per stock acquisition right) (Notes 1, 2)
Paying due upon exercise of subscription rights to shares	See "(2) Status of subscription rights to shares"
Exercise period of subscription rights to shares	Same as above
Conditions for exercising subscription rights to shares	Same as above
Assignment of subscription rights to shares	Same as above
Matters regarding surrogate payments	–
Matters regarding delivery of subscription rights to shares accompanied by reorganization	See "(2) Status of subscription rights to shares"

Notes 1. and 2.: Same as Notes 1. and 2. of (By resolution of the Board of Directors at a meeting held on December 21, 2007).

(By resolution of the Board of Directors at a meeting held on September 17, 2010)

The Board of Directors at a meeting held on September 17, 2010, resolved to issue subscription rights to shares as share remuneration type stock options to JT Directors and Executive Officers (*sikkoyakuin*) in accordance with the Companies Act.

Resolution date	September 17, 2010
Positions and number of persons granted	Directors 9 persons Executive Officers (*sikkoyakuin*) (excluding persons serving as Director) 14 persons
Class of shares to be issued upon exercise of subscription rights to shares	See "(2) Status of subscription rights to shares"
Number of shares	104,200 shares to Directors, 91,600 shares to Executive Officers (*sikkoyakuin*), total 195,800 shares (200 shares per stock acquisition right) (Notes 1, 2)
Paying due upon exercise of subscription rights to shares	See "(2) Status of subscription rights to shares"
Exercise period of subscription rights to shares	Same as above
Conditions for exercising subscription rights to shares	Same as above
Assignment of subscription rights to shares	Same as above
Matters regarding surrogate payments	–
Matters regarding delivery of subscription rights to shares accompanied by reorganization	See "(2) Status of subscription rights to shares"

Notes 1. and 2.: Same as Notes 1. and 2. of (By resolution of the Board of Directors at a meeting held on December 21, 2007).

(By resolution of the Board of Directors at a meeting held on September 16, 2011)

The Board of Directors at a meeting held on September 16, 2011, resolved to issue subscription rights to shares as share remuneration type stock options to JT Directors and Executive Officers (*sikkoyakuin*) in accordance with the Companies Act.

Resolution date	September 16, 2011
Positions and number of persons granted	Directors 8 persons Executive Officers (*sikkoyakuin*) (excluding persons serving as Director) 15 persons
Class of shares to be issued upon exercise of subscription rights to shares	See "(2) Status of subscription rights to shares"
Number of shares	102,800 shares to Directors, 104,800 shares to Executive Officers (*sikkoyakuin*), total 207,600 shares (200 shares per stock acquisition right) (Notes 1, 2)
Paying due upon exercise of subscription rights to shares	See "(2) Status of subscription rights to shares"
Exercise period of subscription rights to shares	Same as above
Conditions for exercising subscription rights to shares	Same as above
Assignment of subscription rights to shares	Same as above
Matters regarding surrogate payments	–
Matters regarding delivery of subscription rights to shares accompanied by reorganization	See "(2) Status of subscription rights to shares"

Notes 1. and 2.: Same as Notes 1. and 2. of (By resolution of the Board of Directors at a meeting held on December 21, 2007).

(By resolution of the Board of Directors at a meeting held on September 21, 2012)

The Board of Directors at a meeting held on September 21, 2012, resolved to issue subscription rights to shares as share remuneration type stock options to JT Directors and Executive Officers (*sikkoyakuin*) in accordance with the Companies Act.

Resolution date	September 21, 2012
Positions and number of persons granted	Directors 7 persons Executive Officers (*sikkoyakuin*) (excluding persons serving as Director) 17 persons
Class of shares to be issued upon exercise of subscription rights to shares	See "(2) Status of subscription rights to shares"
Number of shares	65,600 shares to Directors, 80,200 shares to Executive Officers (*sikkoyakuin*), total 145,800 shares (200 shares per stock acquisition right) (Note)
Paying due upon exercise of subscription rights to shares	See "(2) Status of subscription rights to shares"
Exercise period of subscription rights to shares	Same as above
Conditions for exercising subscription rights to shares	Same as above
Assignment of subscription rights to shares	Same as above
Matters regarding surrogate payments	–
Matters regarding delivery of subscription rights to shares accompanied by reorganization	See "(2) Status of subscription rights to shares"

Note: Same as Note 1. of (By resolution of the Board of Directors at a meeting held on December 21, 2007).

2. Acquisition of treasury stock

[Class of shares] Acquisition of common stock falling under Article 155, item (iii) of the Companies Act

(1) Acquisition by resolution of the General Meeting of Shareholders

No items to report

(2) Acquisition by resolution of the Board of Directors

Category	Number of shares (Share)	Total value (Millions of yen)
Resolution at a meeting of the Board of Directors (February 25, 2013) (Acquisition period: From February 27, 2013 to March 8, 2013)	118,000,000	250,000
Treasury stock acquired before this fiscal year	–	–
Treasury stock acquired during this fiscal year	86,805,500	250,000
Total number and amount of remaining shares to be acquired by resolution	31,194,500	0
Ratio of unexercised shares to the number resolved as of the end of this fiscal year (%)	26.4	0.0
Treasury stock acquired during the period from April 1, 2013 to the filing date of this Annual Securities Report	–	–
Ratio of unexercised shares to the number resolved as of the date of filing (%)	26.4	0.0

(3) Items not based on resolutions of the General Meeting of Shareholders or Board of Directors

No items to report

(4) Status of disposal and ownership of acquired treasury stock

Category	Fiscal year ended March 31, 2013		From April 1, 2013 until the filing date of this Annual Securities Report	
	Number of shares (Share)	Total disposal value (Millions of yen)	Number of shares (Share)	Total disposal value (Millions of yen)
Acquired treasury stock offered for subscription	–	–	–	–
Acquired treasury stock that were disposed	–	–	–	–
Acquired treasury stock transferred for merger, share exchange and company split	–	–	–	–
Other (exercise of subscription rights to shares)	600	1	–	–
Treasury stock held	182,510,100	–	182,510,100	–

Notes: 1. The number of shares and total disposal value in the “From April 1, 2013 until the filling date of this Annual Securities Report” column does not include transfers by the exercise of subscription rights to shares and the sale of shares of less than one share unit from June 1, 2013 until the filing date of this Annual Securities Report.

2. The number of shares of treasury stock held in the “From April 1, 2013 until the filing date of this Annual Securities Report” column does not include transfers by the exercise of subscription rights to shares and the purchase or sale of shares of less than one share unit from June 1, 2013 until the filing date of this Annual Securities Report.

3. Dividend policy

JT attaches a high priority to business investment that contributes to sustainable medium- to long-term profit growth, and seeks to provide shareholder returns that are attractive for a company in the global Fast-Moving Consumer Goods (FMCG) sector. In accordance with these priorities, JT has put in place targets for the consolidated dividend payout ratio and adjusted earnings per share (EPS) growth rate at constant rates of exchange.

Regarding the consolidated dividend payout ratio, in order to be on par with global players in the FMCG business, JT aims to realize a consolidated dividend payout ratio of 40% in the fiscal year ending March 31, 2014, and in the fiscal year 2015, a ratio of 50%. JT aims to achieve an adjusted EPS growth rate (at constant rates of exchange) of high single digit per annum over the medium to long term.

It is also a basic policy of JT to pay an interim dividend and year-end dividend annually, with the former determined by the Board of Directors and the latter by the General Meeting of Shareholders.

In light of business performance in the current fiscal year, the year-end dividend for the fiscal year was ¥38 per share. Therefore, the total annual dividend, including the interim dividend of ¥30, is ¥68 per share.

Also, internal reserves will be prepared not only for present and future business investments and to acquire external resources but also for the purchase of own shares and other objectives.

JT’s articles of incorporation stipulate that JT may pay interim dividends to shareholders with the record date of September 30 each year, upon a resolution by the Board of Directors.

The dividend for the 28th term is as follows.

Resolution date	Total amount of dividends (Millions of yen)	Cash dividends per share (Yen)
Meeting of the Board of Directors held on October 30, 2012	57,129	30.00
Annual General Meeting of Shareholders held on June 21, 2013	69,065	38.00

4. Trends in share price

(1) Highest and lowest share prices for the most recent 5 years by term

Term	24th term	25th term	26th term	27th term	28th term
Accounting period	From April 1, 2008 to March 31, 2009	From April 1, 2009 to March 31, 2010	From April 1, 2010 to March 31, 2011	From April 1, 2011 to March 31, 2012	From April 1, 2012 to March 31, 2013
Highest (Yen)	555,000	358,000	352,000	474,500	490,500 *3,240
Lowest (Yen)	216,000	227,000	243,900	282,600	406,500 *2,108

Notes: 1. The yearly highest and lowest share prices were those recorded on the first section of the Tokyo Stock Exchange.

2. JT conducted a share split at a ratio of 200 to one share with July 1, 2012 as effective date. Numbers marked with * are the highest and lowest share prices on an ex-rights basis in accordance with the share split.

(2) Monthly highest and lowest share prices for the most recent 6 months

Month	October 2012	November 2012	December 2012	January 2013	February 2013	March 2013
Highest (Yen)	2,358	2,494	2,463	2,903	3,110	3,240
Lowest (Yen)	2,124	2,147	2,302	2,450	2,752	2,927

Note: The monthly highest and lowest share prices were those recorded on the first section of the Tokyo Stock Exchange.

5. Status of officers

Title	Post	Name	Date of birth	Summary of career	Term of office	Number of shares held (Share)
Chairman of the Board		Hiroshi Kimura	April 23, 1953	April 1976 Joined the Company (Japan Tobacco and Salt Public Corporation) January 1999 Vice President of Corporate Planning Division May 1999 Senior Manager in Tobacco Business Planning Division, Tobacco Business Headquarters; Executive Vice President, JT International S.A. June 1999 Member of the Board June 2001 Retired from Member of the Board June 2005 Member of the Board June 2006 President, Chief Executive Officer and Representative Director June 2012 Chairman of the Board (Current Position) March 2013 Member of the Board (outside director), ASAHI GLASS CO., LTD. (Current Position)	2 years since June 2012	28,600
* President, Chief Executive Officer and Representative Director		Mitsuomi Koizumi	April 15, 1957	April 1981 Joined the Company (Japan Tobacco and Salt Public Corporation) June 2001 Vice President of Corporate Planning Division June 2003 Senior Vice President, and Head of Human Resources and Labor Relations Group June 2004 Senior Vice President, and Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters June 2006 Executive Vice President, and Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters June 2007 Member of the Board, Executive Vice President, and Head of Marketing & Sales General Division, Tobacco Business Headquarters July 2007 Member of the Board, Executive Vice President, and Chief Marketing & Sales Officer, Tobacco Business Headquarters June 2009 Representative Director and Executive Deputy President June 2012 President, Chief Executive Officer and Representative Director (Current Position)	2 years since June 2012	21,000

Title	Post	Name	Date of birth	Summary of career	Term of office	Number of shares held (Share)
* Representative Director and Executive Deputy President		Yasushi Shingai	January 11, 1956	April 1980 Joined the Company (Japan Tobacco and Salt Public Corporation) July 2001 Vice President of Financial Planning Division June 2004 Senior Vice President, and Head of Finance Group, Vice President of Financial Planning Division July 2004 Senior Vice President, and Chief Financial Officer June 2005 Member of the Board, Senior Vice President, and Chief Financial Officer June 2006 Member of the Board Executive Vice President, JT International S.A. June 2011 Member of the Board, Senior Vice President, and Executive Vice President in charge of International Tobacco Business June 2011 Representative Director and Executive Deputy President (Current Position)	2 years since June 2012	20,300
* Representative Director and Executive Deputy President		Noriaki Okubo	May 22, 1959	April 1983 Joined the Company (Japan Tobacco and Salt Public Corporation) April 2000 Vice President of Business Development Dept., Pharmaceutical Division June 2002 Vice President of Business Planning Dept., Pharmaceutical Division June 2004 Member of the Board, Senior Vice President, and President, Pharmaceutical Business June 2006 Member of the Board, Executive Vice President, and President, Pharmaceutical Business June 2009 Member of the Board, Senior Executive Vice President, and President, Pharmaceutical Business May 2010 Member of the Board, Senior Executive Vice President, and President, Pharmaceutical Business, Vice President of Business Planning Dept., Pharmaceutical Division January 2011 Member of the Board, Senior Executive Vice President, and President, Pharmaceutical Business June 2012 Representative Director and Executive Deputy President (Current Position)	2 years since June 2012	9,300

Title	Post	Name	Date of birth	Summary of career	Term of office	Number of shares held (Share)
* Representative Director and Executive Deputy President		Akira Saeki	August 25, 1960	April 1985 Joined the Company June 2005 Vice President of Corporate Strategy Division June 2007 Senior Vice President, Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters May 2008 Senior Vice President, Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters, Head of China Division, Tobacco Business June 2008 Senior Vice President, Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters, Chief Corporate, Scientific & Regulatory Affairs Officer, Tobacco Business, Head of China Division, Tobacco Business July 2008 Senior Vice President, Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters, Chief Corporate, Scientific & Regulatory Affairs Officer, Tobacco Business July 2009 Senior Vice President, Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters, Chief Corporate, Scientific & Regulatory Affairs Officer, Tobacco Business June 2010 Executive Vice President, and Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters June 2012 Representative Director and Executive Deputy President (Current Position)	2 years since June 2012	11,700

Title	Post	Name	Date of birth	Summary of career	Term of office	Number of shares held (Share)
* Member of the Board and Executive Deputy President		Hideki Miyazaki	January 22, 1958	April 1980 Joined Nomura Securities Co., Ltd. July 2005 Joined the Company January 2006 Deputy Chief Financial Officer June 2008 Senior Vice President, and Chief Financial Officer, Vice President, Tax Division October 2009 Senior Vice President, and Chief Financial Officer May 2010 Senior Vice President, and Chief Financial Officer, Vice President, Treasury Division June 2010 Executive Vice President and Chief Financial Officer, Vice President, Treasury Division July 2010 Executive Vice President and Chief Financial Officer, Vice President, Treasury Division and Vice President, Procurement Planning Division August 2010 Executive Vice President and Chief Financial Officer June 2012 Member of the Board and Executive Vice President (Current Position)	2 years since June 2012	8,800
Member of the Board		Masamichi Terabatake	November 26, 1965	April 1989 Joined the Company July 2005 General Manager, Secretary's Office July 2008 Vice President of Corporate Strategy June 2011 Senior Vice President, Chief Strategy Officer and Assistant to CEO in Food Business, Vice President, Corporate Strategy March 2012 Senior Vice President, Chief Strategy Officer and Assistant to CEO in Food Business June 2012 Senior Vice President, Chief Strategy Officer June 2013 Member of the Board, the Company (Current Position) Executive Vice President, JT International S.A. (Current Position)	1 year since June 2013	3,600

Title	Post	Name	Date of birth	Summary of career	Term of office	Number of shares held (Share)
Member of the Board		Motoyuki Oka	September 15, 1943	April 1966 Joined Sumitomo Corporation June 1994 Director, Sumitomo Corporation April 1998 Managing Director, Sumitomo Corporation April 2001 Senior Managing Director, Sumitomo Corporation June 2001 President, Chief Executive Officer, Sumitomo Corporation June 2007 Chairman of the Board of Directors, Sumitomo Corporation June 2012 Advisor, Sumitomo Corporation (Current Position) Member of the Board, the Company (Current Position)	2 years since June 2012	0
Member of the Board		Main Kohda	April 25, 1951	September 1995 Started independently as Novelist January 2003 Member of Financial System Council, Ministry of Finance Japan April 2004 Visiting professor, Faculty of Economics, Shiga University March 2005 Member of the Council for Transport Policy, Ministry of Land, Infrastructure, Transport and Tourism November 2006 Member of the Tax Commission, Cabinet Office, Government of Japan June 2010 Member of the Board of Governors, Japan Broadcasting Corporation June 2012 Member of the Board, the Company (Current Position) June 2013 Member of the Board (outside director), LIXIL Corporation (Current Position)	2 years since June 2012	0
Audit & Supervisory Board Member		Futoshi Nakamura	November 23, 1957	April 1981 Joined the Company (Japan Tobacco and Salt Public Corporation) July 2004 Head of Procurement Planning Division July 2005 Senior Manager of Operational Review and Business Assurance Division September 2005 Senior Manager of Operational Review and Business Assurance Division Vice President, JT International Holding B.V. July 2009 Senior Manager of Accounting Division July 2010 Head of Operational Review and Business Assurance Division June 2012 Audit & Supervisory Board Member, the Company (Current Position)	3 years since June 2012	4,800

Title	Post	Name	Date of birth	Summary of career	Term of office	Number of shares held (Share)
Audit & Supervisory Board Member		Tomotaka Kojima	December 19, 1953	April 1976 Joined Ministry of Finance July 2000 Director of the Fukuoka Local Finance Branch Bureau July 2002 Deputy Head of Finance Group of the Company July 2004 Deputy Director General of Employee Welfare Bureau, Secretariat of National Personnel Authority April 2007 Deputy Director General for Administrative Policy Matters, National Personnel Authority January 2008 Director General of Equity and Investigation Bureau, Secretariat of National Personnel Authority August 2009 Executive Director, National Hospital Organization March 2010 Retired from Executive Director, National Hospital Organization October 2010 Adviser, Japan Association of Corporate Directors November 2010 Secretary General, Japan Association of Corporate Directors June 2013 Audit & Supervisory Board Member, the Company (Current Position)	2 years since June 2013	0
Audit & Supervisory Board Member		Koichi Ueda	December 17, 1943	April 1967 Judicial Apprentice April 1969 Appointed as Public Prosecutor June 2006 Superintending Public Prosecutor, the Tokyo High Public Prosecutors Office December 2006 Took mandatory retirement January 2007 Registered as an attorney at law April 2007 Specially Appointed Professor of Meiji University Law School (Current Position) January 2009 Representative Director, The Resolution and Collection Corporation March 2009 President and Representative Director, The Resolution and Collection Corporation June 2009 Audit & Supervisory Board Member, the Company (Current Position)	4 years since June 2011	2,300
Audit & Supervisory Board Member		Yoshinori Imai	December 3, 1944	April 1968 Joined Japan Broadcasting Corporation June 1995 Bureau Chief of General Bureau for Europe May 2000 Director General, Planning & Broadcasting Department June 2003 Executive Editor and Programme Host January 2008 Executive Vice President January 2011 Retired from Executive Vice President April 2011 Visiting Professor, Ritsumeikan University (Current Position) June 2011 Audit & Supervisory Board Member, the Company (Current Position)	4 years since June 2011	700

Title	Post	Name	Date of birth	Summary of career	Term of office	Number of shares held (Share)
Total						111,100

Notes: 1. Directors Motoyuki Oka and Main Kohda are Outside Directors.
2. Audit & Supervisory Board Members Koichi Ueda and Yoshinori Imai are Outside Audit & Supervisory Board Members.
3. Persons with the title marked with * concurrently serve as Executive Officer (*sikkoyakuin*).

(Status of Executive Officers (*sikkoyakuin*))

JT has introduced the Executive Officer (*sikkoyakuin*) System since June 2001 in order to realize prompt and proper decision-making and business execution. The following 24 persons were appointed at the meeting of the Board of Directors held on June 21, 2013.

Title	Name	Post
President	Mitsuomi Koizumi	
Executive Deputy President	Yasushi Shingai	Compliance, Strategy, HR, General Administration, Legal and Operational Review & Business Assurance
Executive Deputy President	Noriaki Okubo	Pharmaceutical, Beverage and Processed Food Businesses
Executive Deputy President	Akira Saeki	President, Tobacco Business
Executive Deputy President	Hideki Miyazaki	CSR, Finance and Communications
Senior Executive Vice President	Kenji Iijima	Chief Marketing & Sales Officer, Tobacco Business
Senior Executive Vice President	Ryoji Chijiiwa	Compliance and General Affairs
Senior Executive Vice President	Mutsuo Iwai	Chief Strategy Officer
Executive Vice President	Shinichi Murakami	Head of Domestic Leaf Tobacco General Division, Tobacco Business
Senior Vice President	Kazuhito Yamashita	Chief Corporate, Scientific & Regulatory Affairs Officer, Tobacco Business
Senior Vice President	Yasuyuki Yoneda	Chief R&D Officer, Tobacco Business
Senior Vice President	Masahiko Sato	Head of Manufacturing General Division, Tobacco Business
Senior Vice President	Atsuhiro Kawamata	Head of China Division, Tobacco Business
Senior Vice President	Junichi Fukuchi	Head of Tobacco Business Planning Division, Tobacco Business
Senior Vice President	Muneaki Fujimoto	President, Pharmaceutical Business
Senior Vice President	Junichi Haruta	Head of Central Pharmaceutical Research Institute, Pharmaceutical Business
Senior Vice President	Ryoko Nagata	CSR
Senior Vice President	Chito Sasaki	Chief Human Resources Officer
Senior Vice President	Naohiro Minami	Chief Financial Officer
Senior Vice President	Haruhiko Yamada	Chief General Affairs Officer
Senior Vice President	Kiyohide Hirowatari	Chief Legal Officer
Senior Vice President	Shigenori Ohkawa	Chief Science Officer, Central Pharmaceutial Research Institute, Pharmaceutical Business
Senior Vice President	Goichi Matsuda	Head of Beverage Business
Senior Vice President	Yuki Maeda	Chief Communications Officer

6. Status of corporate governance, etc.

(1) Status of corporate governance

a. Basic concept on the corporate governance

JT recognizes that prompt and proper decision-making and business execution are vital to increasing our corporate value and responding appropriately to new challenges to come in the future, as the business and social environment change. Based on this recognition, JT has been striving hard to enhance corporate governance as a top management priority.

b. Implementation status of measures concerning corporate governance (as of the date of filing)

i. Corporate governance system

(a) Organization of JT

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

In order to maintain a high quality of business execution, JT has adopted the Executive Officer (*sikkoyakuin*) System, under which Executive Officers (*sikkoyakuin*) appointed by the Board of Directors execute business in their respective areas of responsibility, in accordance with a company-wide business strategy decided by the Board, by exercising the authority delegated to them. In addition, the Chairman of the Board has been positioned as a non-executive director in order to concentrate on the function of supervising management while also serving as the chairman of meetings of the Board of Directors. At the general meeting of shareholders on June 22, 2012, JT appointed two outside directors in order to strengthen the supervisory function of the Board of Directors and enhance transparency over its management.

Moreover, as part of its efforts to enhance corporate governance, JT has established the Advisory Committee, which comprises outside experts and outside directors, and advises the management team from a broad perspective with regard to how JT should operate in the medium to long term, and other issues of similar importance.

Meanwhile, 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.

JT has adopted the Audit & Supervisory Board System under which Audit & Supervisory Board Members, in their capacity as independent agents with a mandate from shareholders, examine the performance of duties by Directors and Executive Officers (sikkoyakuin) in order to ensure sound and sustainable growth, and maintain and enhance public trust in JT. Moreover, the audit & supervisory board member of JT, Mr. Futoshi Nakamura, is eligible as an audit & supervisory board member with profound expertise and experience concerning financial and accounting affairs including his past experience as the head of JT’s Operational Review and Business Assurance Division after engaging in the accounting division and corporate treasury division. In addition, the audit & supervisory board member of JT, Mr. Tomotaka Kojima, is eligible as an audit & supervisory board member because he has not only profound expertise and experience concerning financial and accounting affairs including his past experience as Deputy Head of JT’s Finance Group, but also wide-ranging governmental experience and knowledge of corporate governance through his experience at the Japan Association of Corporate Directors.

(b) Internal control system and risk management system

JT has been endeavoring to ensure appropriate business operations through efforts to enhance compliance, internal audits and risk management, and implementing measures to ensure the effectiveness of audits, such as improving arrangements and procedures for reporting the necessary matters to Audit & Supervisory Board Members, as is required of a company adopting the Audit & Supervisory Board System.

We will continue these efforts while reviewing and revising the current system as necessary, and ensure appropriate business execution by taking the following steps:

<System to ensure that Directors and employees perform their duties in accordance with laws, regulations and JT's articles of incorporation>

With regard to the compliance system, JT has established a code of conduct based on internal rules concerning compliance in order to ensure that directors, executive officers (*sikkoyakuin*) and employees comply with laws, regulations, JT's articles of incorporation, the social norms, etc., and set up the 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. Meanwhile, the Compliance Office is charged with overseeing efforts to improve the company-wide compliance system, identify compliance problems and enhance the effectiveness of the compliance system by enlightening Directors, Executive Officers (*sikkoyakuin*) and employees about compliance through various compliance education programs.

Regarding the internal reporting system (whistle-blower system), JT has a counter through which employees may report any misconduct they have detected. The Compliance Office is charged with investigating reported cases and implementing company-wide measures to prevent the recurrence of misconduct after holding consultations with the departments and divisions concerned. Matters of particular importance shall be referred to the Compliance Committee for deliberation.

In order to ensure the reliability of its financial reporting, JT is operating a relevant internal control system that it has established in accordance with the Financial Instruments and Exchange Act. By allocating a sufficient level of staff to the task of evaluating financial results and reporting them, JT is striving to maintain and improve the reliability of its financial reporting.

The internal audit system is overseen by the Operational Review and Business Assurance Division (staffed with 22 members as of the end of this fiscal year), which examines and evaluates systems for supervising and managing the overall operations of JT and the status of business execution from the viewpoints of legality and rationality, in order to protect JT's assets and improve management efficiency.

<System for storage and management of information on the performance of duties by the Directors>

JT makes sure to properly store and manage the minutes of Annual General Meetings of Shareholders, meetings of the Board of Directors, and meetings of the Executive Committee, in line with laws, regulations and internal rules.

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

<Rules on management of risk of loss and procedures/arrangements for other matters>

JT has established internal rules on 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.

With regard to risk of loss relating to other affairs, the relevant departments and divisions specified by the Responsibilities/Authorities Allocation Rules conduct proper management, identifying risk and reporting it to the Executive Committee or referring it to the Committee for deliberation, depending on the importance of the identified risk.

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 JT Group companies – in light of the importance of internal control procedures and arrangements and the risks involved – from an objective viewpoint, in its capacity as an entity independent of the organizations responsible for business execution, and reports its findings and present proposals to the President, as well as reporting to the Board of Directors.

To prepare 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 Planning 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.

<System to ensure that directors perform their duties efficiently>

The Board of Directors meets once a month in principle and on more occasions if 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. Meanwhile, 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.

JT has adopted the Executive Officer (*sikkoyakuin*) System, under which Executive Officers (*sikkoyakuin*) appointed by the Board of Directors execute business in their respective areas of responsibility, in accordance with a company-wide business strategy decided by the Board, by exercising the authority delegated to them.

Moreover, in order to ensure that business operations are managed in ways that contribute to the business efficiency and flexibility of JT as a whole, basic matters concerning JT's organization, allocation of duties to officers and staff and the roles of individual divisions are specified by the relevant internal rules. Meanwhile, in order to enable prompt decision-making, the departments and divisions responsible for business execution are specified by the "Responsibilities/Authorities Allocation Rules."

<System to ensure the appropriateness of business operations within 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. We have specified the functions and rules necessary for group management based on a group management policy, in order to optimize the operations of the JT Group as a whole.

Moreover, we have been enhancing our systems for compliance (including the internal consultation and reporting system), ensuring the reliability of financial reporting, risk management, and internal audits, in cooperation with the JT Group companies.

<System for assisting audit & supervisory board members and reporting to audit & supervisory board members, and other systems to ensure effective auditing>

JT has allocated sufficient staff to the Audit & Supervisory Board Member's Office as an organization supporting the audit & supervisory board members in performing their duties. In addition, JT makes sure to review and reform the staffing structure as necessary based on consultations with the Audit & Supervisory Board. The Audit & Supervisory Board is involved in the selection of personnel of the Audit & Supervisory Board Member's Office in order to ensure the office's independence from Directors.

When Directors and Executive Officers (*sikkoyakuin*) detect any matter that may cause substantial damage to the Company, they are due to report it to the Audit & Supervisory

Board. Moreover, when Directors, Executive Officers (*sikkoyakuin*) and employees detect any evidence of malfeasance in financial documents or serious breaches of laws or JT's articles of incorporation, they are due to report them to the Audit & Supervisory Board, along with other relevant matters that could affect JT's management.

As Audit & Supervisory Board Members are allowed to attend not only meetings of the Board of Directors but also other important meetings, they usually attend meetings of the Executive Committee. When Directors, Executive Officers (*sikkoyakuin*) and employees are asked by Audit & Supervisory Board Members to compile important documents available for their perusal, to accept field audits and to submit reports, they are due to respond to the request in a prompt and appropriate manner.

Furthermore, Directors are due to cooperate with audits and ensure the provision of funds necessary for covering audit-related expenses so as to secure their effectiveness. The Operational Review and Business Assurance Division and the Compliance Office maintain cooperation with Audit & Supervisory Board Members by exchanging information.

(c) Implementation status of audits by Audit & Supervisory Board Members and Independent Auditor

- JT has an Audit & Supervisory Board System under which Audit & Supervisory Board Members, in their capacity as independent agents with a mandate from shareholders, examine the performance of duties by Directors and Executive Officers (*sikkoyakuin*) in order to ensure sound and sustainable growth, and maintain and enhance public trust in JT.
- JT has employed Deloitte Touche Tohmatsu LLC as its Independent Auditor and Deloitte Touche Tohmatsu LLC has conducted audits based on the Companies Act and the Financial Instruments and Exchange Act. The certified public accountants who audited JT's financial statements for the fiscal year ended March 31, 2013 and the persons who assisted the auditing work are as follows.

(Certified public accountants)
Yasuyuki Miyasaka, Satoshi Iizuka, Koji Ishikawa

(Assistants for the audit work)
Certified public accountants: 13 persons, Junior accountants: 7 persons, Others: 10 persons

While Audit & Supervisory Board Members, internal audit organizations including the Operational Review and Business Assurance Division, and the Independent Auditor conduct audits individually, they endeavor to enhance their cooperation in order to ensure appropriate audits, for example by sharing information on the results of their respective audits. Also, Audit & Supervisory Board Members, internal audit organizations including the Operational Review and Business Assurance Division, and the Independent Auditor cooperate with JT's Internal Control Division to ensure appropriate business execution by exchanging information when necessary as per "(b) Internal control system and risk management system."

(d) Outside directors and outside audit & supervisory board members

- Numbers of outside directors and outside audit & supervisory board members as well as their human, capital, business or other relationships of interest

JT has two outside directors and two outside audit & supervisory board members.

Mr. Motoyuki Oka, one of the outside directors, is an advisor to Sumitomo Corporation. Although JT did business, such as purchasing manufacturing machinery, with Sumitomo Corporation, at which Mr. Oka served as chairman and representative director until June 22, 2012, the value of the business was equivalent to just around 0.1% of JT's consolidated revenue in the business year ended March 31, 2013. Therefore, we have concluded that this business relationship is not so relevant as to generate any special relationship of interest.

Other than the above, there are no human, capital, business or other relationships of interest between JT and the outside directors and outside audit & supervisory board members.

- Outside directors appointed and functions and roles of outside directors in corporate governance of the filing company

  JT has appointed Mr. Motoyuki Oka and Ms. Main Kohda as outside directors. We expect that Mr. Oka will reflect his abundant experience and extensive insight into the management of global companies in the management of JT. As for Ms. Kohda, we expect that she will reflect in the management of JT her abundant insight into international finance, her extensive experience in teaching as a university professor and serving on governmental advisory bodies, etc., and her deep insight and objective point of view developed through her activities as a fiction writer, as well of other literary works. We believe that they will supervise business execution from a fair and independent standpoint.

- Outside audit & supervisory board members appointed and functions and roles of outside audit & supervisory board members in corporate governance of the filing company

  Outside audit & supervisory board members are appointed in light of their significant experience in their respective backgrounds and broad perspective. JT has appointed Mr. Koichi Ueda and Mr. Yoshinori Imai as outside audit & supervisory board members. Mr. Ueda has gained abundant experience and developed a broad perspective through his service in the judicial world. Mr. Imai has gained management experience and developed a global perspective during his tenure as Vice Chairman of Japan Broadcasting Corporation. We expect that their experiences and perspectives will be reflected in their audit activity, and we believe that they will maintain objective and neutral surveillance over the management of JT by conducting audits from a fair and independent standpoint.

- Independence of outside directors and outside audit & supervisory board members

  At a Board of Directors meeting on April 26, 2012, JT established a set of criteria for evaluating the independence of outside executives. According to this set of criteria, a person who fits any of the following descriptions is prohibited from serving at JT as an independent executive.

1. A person who belongs or belonged to JT or an affiliate or sister company of JT
2. A person who belongs to a corporation or other organization of which JT is a major shareholder
3. A person who is a major shareholder of JT or who belongs to a corporation or other organization which is a major shareholder of JT
4. A person who is a major supplier or customer of JT (the term person is a corporation or other organization, the prohibition also applies to a person who belongs thereto)
5. A large-lot creditor of JT, including a major loan lender (when the creditor is a corporation or other organization, the prohibition also applies to a person belonging thereto)
6. A certified public accountant who serves as an auditor or an audit advisor of JT, or a person who belongs to an auditing firm which serves as an auditor or an audit advisor of JT
7. A person who receives a large amount of fees from JT in exchange for providing professional services concerning legal, financial and tax affairs or business consulting services (the term person is a corporation or other organization, the prohibition also applies to a person who belongs thereto)
8. A person who receives a large amount of donation from JT (the term person is a corporation or other organization, the prohibition also applies to a person who belongs thereto)
9. A person who has fit any of the descriptions in 2. to 8. above in the recent past
10. A close relative of a person who fits any of the following descriptions
    (1) A person who fits any of the descriptions in 2. to 8. above (the term person is a corporation or other organization, the prohibition also applies to a person who performs important job duties therefore)

(2) A director, audit & supervisory board member, audit advisor, executive officer or employee of JT or an affiliate or sister company of JT.

(3) A person who has fit the descriptions in (1) or (2) in the recent past

JT has designated Mr. Motoyuki Oka and Ms. Main Kohda, who are outside directors, and Mr. Koichi Ueda and Mr. Yoshinori Imai, who are outside audit & supervisory board members, as independent executives as defined by financial instruments exchanges, based on its judgment that in light of the above set of criteria, there is no risk of conflict of interest arising between them and ordinary shareholders.

- Key points of the partial exemption of liability and liability limitation agreement

JT's articles of incorporation stipulate that JT may enter into an agreement with outside directors and outside audit & supervisory board members to limit the scope of their liabilities in advance to the extent permitted by the Companies Act and JT may exempt directors and audit & supervisory board members from liabilities to the extent permitted by the same act. This provision is intended to enable directors and audit & supervisory board members to fulfill their expected role and make it easier to appoint the right persons from a broad choice both within and outside the company. As of the date of submission, JT has such liability limiting agreements with its outside directors and outside audit & supervisory board members.

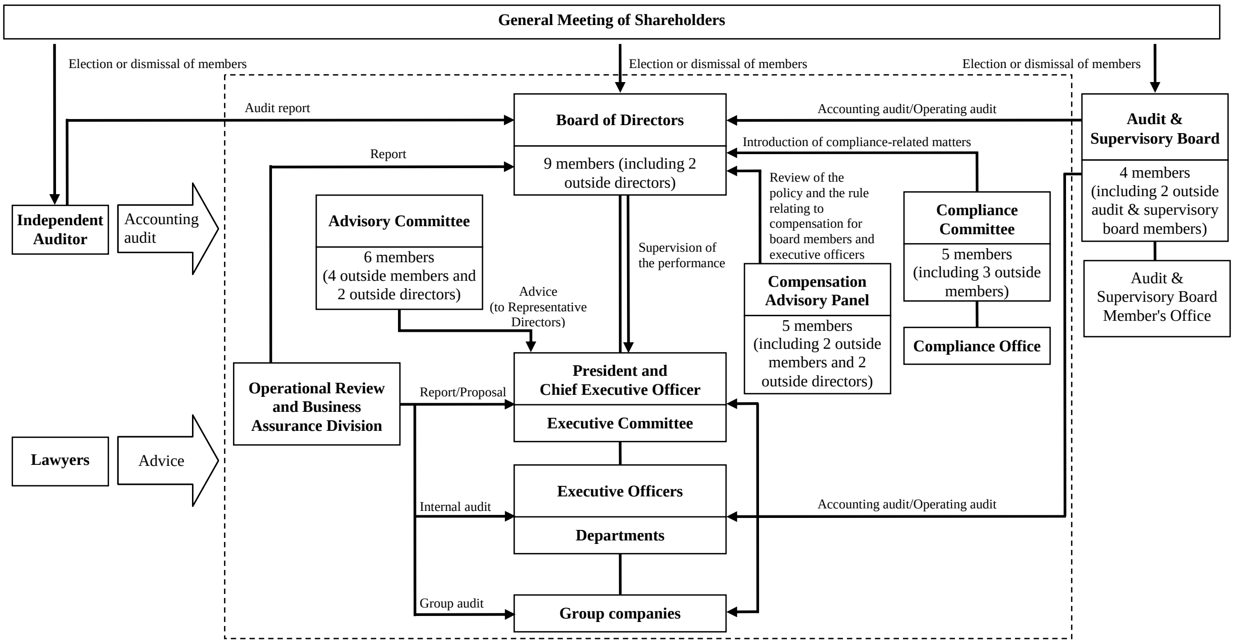
(e) Advisory Committee

JT has established the Advisory Committee, comprising 4 outside experts and 2 outside directors, to advise the Representative Directors from a broad perspective with regard to the JT Group's direction in the mid- to long term, and other issues of similar importance. The Advisory Committee normally meets quarterly and discusses broad topics including the JT Group's management strategy, management plans and financial results, with some on-site visits.

Members of Advisory Committee

Member	Kazuo Inamori	Founder and Chairman Emeritus, Kyocera Corporation
Member	Sakutaro Tanino	Former Japanese Ambassador to India and China/ Vice President, Japan-China Friendship Center
Member	Tomijiro Morita	Senior Advisor, The Dai-ichi Life Insurance Co., Ltd.
Member	Sakue Mizukoshi	Corporate Advisor, Seven & i Holdings Co., Ltd.
Associate member	Motoyuki Oka	JT's outside director
Associate member	Main Kohda	JT's outside director

The status of the development of JT's corporate governance system is represented as the following schematic depiction.



ii. Remuneration for Directors and Audit & Supervisory Board Members

Remuneration for Directors and Audit & Supervisory Board Members for the fiscal year ended March 31, 2013 are as follows.

(a) Total amount of remuneration and other payments, total amount of remuneration and other payments by type and number to be paid by Director and Audit & Supervisory Board Member category

Category	Total amount of remuneration and other payments (Millions of yen)	Total amount of remuneration and other payments by type (Millions of yen)			Number to be paid (Person)
		Basic remuneration	Directors' bonus	Stock option grants	
Directors (excluding Outside Directors)	627	324	198	105	10
Audit & Supervisory Board Members (excluding Outside Audit & Supervisory Board Members)	36	36	–	–	2
Outside Directors and Outside Audit & Supervisory Board Members	83	73	–	–	5
Total	746	442	198	105	17

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.

(b) Total amount of consolidated remuneration and other payments for individuals whose consolidated remuneration and other payments amount to ¥100 million or more

Name	Category	Company	Amount of consolidated remuneration and other payments by type (Millions of yen)			Total (Millions of yen)
			Basic remuneration	Directors' bonus	Stock option grants	
Mitsuomi Koizumi	Representative Director	Filing company	67	64	25	156

(c) Policy on determining the amount of remuneration and other payments for Directors and Audit & Supervisory Board Members and calculation method thereof, and the method for establishing said policy

JT has a Compensation Advisory Panel, acting as an advisory body for the Board of Directors established voluntarily in order to enhance the objectiveness and transparency of our executive remuneration system. The Compensation Advisory Panel deliberates and reports in response to the consultation request with regard to the compensation for our directors and executive officers (*sikkoyakuin*) including its policy, framework, and calculation method. The Compensation Advisory Panel meets at least annually and monitors the executive compensation status. The Compensation Advisory Panel comprises 5 members; 2 outside directors, 2 outside audit & supervisory board members and the Chairman of the Board of Directors, who acts as chairman of the Compensation Advisory Panel.

Outside members of the Compensation Advisory Panel

Motoyuki Oka	JT's outside director
Main Kohda	JT's outside director
Koichi Ueda	JT's outside audit & supervisory board member
Yoshinori Imai	JT's outside audit & supervisory board member

Based on deliberation by the Compensation Advisory Panel, our basic concept of executive remuneration for senior officers is set 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 senior officers to achieve performance
- Linking the remuneration to mid- and long-term corporate value
- Ensuring transparency based on an objective and quantitative framework

In accordance with the above concept, remuneration for the senior officers comprises (1) “basic monthly pay,” (2) an “executive bonus” linked to our business performance in the relevant year, and (3) “stock option grants,” the value of which is linked to our medium-to long-term corporate value. In 2007, JT introduced a stock option program in stock compensation style as an incentive linked to the mid- to long term corporate value of JT.

Remuneration for the directors is structured as follows:

Remuneration for the directors also serving as executive officers (*sikkoyakuin*) comprises “basic monthly pay,” an “executive bonus,” and “stock option grants,” as their duty is to achieve targets of their assigned business through their daily execution of business. As for the president and the executive vice presidents, if the amount of their “executive bonus” is a standard amount, the total amount of “executive bonus” and “stock option grants” is set at slightly less than 80% of the aggregate amount of their “basic monthly pay.” For other directors, this amount is set at approximately 70% of their basic monthly pay.

Remuneration for the directors not serving as executive officers (*sikkoyakuin*) excluding outside directors comprises “basic monthly pay” and “stock option grants” as their duties require them to participate in decision making regarding group-wide management strategies and perform a supervisory function.

Remuneration for outside directors, which is not linked to business performance from the perspective of maintaining their independence, comprises only “basic monthly pay.”

Remuneration for the audit & supervisory board members comprises basic monthly pay alone, in light of their major duty of conducting compliance audits.

The upper ceilings of the total annual remuneration for JT’s directors and audit & supervisory board members were approved at our 22nd Annual General Meeting of Shareholders held in June 2007. The limit for directors is ¥870 million and that for audit & supervisory board members is ¥190 million. In addition, the upper limit on total annual stock options for the directors was approved at the same shareholders’ meeting. The limit is 800 options in number and ¥200 million in value. The number of options 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.

Remuneration for the directors and audit & supervisory board members is determined by the resolution at the Board of Directors and by the consultation among the audit & supervisory board members, respectively, within the approved ceilings, based on the report of the management’s remuneration issued by the third party, after setting a benchmark as the compensation level of domestic peer manufacturers whose scale and profit are as same as us and which presents business in global, and discussion by the Compensation Advisory Panel.

iii. Share ownership

(a) Number of issues and balance sheet amount for investment stocks whose purpose of holding is other than for net investment

58 issues, ¥37,961 million

(b) Issue, number of shares, balance sheet amount and purpose of holding for investment stocks whose purpose of holding is other than for net investment

(Fiscal year ended March 31, 2012)

Specified investment stocks

Issue	Number of shares (Share)	Balance sheet amount (Millions of yen)	Purpose of holding
KT&G Corporation	2,864,904	16,700	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Seven & i Holdings Co., Ltd.	852,000	2,094	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Mizuho Financial Group, Inc.	12,750,700	1,721	Policy-based investment whose purpose is stable bank transactions and strengthened relations over the long term
Mitsubishi UFJ Financial Group, Inc.	3,511,050	1,447	Policy-based investment whose purpose is stable bank transactions and strengthened relations over the long term
DOUTOR-NICHIRES Holdings Co., Ltd.	1,320,000	1,437	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Sumitomo Mitsui Financial Group, Inc.	340,901	928	Policy-based investment whose purpose is stable bank transactions and strengthened relations over the long term
OKAMURA CORPORATION	1,206,000	695	Held for policy-based investment under business alliance with JT for joint venture, etc.
Central Japan Railway Company	1,000	682	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
NIPPON TELEGRAPH AND TELEPHONE CORPORATION	153,000	575	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
NIPPON EXPRESS CO., LTD.	1,730,400	559	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Electric Power Development Co., Ltd.	213,600	479	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
West Japan Railway Company	133,000	442	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Japan Airport Terminal Co., Ltd.	400,000	436	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term

Issue	Number of shares (Share)	Balance sheet amount (Millions of yen)	Purpose of holding
MEGMILK SNOW BRAND Co., Ltd.	246,900	381	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Sumitomo Mitsui Trust Holdings, Inc.	1,218,820	322	Policy-based investment whose purpose is stable bank transactions and strengthened relations over the long term
Daicel Corporation	602,000	321	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
KEY COFFEE INC.	200,000	298	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Tokyo Automatic Machinery Works, Ltd.	2,700,000	292	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Nifco Inc.	110,000	249	Held for policy-based investment under business alliance with JT for joint venture, etc.
HOKKAN HOLDINGS LIMITED	1,000,000	243	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Tomoku Co., Ltd.	1,000,000	230	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Tokio Marine Holdings, Inc.	42,500	97	Policy-based investment whose purpose is stable casualty insurance transactions and strengthened relations over the long term
Hitachi, Ltd.	94,000	50	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
MS&AD Insurance Group Holdings, Inc.	26,200	45	Policy-based investment whose purpose is stable casualty insurance transactions and strengthened relations over the long term
NEC Corporation	145,000	25	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
ITOCHU-SHOKUHIN Co., Ltd.	100	0	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term

(Fiscal year ended March 31, 2013)

Specified investment stocks

Issue	Number of shares (Share)	Balance sheet amount (Millions of yen)	Purpose of holding
KT&G Corporation	2,864,904	18,609	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Seven & i Holdings Co., Ltd.	852,000	2,654	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Mizuho Financial Group, Inc.	12,750,700	2,537	Policy-based investment whose purpose is stable bank transactions and strengthened relations over the long term
Mitsubishi UFJ Financial Group, Inc.	3,511,050	1,959	Policy-based investment whose purpose is stable bank transactions and strengthened relations over the long term
DOUTOR-NICHIRES Holdings Co., Ltd.	1,320,000	1,826	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Sumitomo Mitsui Financial Group, Inc.	340,901	1,287	Policy-based investment whose purpose is stable bank transactions and strengthened relations over the long term
Central Japan Railway Company	100,000	992	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
OKAMURA CORPORATION	1,206,000	845	Held for policy-based investment under business alliance with JT for joint venture, etc.
NIPPON EXPRESS CO., LTD.	1,730,400	794	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
NIPPON TELEGRAPH AND TELEPHONE CORPORATION	153,000	628	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
West Japan Railway Company	133,000	600	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Sumitomo Mitsui Trust Holdings, Inc.	1,218,820	540	Policy-based investment whose purpose is stable bank transactions and strengthened relations over the long term
Electric Power Development Co., Ltd.	213,600	529	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term

Issue	Number of shares (Share)	Balance sheet amount (Millions of yen)	Purpose of holding
Japan Airport Terminal Co., Ltd.	400,000	502	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Daicel Corporation	602,000	449	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
MEGMILK SNOW BRAND Co., Ltd.	246,900	370	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Tokyo Automatic Machinery Works, Ltd.	2,700,000	324	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
KEY COFFEE INC.	200,000	305	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Tomoku Co., Ltd.	1,000,000	300	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
HOKKAN HOLDINGS LIMITED	1,000,000	295	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Nifco Inc.	110,000	245	Held for policy-based investment under business alliance with JT for joint venture, etc.
Tokio Marine Holdings, Inc.	42,500	113	Policy-based investment whose purpose is stable casualty insurance transactions and strengthened relations over the long term
MS&AD Insurance Group Holdings, Inc.	26,200	54	Policy-based investment whose purpose is stable casualty insurance transactions and strengthened relations over the long term
Hitachi, Ltd.	94,000	51	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
NEC Corporation	145,000	36	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
ITOCHU-SHOKUHIN Co., Ltd.	100	0	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term

(c) Investment stocks whose purpose for holding is net investment

No items to report

iv. Number of Directors

JT's articles of incorporation stipulate that the number of Directors must be 15 or less.

v. Appointment of Directors

JT's articles of incorporation stipulate that Directors must be appointed by a majority of the shareholder votes cast on an occasion where shareholders representing at least one-third of the total voting rights are present.

vi. Matters to be decided by the Board of Directors without referral to General Meeting of Shareholders

Acquisition of treasury stock

In order to enable flexible management that meets changes in business environment, JT's articles of incorporation stipulate that JT may acquire its treasury stock through means such as market trading, upon a resolution by the Board of Directors under Article 165, paragraph 2 of the Companies Act.

Interim dividends

In order to enable profits to be returned to shareholders in a flexible manner, JT's articles of incorporation stipulate that JT may pay interim dividends to shareholders, upon a resolution by the Board of Directors under Article 454, paragraph 5 of the Companies Act.

vii. Requirements for special resolutions at General Meeting of Shareholders

In order to facilitate the smooth conduct of General Meeting of Shareholders with an easier validity requirement for special resolutions, JT's articles of incorporation stipulate that a resolution as specified by Article 309, paragraph 2 of the Companies Act is valid if it is supported by at least two-thirds of the votes cast at a General Meeting of Shareholders attended by shareholders representing at least one-third of JT's total voting rights (compared with the usual requirement of "at least half").

(2) Audit fees

a. Audit fees paid to certified public accountants, etc.

(Millions of yen)

Classification	Fiscal year ended March 31, 2012		Fiscal year ended March 31, 2013	
	Fees for audit attestation services	Fees for non-audit services	Fees for audit attestation services	Fees for non-audit services
JT	310	134	320	24
Consolidated subsidiaries in Japan	188	2	171	5
Total	498	136	491	28

Note: Fees paid to Deloitte Touche Tohmatsu LLC

b. Other important fees

(Millions of yen)

Classification	Fiscal year ended March 31, 2012		Fiscal year ended March 31, 2013	
	Fees for audit attestation services	Fees for non-audit services	Fees for audit attestation services	Fees for non-audit services
JTIH Group	679	368	682	324

Note: Fees paid to member firms of Deloitte Touche Tohmatsu Limited

Fiscal year ended March 31, 2012

Our foreign subsidiaries receive accounting audits mainly by Deloitte Touche Tohmatsu Limited member firms, which Tohmatsu belongs to. In particular, fees paid by the JTIH Group for the accounting audit of their financial statements and the non-audit services are significant.

Fiscal year ended March 31, 2013

Our foreign subsidiaries receive accounting audits mainly by Deloitte Touche Tohmatsu Limited member firms, which Tohmatsu belongs to. In particular, fees paid by the JTIH Group for the accounting audit of their financial statements and the non-audit services are significant.

c. Non-audit services to filing company

Fiscal year ended March 31, 2012

Non-audit services for which fees are paid by JT to certified public accountants, etc. include advisory services pertaining to IFRS.

Fiscal year ended March 31, 2013

Non-audit services for which fees are paid by JT to certified public accountants, etc. include the issuance of the comfort letter in relation to the share offering.

d. Policy for determining audit fees

The audit fee is determined through the necessary and sufficient negotiations with auditors based on the audit plan and audit fee estimates provided by them. More specifically, the audit fee is determined based on the overall information by confirming that the focused audit areas under the audit plan and the scope of group-wide audit and review considering changes in consolidation status are appropriately reflected in the audit hours, and comparing the actual hours to planning in the prior audits.

Consent from the Audit & Supervisory Board is acquired before the determination of the audit fee to ensure the independence of auditors.

V. Accounting

1. Preparation policy of the consolidated and nonconsolidated financial statements

(1) The consolidated financial statements of Japan Tobacco Inc. (hereinafter referred to as the "Company") are prepared in accordance with International Financial Reporting Standards (hereinafter referred to as "IFRS") pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of 1976; hereinafter referred to as the Ordinance on CFS).

(2) The nonconsolidated financial statements of the Company are prepared based on the Ordinance on Terminology, Forms, and Preparation Methods of Financial Statements (Ordinance of the Ministry of Finance No. 59 of 1963; hereinafter referred to as the Ordinance on FS).

(3) Figures stated in the consolidated and nonconsolidated financial statements are rounded to the nearest million yen.

2. Audit Certification

In accordance with the provisions of Article 193-2 (1) of the Financial Instruments and Exchange Act, the consolidated financial statements and the nonconsolidated financial statements for the fiscal year ended March 31, 2013 were audited by Deloitte Touche Tohmatsu LLC.

3. Special Effort to Ensure the Appropriateness of Consolidated Financial Statements, and Development of a System for Fair Preparation of Consolidated Financial Statements, in accordance with IFRS

The Company is making special effort to ensure the appropriateness of consolidated financial statements, and developing a system for the appropriate preparation of consolidated financial statements, in accordance with IFRS. The content thereof is as follows:

(1) In order to develop a system, which is capable of responding to changes of accounting standards adequately, we strive to accumulate expert knowledge by assigning employees with sufficient knowledge on IFRS, and participating in organizations, such as the Financial Accounting Standards Foundation and attending their seminars.

(2) In order to prepare appropriate consolidated financial statements in accordance with IFRS, we established IFRS Group Accounting Guidelines and we comply with them. The IFRS Group Accounting Guidelines are revised and updated as needed after obtaining press releases and standards issued by the International Accounting Standards Board, understanding the latest standards and examining their impact on our results.

1.【Consolidated Financial Statements】

(1)【Consolidated Financial Statements】

A.【Consolidated Statement of Financial Position】

(Millions of yen)

	As of March 31, 2012	As of March 31, 2013
Assets		
Current assets		
Cash and cash equivalents (Note 8)	404,740	142,713
Trade and other receivables (Note 9)	327,767	387,837
Inventories (Note 10)	446,617	473,042
Other financial assets (Note 11)	27,361	29,103
Other current assets (Note 12)	123,163	177,858
Subtotal	1,329,649	1,210,552
Non-current assets held-for-sale (Note 13)	1,401	2,594
Total current assets	1,331,050	1,213,146
Non-current assets		
Property, plant and equipment (Notes 14, 21)	619,536	672,316
Goodwill (Notes 7,15)	1,110,046	1,316,476
Intangible assets (Note 15)	306,448	348,813
Investment property (Note 17)	67,387	58,995
Retirement benefit assets (Note 24)	14,371	14,825
Investments accounted for using the equity method (Note 18)	18,447	22,940
Other financial assets (Note 11)	67,548	71,781
Deferred tax assets (Note 19)	132,174	133,348
Total non-current assets	2,335,957	2,639,493
Total assets	3,667,007	3,852,639

(Millions of yen)

	As of March 31, 2012	As of March 31, 2013
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables (Note 20)	298,663	312,741
Bonds and borrowings (Note 21)	211,766	44,301
Income tax payables	42,501	85,714
Other financial liabilities (Note 21)	8,039	8,550
Provisions (Note 22)	5,686	5,256
Other current liabilities (Note 23)	590,717	656,305
Subtotal	1,157,373	1,112,867
Liabilities directly associated with non-current assets held-for-sale (Note 13)	101	101
Total current liabilities	1,157,474	1,112,968
Non-current liabilities		
Bonds and borrowings (Note 21)	279,750	270,399
Other financial liabilities (Note 21)	20,994	18,844
Retirement benefit liabilities (Note 24)	315,020	343,095
Provisions (Note 22)	4,448	4,786
Other non-current liabilities (Note 23)	92,235	113,226
Deferred tax liabilities (Note 19)	82,460	97,309
Total non-current liabilities	794,906	847,658
Total liabilities	1,952,380	1,960,627
Equity		
Share capital (Note 25)	100,000	100,000
Capital surplus (Note 25)	736,410	736,411
Treasury shares (Note 25)	(94,574)	(344,573)
Other components of equity (Note 25)	(376,363)	(155,462)
Retained earnings	1,268,577	1,469,749
Equity attributable to owners of the parent company	1,634,050	1,806,125
Non-controlling interests	80,576	85,887
Total equity	1,714,626	1,892,012
Total liabilities and equity	3,667,007	3,852,639

B.【Consolidated Statement of Income】

(Millions of yen)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Revenue (Notes 6, 27)	2,033,825	2,120,196
Cost of sales (Notes 15, 24)	(892,034)	(899,392)
Gross profit	1,141,791	1,220,804
Other operating income (Note 28)	48,512	42,165
Share of profit in investments accounted for using the equity method (Note 18)	2,047	2,775
Selling, general and administrative expenses (Notes 7, 13, 14, 15, 17, 24, 29, 34)	(733,169)	(733,385)
Operating profit (Note 6)	459,180	532,360
Financial income (Notes 30, 35)	5,603	5,493
Financial costs (Notes 24, 30, 35)	(23,429)	(28,292)
Profit before income taxes	441,355	509,560
Income taxes (Note 19)	(112,795)	(158,042)
Profit for the year	328,559	351,518
Attributable to:		
Owners of the parent company	320,883	343,612
Non-controlling interests	7,676	7,906
Profit for the year	328,559	351,518
Earnings per share		
Basic (Yen) (Note 32)	168.50	181.07
Diluted (Yen) (Note 32)	168.44	180.99

Reconciliation from “Operating profit” to “Adjusted EBITDA”

(Millions of yen)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Operating profit	459,180	532,360
Depreciation and amortization	118,845	116,462
Adjustment items (income)	(29,932)	(34,234)
Adjustment items (costs)	29,039	7,536
Adjusted EBITDA (Note 6)	577,132	622,124

C.【Consolidated Statement of Comprehensive Income】

(Millions of yen)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Profit for the year	328,559	351,518
Other comprehensive income		
Exchange differences on translation of foreign operations (Note 31)	(130,331)	216,118
Net gain (loss) on derivatives designated as cash flow hedges (Note 31)	(166)	121
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income (Notes 31, 35)	4,750	4,799
Actuarial gains (losses) on defined benefit retirement plans (Notes 24, 31)	(10,669)	(28,200)
Other comprehensive income (loss), net of taxes	(136,416)	192,838
Comprehensive income (loss) for the year	192,143	544,356
Attributable to:		
Owners of the parent company	185,425	536,068
Non-controlling interests	6,718	8,288
Comprehensive income (loss) for the year	192,143	544,356

D.【Consolidated Statement of Changes in Equity】

(Millions of yen)

	Equity attributable to owners of the parent company						
				Other components of equity			
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Net gain (loss) on revaluation of available-for-sale securities
As of April 1, 2011	100,000	736,410	(94,574)	763	(257,262)	―	5,754
Cumulative effect of applying a new accounting standard	―	―	―	―	―	(142)	(5,754)
Profit for the year	―	―	―	―	―	―	―
Other comprehensive income (loss)	―	―	―	―	(129,966)	(166)	―
Comprehensive income (loss) for the year	―	―	―	―	(129,966)	(166)	―
Acquisition of treasury shares (Note 25)	―	―	―	―	―	―	―
Disposal of treasury shares (Note 25)	―	―	―	―	―	―	―
Share-based payments (Note 34)	―	―	―	265	―	―	―
Dividends (Note 26)	―	―	―	―	―	―	―
Changes in the ownership interest in a subsidiary without a loss of control	―	―	―	―	―	―	―
Transfer from other components of equity to retained earnings	―	―	―	―	―	―	―
Other increase (decrease)	―	―	―	―	―	―	―
Total transactions with the owners	―	―	―	265	―	―	―
As of March 31, 2012	100,000	736,410	(94,574)	1,028	(387,228)	(309)	―
Profit for the year	―	―	―	―	―	―	―
Other comprehensive income (loss)	―	―	―	―	215,845	121	―
Comprehensive income (loss) for the year	―	―	―	―	215,845	121	―
Acquisition of treasury shares (Note 25)	―	―	(250,000)	―	―	―	―
Disposal of treasury shares (Note 25)	―	1	1	(2)	―	―	―
Share-based payments (Note 34)	―	―	―	247	―	―	―
Dividends (Note 26)	―	―	―	―	―	―	―
Changes in the ownership interest in a subsidiary without a loss of control	―	―	―	―	―	―	―
Transfer from other components of equity to retained earnings	―	―	―	―	―	―	―
Other increase (decrease)	―	―	―	―	―	―	―
Total transactions with the owners	―	1	(249,999)	245	―	―	―
As of March 31, 2013	100,000	736,411	(344,573)	1,274	(171,383)	(187)	―

(Millions of yen)

	Equity attributable to owners of the parent company						
	Other components of equity						
	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	Actuarial gains (losses) on defined benefit retirement plans	Total	Retained earnings	Total	Non-controlling interests	Total equity
As of April 1, 2011	―	―	(250,745)	1,034,054	1,525,145	76,166	1,601,311
Cumulative effect of applying a new accounting standard	5,551	―	(344)	97	(247)	47	(201)
Profit for the year	―	―	―	320,883	320,883	7,676	328,559
Other comprehensive income (loss)	4,684	(10,009)	(135,458)	―	(135,458)	(958)	(136,416)
Comprehensive income (loss) for the year	4,684	(10,009)	(135,458)	320,883	185,425	6,718	192,143
Acquisition of treasury shares (Note 25)	―	―	―	―	―	―	―
Disposal of treasury shares (Note 25)	―	―	―	―	―	―	―
Share-based payments (Note 34)	―	―	265	―	265	―	265
Dividends (Note 26)	―	―	―	(76,172)	(76,172)	(2,138)	(78,310)
Changes in the ownership interest in a subsidiary without a loss of control	―	―	―	(366)	(366)	(137)	(503)
Transfer from other components of equity to retained earnings	(89)	10,009	9,920	(9,920)	―	―	―
Other increase (decrease)	―	―	―	―	―	(80)	(80)
Total transactions with the owners	(89)	10,009	10,185	(86,458)	(76,273)	(2,355)	(78,628)
As of March 31, 2012	10,146	―	(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)	4,691	(28,201)	192,456	―	192,456	382	192,838
Comprehensive income (loss) for the year	4,691	(28,201)	192,456	343,612	536,068	8,288	544,356
Acquisition of treasury shares (Note 25)	―	―	―	―	(250,000)	―	(250,000)
Disposal of treasury shares (Note 25)	―	―	(2)	―	0	―	0
Share-based payments (Note 34)	―	―	247	―	247	―	247
Dividends (Note 26)	―	―	―	(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	(2)	28,201	28,199	(28,199)	―	―	―
Other increase (decrease)	―	―	―	―	―	1,606	1,606
Total transactions with the owners	(2)	28,201	28,444	(142,439)	(363,993)	(2,977)	(366,970)
As of March 31, 2013	14,835	―	(155,462)	1,469,749	1,806,125	85,887	1,892,012

E.【Consolidated Statement of Cash Flows】

(Millions of yen)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Cash flows from operating activities		
Profit before income taxes	441,355	509,560
Depreciation and amortization	118,845	116,462
Impairment losses	7,013	3,213
Interest and dividend income	(3,646)	(5,137)
Interest expense	14,377	10,134
Share of profit in investments accounted for using the equity method	(2,047)	(2,775)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	(22,444)	(29,218)
(Increase) decrease in trade and other receivables	(30,207)	(24,118)
(Increase) decrease in inventories	27,388	10,791
Increase (decrease) in trade and other payables	(5,365)	1,576
Increase (decrease) in retirement benefit liabilities	(9,686)	(15,350)
(Increase) decrease in prepaid tobacco excise taxes	(1,785)	(31,377)
Increase (decrease) in tobacco excise tax payables	148,260	12,802
Increase (decrease) in consumption tax payables	14,807	(3,093)
Other	(13,002)	16,334
Subtotal	683,863	569,804
Interest and dividends received	6,181	6,764
Interest paid	(16,006)	(8,703)
Income taxes paid	(122,464)	(101,258)
Net cash flows from operating activities	551,573	466,608
Cash flows from investing activities		
Purchase of securities	(5,697)	(19,161)
Proceeds from sale and redemption of securities	21,622	3,426
Purchase of property, plant and equipment	(95,705)	(114,240)
Proceeds from sale of investment property	34,545	33,425
Purchase of intangible assets	(18,252)	(18,611)
Payments into time deposits	(46,648)	(26,647)
Proceeds from withdrawal of time deposits	34,854	45,665
Purchase of investments in subsidiaries (Note 7)	(33,622)	(54,128)
Proceeds from sale of investments in subsidiaries	730	―
Other	4,369	2,343
Net cash flows from investing activities	(103,805)	(147,928)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
		(Millions of yen)
Cash flows from financing activities		
Dividends paid to owners of the parent company (Note 26)	(76,165)	(114,236)
Dividends paid to non-controlling interests	(2,138)	(4,009)
Capital contribution from non-controlling interests	629	216
Increase (decrease) in short-term borrowings and commercial paper	(2,408)	(23,012)
Proceeds from long-term borrowings	—	518
Repayments of long-term borrowings	(59,879)	(81,165)
Redemption of bonds	(133,333)	(92,466)
Repayments of finance lease obligations	(5,268)	(4,814)
Acquisition of treasury shares	—	(250,000)
Payments for acquisition of interests in subsidiaries from non-controlling interests	(503)	(505)
Other	—	0
Net cash flows from financing activities	(279,064)	(569,473)
Net increase (decrease) in cash and cash equivalents	168,704	(250,793)
Cash and cash equivalents at the beginning of the year (Note 8)	244,240	404,740
Effect of exchange rate changes on cash and cash equivalents	(8,204)	(11,235)
Cash and cash equivalents at the end of the year (Note 8)	404,740	142,713

【Notes to Consolidated Financial Statements】

1. Reporting Entity

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

The details of businesses and principal business activities of the Company and its subsidiaries (hereinafter referred to as the "Group") are stated in "6. Operating Segments."

The Group's consolidated financial statements for the year ended March 31, 2013, were approved on June 21, 2013 by Mitsuomi Koizumi, President and Chief Executive Officer, and Naohiro Minami, Chief Financial Officer.

2. Basis of Preparation

(1) Compliance with IFRS

The Group's consolidated financial statements, which satisfy the requirements concerning the "Specified Company" prescribed in Item 2 of Paragraph 1 of Article 1-2 of the "Regulations for Consolidated Financial Statements", are prepared in accordance with IFRS pursuant to the provision of Article 93 of the same regulations.

(2) Basis of Measurement

Except for the financial instruments, stated in "3. Significant Accounting Policies," the Group's consolidated financial statements are prepared on the historical cost basis.

(3) Functional Currency and Presentation Currency

The Group's consolidated financial statements are presented in Japanese yen, which is the functional currency of the Company. The units are in millions of yen, and figures less than one million yen are rounded to the nearest million yen.

(4) Early Adoption of New Accounting Standards

The Group has early adopted IFRS 9 "Financial Instruments" (revised in October 2010) (hereinafter referred to as "IFRS 9") from the beginning of the year ended March 31, 2012 (April 1, 2011).

IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement" (hereinafter referred to as "IAS 39") and provides two measurement categories for financial instruments: amortized cost and fair value. Changes in fair value of financial assets measured at fair value are recognized in profit or loss. However, changes in fair value of investments in equity instruments, except for equity instruments held for trading purposes, are allowed to be recognized in other comprehensive income.

(5) Changes in Method of Presentation

(Consolidated statement of cash flows)

In the previous fiscal year, ended March 31, 2012, "Proceeds from sale of property, plant and equipment" were presented separately in "Cash flows from investing activities." However, in this fiscal year, ended March 31, 2013, they are included in "Other" in "Cash flows from investing activities" due to their immateriality. In order to reflect this change in presentation method, the consolidated financial statements for the previous fiscal year have been reclassified.

Accordingly, ¥1,919 million that was previously shown as "Proceeds from sale of property, plant and equipment" in "Cash flows from investing activities" in the previous fiscal year has been reclassified and is shown as "Other."

(6) Reporting Period of JT International Holding B.V. and its Subsidiaries

The fiscal year end date of JT International Holding B.V. and its subsidiaries (hereinafter collectively referred to as the "JTIH Group"), which operate the Group's international tobacco business, is December 31, hence the Group consolidates financial results of the JTIH Group for the period from January 1, 2012 to December 31, 2012 into the Group's consolidated financial results for the year ended March 31, 2013.

Under the consolidation process of the Group, consolidation for the JTIH Group (sub-consolidation) is conducted first, and then, the process of consolidation for the whole Group is performed. The JTIH Group is a unified business operation unit operating the Group's international tobacco business and manages budgets and actual results on a sub-consolidation basis, and as a unified financial reporting unit, takes a major role in ensuring the accuracy and quality of the Group's consolidated financial reporting. Under such a consolidation process, in order to unify the financial reporting periods across the whole Group, maintaining the same level of quality of the Group's consolidated financial reporting and satisfying the statutory schedule prescribed under the Companies Act of Japan, it is required to shorten the current closing schedule further across the Group. To achieve this objective, it is necessary to review and improve the closing processes and systems for the consolidation and change the structure across the Group, such as conducting the process of subconsolidation of the JTIH Group, changing the reporting process to the Company, restructuring the processes of consolidation and preparation of consolidated financial statements, including notes to financial statements, carrying out the proper assignment of personnel resources and developing talents and reviewing the approval process for financial reporting. Due to the aforementioned reasons, the management of the Company concludes that it is currently difficult and impracticable to unify the reporting periods.

However, the Group is aiming to achieve the unification of reporting periods at the earliest possible date through promoting a groupwide effort in order to enhance and improve the efficiency of the closing and management systems.

Although there is a three month difference between the fiscal year end of the JTIH Group and that of the Company, since seasonal and periodical fluctuations of the performance of the Group's international tobacco business have been relatively small, the impact from such mismatch of the reporting periods on the Group's consolidated financial position and operating results is limited. With respect to significant transactions or events occurring during the time gap, the Group makes necessary adjustments and appropriate arrangements in order to assist the users of financial statements to properly understand and assess the consolidated financial position and results of operations of the Group.

3. Significant Accounting Policies

(1) Basis of Consolidation

The consolidated financial statements include financial statements of the Company and its subsidiaries, and interests in investments in associates and joint ventures.

A. Subsidiaries

A subsidiary is an entity that is controlled by the Group and control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The acquisition date of a subsidiary is the date on which the Group obtained control of the subsidiary, and the subsidiary is included in the consolidation from the date of acquisition until the date on which the Group loses control.

In cases where the accounting policies applied by a subsidiary are different from those applied by the Group, adjustments are made to the subsidiary's financial statements, if necessary.

All intergroup balances, transactions, income and expenses are eliminated on consolidation. Comprehensive income for subsidiaries is attributed to owners of the parent company and non-controlling interests even if this results in the non-controlling interests having a deficit balance.

The consolidated financial statements include the financial statements of subsidiaries whose fiscal year end date is different from that of the parent company since it is impracticable to unify the fiscal year end date. The difference between the fiscal year end date of the subsidiaries and that of the parent company does not exceed three months.

In cases where the financial statements of subsidiaries used for preparing the consolidated financial statements have different fiscal year end dates from that of the Company, necessary adjustments are made for the effects of significant transactions or events occurring between the fiscal year end dates of the subsidiaries and that of the Company.

B. Associates

An associate is an entity of which the Group has significant influence over its financial and operating policy. Investments in associates are accounted for using the equity method from the date on which the Group has the significant influence until the date on which it ceases to have the significant influence.

The consolidated financial statements include investments in associates with different fiscal year end dates from that of the parent company since, primarily due to relations with other shareholders, it is impracticable to unify the fiscal year end dates. Necessary adjustments are made for the effects of significant transactions or events occurring between the fiscal year end dates of the associates and that of the Company.

C. Joint Ventures

A joint venture is a contractual agreement whereby two or more parties undertake an economic activity that is subject to joint control. Joint ventures are accounted for using the equity method.

(2) Business Combination

Business combinations are accounted for using the acquisition method. Consideration transferred in a business combination is measured as the sum of the acquisition-date fair value of the assets transferred, the liabilities assumed and equity instruments issued by the Company in exchange for control over an acquiree. Any excess of the consideration of acquisition over the fair value of identifiable assets and liabilities is recognized as goodwill in the consolidated statement of financial position. If the consideration of acquisition is lower than the fair value of the identifiable assets and liabilities, the difference is immediately recognized as profit in the consolidated statement of income. If the amount of initial accounting for a business combination is not determined by the end of the reporting period in which the combination occurs, the provisional amounts for the items for which the accounting is incomplete are reported and are adjusted during the measurement period, which is one year from the acquisition date. Acquisition-related costs incurred are recognized as expenses. The additional acquisition of non-controlling interests after obtaining control is accounted for as a capital transaction and no goodwill is recognized with respect to such transaction.

(3) Foreign Currency Translation

Consolidated financial statements of the Group are presented in Japanese yen, which is the functional currency of the Company. Each company in the Group specifies its own functional currency and measures transactions based on it.

Foreign currency transactions are translated into the functional currency at the rates of exchange prevailing at the dates of transactions or an approximation of the rate. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates of exchange prevailing at the fiscal year end date. Differences arising from the translation and settlement are recognized as profit or loss. However, exchange differences arising from the translation of financial instruments designated as hedging instruments for net investment in foreign operations (foreign subsidiaries), financial assets measured at fair value through other comprehensive income, and cash flow hedges are recognized as other comprehensive income.

The assets and liabilities of foreign operations are translated into Japanese yen at the rates of exchange prevailing at the fiscal year end date, while income and expenses of foreign operations are translated into Japanese yen at the rates of exchange prevailing at the dates of transactions or an approximation to the rate. The resulting translation differences are recognized as other comprehensive income. In cases where foreign operations are disposed of, the cumulative amount of translation differences related to the foreign operations is recognized as profit or loss in the period of disposition.

Among subsidiaries, the JTIH Group’s fiscal year end date is December 31, and an exchange rate used for the translation is based on its fiscal year end date.

(4) Financial Instruments

A. Financial Assets

(i) Initial Recognition and Measurement

Financial assets are classified into financial assets measured at fair value through profit or loss, fair value through other comprehensive income, and amortized cost. The Group determines the classification at initial recognition.

Financial assets are classified as financial assets measured at amortized cost if both of the following conditions are met. Otherwise, they are classified as financial assets measured at fair value.

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For financial assets measured at fair value, each equity instrument is designated as measured at fair value through profit or loss or as measured at fair value through other comprehensive income, except for equity instruments held for trading purposes that must be measured at fair value through profit or loss. Such designations are applied consistently.

All financial assets are measured at fair value plus transaction costs that are attributable to the financial assets, except for the case of being classified in the category of financial assets measured at fair value through profit or loss.

(ii) Subsequent Measurement

After initial recognition, financial assets are measured based on the classification as follows:

(a) Financial Assets Measured at Amortized Cost

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method.

(b) Other Financial Assets

Financial assets other than those measured at amortized cost are measured at fair value.

Changes in the fair value of financial assets measured at fair value are recognized as profit or loss.

However, changes in the fair value of equity instruments designated as measured at fair value through other comprehensive income are recognized as other comprehensive income and the amount in other comprehensive income is transferred to retained earnings when equity instruments are derecognized or the decline in its fair value compared to its acquisition cost is significant. Dividends on the financial assets are recognized in profit or loss for the year.

(iii) Derecognition

Financial assets are derecognized when the rights to receive benefits from them expire or are transferred, or when substantially all the risks and rewards of the ownership are transferred.

B. Impairment of Financial Assets

In accordance with IAS 39, the Group assesses at the end of each reporting period whether there is any objective evidence that financial assets measured at amortized cost are impaired. Evidence of impairment includes significant financial difficulty of the borrower or a group of borrowers, a default or delinquency in interest or principal payments, and bankruptcy of the borrower.

The Group assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and collectively for financial assets that are not individually significant.

If there is objective evidence that impairment losses on financial assets measured at amortized cost have been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows.

When impairment is recognized, the carrying amount of the financial asset is reduced by an allowance for doubtful accounts and impairment losses are recognized in profit or loss. The carrying amount of financial assets measured at amortized cost is directly reduced for the impairment when they are expected to become uncollectible in the future and all collaterals are implemented or transferred to the Group. If, in a subsequent period, the amount of the impairment loss provided changes due to an event occurring after the impairment was recognized, the previously recognized impairment losses are adjusted through the allowance for doubtful accounts.

C. Financial Liabilities

(i) Initial Recognition and Measurement

Financial liabilities are classified into financial liabilities measured at fair value through profit or loss and financial liabilities measured at amortized cost. The Group determines the classification at initial recognition.

All financial liabilities are measured at fair value at initial recognition. However, financial liabilities measured at amortized cost are measured at cost after deducting transaction costs that are directly attributable to the financial liabilities.

(ⅱ) Subsequent Measurement

After initial recognition, financial liabilities are measured based on the classification as follows:

(a) Financial Liabilities Measured at Fair Value through Profit or Loss

Financial liabilities measured at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated as measured at fair value through profit or loss at initial recognition.

(b) Financial Liabilities Measured at Amortized Cost

After initial recognition, financial liabilities measured at amortized cost are measured at amortized cost using the effective interest method. Amortization under the effective interest method and gains or losses on derecognition are recognized as profit or loss in the consolidated statement of income.

After initial recognition, financial guarantee contracts are measured at the higher of:

• The best estimate of expenditure required to settle the obligation as of the end of the fiscal year, and
• The amount initially recognized less cumulative amortization.

(ⅲ) Derecognition

Financial liabilities are derecognized when the obligation is discharged, canceled or expired.

D. Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and presented as a net amount in the consolidated statement of financial position only when there is a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

E. Derivatives and Hedge Accounting

The Group utilizes derivatives, including forward foreign exchange contracts and interest rate swap contracts, to hedge foreign exchange and interest rate risks. These derivatives are initially measured at fair value when the contract is entered into, and are subsequently remeasured at fair value. Changes in the fair value of derivatives are recognized as profit or loss in the consolidated statement of income. However, the gains or losses on the hedging instrument relating to the effective portion of cash flow hedges and hedges of net investment in foreign operations are recognized as other comprehensive income in the consolidated statement of comprehensive income.

At the inception of the hedge, the Group formally designates and documents the hedging relationship to which hedge accounting is applied and the objectives and strategies of risk management for undertaking the hedge. The documentation includes identification of hedging instruments, the hedged items or transactions, the nature of the risks being hedged and how the hedging instrument's effectiveness is assessed in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risks. Even though these hedges are expected to be highly effective in offsetting changes in fair value or cash flows, they are assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedges were designated.

Hedges that meet the stringent requirements for hedge accounting are classified in the following categories and accounted for in accordance with IAS 39.

(i) Fair Value Hedge

Changes in the fair value of derivatives are recognized as profit or loss in the consolidated statement of income. Responding to changes in the fair value of hedged items attributable to the hedged risks the carrying amount of the hedged item is adjusted and the change is recognized as profit or loss in the consolidated statement of income.

(ⅱ) Cash Flow Hedge

The effective portion of gains or losses on hedging instruments is recognized as other comprehensive income in the consolidated statement of comprehensive income, while the ineffective portion is recognized immediately as profit or loss in the consolidated statement of income.

The amounts of hedging instruments recognized in other comprehensive income are reclassified to profit or loss when the transactions of the hedged items affect profit or loss. In cases where hedged items result in the recognition of non-financial assets or liabilities, the amounts recognized as other comprehensive income are accounted for as adjustments in the original carrying amount of non-financial assets or liabilities.

When forecast transactions or firm commitments are no longer expected to occur, any related cumulative gain or loss that has been recognized in equity as other comprehensive income is reclassified to profit or loss. When hedging instruments expire, are sold, terminated or exercised without the replacement or rollover of other hedging instruments, or when the hedge designation is revoked, amounts that have been recognized in other comprehensive income are continued to be recognized in other comprehensive income until the forecast transactions or firm commitments occur.

(ⅲ) Hedge of Net Investment in Foreign Operations

Translation differences resulting from the hedge of net investment in foreign operations are accounted for similarly to a cash flow hedge. The effective portion of gains or losses on hedging instruments is recognized as other comprehensive income in the consolidated statement of comprehensive income, while the ineffective portion is recognized as profit or loss in the consolidated statement of income. At the time of the disposal of the foreign operations, any related cumulative gain or loss that has been recognized in equity as other comprehensive income is reclassified to profit or loss.

F. Fair Value of Financial Instruments

Fair value of financial instruments that are traded in active financial markets at the fiscal year end refers to quoted prices or dealer quotations.

If there is no active market, fair value of financial instruments is determined using appropriate valuation models.

(5) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value and due within three months from the date of acquisition.

(6) Inventories

The cost of inventories includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Inventories are measured at the lower of cost or net realizable value, and the costs are determined by using the weighted-average method. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

Leaf tobacco which is stored for more than 12 months before being used for production is included in current assets since it is held within the normal operating cycle.

(7) Property, Plant and Equipment

Property, plant, and equipment is measured by using the cost model and is stated at cost less accumulated depreciation and accumulated impairment losses.

The acquisition cost includes any costs directly attributable to the acquisition of the asset and dismantlement, removal and restoration costs, as well as borrowing costs eligible for capitalization.

Except for assets that are not subject to depreciation such as land, assets are depreciated using the straight-line method over their estimated useful lives. The estimated useful lives of major asset items are as follows:

- Buildings and structures: 38 to 50 years
- Machinery and vehicles: 10 to 15 years

The estimated useful lives and depreciation method are reviewed at each fiscal year end and if there are any changes made to the estimated useful lives and depreciation method, such changes are applied prospectively as changes in estimate.

(8) Goodwill and Intangible Assets

A. Goodwill

Goodwill is stated at acquisition cost less accumulated impairment losses.

Goodwill is not amortized. It is allocated to cash-generating units that are identified according to locations and types of businesses and tested for impairment annually or whenever there is any indication of impairment. Impairment losses on goodwill are recognized in the consolidated statement of income and no subsequent reversal is made.

B. Intangible Assets

Intangible assets are measured by using the cost model and are stated at cost less accumulated amortization and accumulated impairment losses.

Intangible assets acquired separately are measured at cost at the initial recognition, and the costs of intangible assets acquired through business combinations are recognized at fair value at the acquisition date. Expenditures on internally generated intangible assets are recognized as expense in the period when incurred, except for development expenses that satisfy the capitalization criteria.

Intangible assets with finite useful lives are amortized using the straight-line method over their estimated useful lives and are tested for impairment whenever there is any indication of impairment. The estimated useful lives and amortization method of intangible assets with finite useful lives are reviewed at each fiscal year end, and the effect of any changes in estimate would be accounted for on prospective basis.

The estimated useful lives of major intangible assets with finite useful lives are as follows:

- Trademarks: 20 years
- Software: 5 years

Intangible assets with indefinite useful lives and intangible assets that are not ready to use are not amortized, but they are tested for impairment individually or by cash-generating unit annually or whenever there is any indication of impairment.

(9) Leases

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

In finance lease transactions, leased assets and lease obligations are recognized in the consolidated statement of financial position at the lower of the fair value of the leased property or the present value of the minimum lease payments, each determined at the inception of the lease. Lease payments are apportioned between the financial cost and the reduction of the lease obligations based on the effective interest method. Financial costs are recognized in the consolidated statement of income. Leased assets are depreciated using the straight-line method over their estimated useful lives or lease terms whichever is shorter.

In operating lease transactions, lease payments are recognized as an expense using the straight-line method over the lease terms in the consolidated statement of income. Contingent rents are recognized as an expense in the period when they are incurred.

Determining whether an arrangement is, or contains, a lease is based on the substance of the arrangement in accordance with IFRIC 4 “Determining Whether an Arrangement Contains a Lease,” even if the arrangement does not take the legal form of a lease.

(10) Investment Property

Investment property is property held to earn rentals or for capital appreciation or both.

Investment property is measured by using the cost model and is stated at cost less accumulated depreciation and accumulated impairment losses.

(11) Impairment of Non-financial Assets

The Group assesses for each fiscal year whether there is any indication that an asset may be impaired. If any such indication exists, or in cases where the impairment test is required to be performed each year, the recoverable amount of the asset is estimated. In cases that the recoverable amount cannot be estimated for each asset, it is estimated by the cash-generating unit to which the asset belongs. The recoverable amount of an asset or a cash-generating unit is determined at the higher of its fair value less costs to sell or its value in use. If the carrying amount of the asset or cash-generating unit exceeds the recoverable amount, impairment losses are recognized and the carrying amount is reduced to the recoverable amount. In determining the value in use, estimated future cash flows are discounted to the present value, using pretax discount rates that reflect current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs to sell, the Group uses an appropriate valuation model supported by available fair value indicators.

The Group assesses whether there is any indication that an impairment loss recognized in prior years for an asset other than goodwill may no longer exist or may have decreased, such as any changes in assumptions used for the determination of the recoverable amount. If any such indication exists, the recoverable amount of the asset or cash-generating unit is estimated. In cases that the recoverable amount exceeds the carrying amount of the asset or cash-generating unit, impairment losses are reversed up to the lower of the estimated recoverable amount or the carrying amount (net of depreciation) that would have been determined if no impairment losses had been recognized in prior years.

(12) Non-current Assets Held-for-Sale

An asset or asset group the value of which is expected to be recovered through a sale transaction rather than through continuing use is classified into a non-current asset or disposal group held-for-sale when the following conditions are met: it is highly probable that the asset or asset group will be sold within one year, the asset or asset group is available for immediate sale in its present condition, and the Group management commits to the sale plan. In such cases, the non-current asset is not depreciated or amortized and is measured at the lower of its carrying amount or its fair value less costs to sell.

(13) Employee Retirement Benefits

The Group sponsors defined benefit plans and defined contribution plans as employee retirement benefit plans.

The Company is obligated to bear pension expenses for a mutual assistance association incurred with respect to services in or before June 1956 (prior to the enforcement of the Act on the Mutual Aid Association of Public Corporation Employees). Such obligations are calculated and included in liabilities related to the retirement benefits.

For each plan the Group calculates the present value of defined benefit obligations, related current service cost and past service cost using the projected unit credit method. For a discount rate, a discount period is determined based on the period until the expected date of benefit payment in each fiscal year, and the discount rate is determined by reference to market yields for the period corresponding to the discount period at the end of the fiscal year on high-rating corporate bonds. Liabilities or assets for defined benefit plans are calculated by the present value of the defined benefit obligation, deducting unrecognized past service cost and the fair value of any plan assets (including adjustments for the asset ceiling for defined benefit plan and minimum funding requirements, if necessary). Expected return on plan assets and interest costs are recognized as financial costs.

Actuarial gains and losses are recognized in full as other comprehensive income in the period when they are incurred and transferred to retained earnings immediately. Past service costs are recognized as an expense using the straight-line method over the average period until the benefits become vested. In cases where the benefits are already vested immediately following the introduction or amendment of the defined benefit plan, it is recognized as profit or loss in the period when it is incurred.

The cost for retirement benefits for defined contribution plans is recognized as an expense at the time of contribution.

(14) Share-based Payments

The Company has a share option plan as an equity-settled share-based payment plan. Share options are estimated at fair value at grant date and are recognized as an expense over the vesting period in the consolidated statement of income after considering the number of share options that are expected to be eventually vested. The corresponding amount is recognized as an increase in equity in the consolidated statement of financial position.

(15) Provisions

The Group has present obligations (legal or constructive) resulting from past events and recognizes provisions when it is probable that the obligations are required to be settled and the amount of the obligations can be estimated reliably.
Where the effect of the time value of money is material, the amount of provisions is measured at the present value of the expenditures expected to be required to settle the obligations. In calculating the present value, the Group uses the pretax discount rate reflecting current market assessments of the time value of money and the risks specific to the liability.
In accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets,” the Group recognizes a provision for restructuring when it has a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main scheme to those affected by it. Restructuring provisions include only the direct expenditures arising from the restructuring, which meet both of the following criteria:

- necessarily entailed by the restructuring;
- not associated with the ongoing activities of the entity.

(16) Revenue

A. Sale of Goods

The Group mainly engages in the sale of tobacco products, prescription drugs, beverages and processed foods. Revenue from the sale of these goods is recognized when the significant risks and rewards of ownership of the goods transfer to the buyers, the Group retains neither continuing managerial involvement nor effective control over the goods sold, it is probable that the future economic benefits will flow to the Group, and the amount of revenue and the corresponding costs can be measured reliably. Therefore, revenue is usually recognized at the time of delivery of goods to customers. In addition, revenue is recognized at fair value of the consideration received or receivable less discounts, rebates and taxes, including consumption taxes.

Since the amount of turnover where the Group is involved as an agency, including tobacco excise taxes, is deducted from revenue, the Group recognizes only the economic benefit inflow, excluding such amount as revenue in the consolidated statements of income.

B. Interest Income

Interest income is recognized using the effective interest rate method

C. Dividend Income

Dividend income is recognized when the shareholder’s right to receive payment is established.

D. Royalties

Royalties are recognized on an accrual basis in accordance with the substance of the relevant agreement.

(17) Government Grants

Government grants are recognized at fair value when there is a reasonable assurance that the Group will comply with the conditions attached to them and receive the grants.

In case that the government grants are related to expense items, they are recognized in profit or loss on a systematic basis over the period in which the related costs for which the grants are intended to compensate are recognized. With regard to government grants for assets, the amount of the grants is deducted from the acquisition cost of the assets.

(18) Borrowing Costs

With respect to assets that necessarily take a substantial period of time to get ready for their intended use or sale, the borrowing costs that are directly attributable to the acquisition, construction or production of the assets are capitalized as part of the acquisition cost of the assets. Other borrowing costs are recognized as an expense in the period when they are incurred.

(19) Income Taxes

Income taxes in the consolidated statement of income are presented as the total of current income taxes and deferred income taxes.

Current income taxes are measured at the amount that is expected to be paid to or refunded from the taxation authorities. For the calculation of the tax amount the Group uses the tax rates and tax laws that have been enacted or substantively enacted by the end of the fiscal year. The current income taxes are recognized in profit or loss, except for taxes arising from items that are recognized in other comprehensive income or directly in equity and taxes arising from business combinations.

Deferred income taxes are calculated based on the temporary differences between the tax base for assets and liabilities and the carrying amount at the fiscal year end. Deferred tax assets are recognized for deductible temporary differences, carryforward of unused tax credits and unused tax losses to the extent that it is probable that future taxable profit will be available against which they can be utilized. Deferred tax liabilities are recognized for taxable temporary differences.

The deferred tax assets or liabilities are not recognized for the following temporary differences:

• the initial recognition of goodwill

• the initial recognition of assets or liabilities in transactions that are not business combinations and at the time of transaction, affect neither accounting profit nor taxable profit or tax loss

• deductible temporary differences arising from investments in subsidiaries and associates, and interests in joint venture to the extent that it is probable that the timing of the reversal of the temporary difference in the foreseeable future and it is not probable that future taxable profits will be available against which they can be utilized

• taxable temporary differences arising from investments in subsidiaries and associates, and interests in joint venture to the extent that the timing of the reversal of the temporary difference is controlled and that it is probable the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the fiscal year when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the fiscal year end.

(20) Treasury Shares

Treasury shares are recognized at cost and deducted from equity. No gain or loss is recognized on the purchase, sale or cancellation of the treasury shares. Any difference between the carrying amount and the consideration paid is recognized in capital surplus.

(21) Earnings per Share

Basic earnings per share are calculated by dividing profit and loss attributable to ordinary shareholders of the parent company by the weighted-average number of ordinary shares outstanding during the year, adjusted by the number of treasury shares. Diluted earnings per share are calculated by adjusting the effects of dilutive potential ordinary shares.

(22) Dividends

Dividend distributions to the shareholders of the Company are recognized as liabilities in the period in which, for year end dividends, the Annual Shareholders' Meeting approves the distribution and, for interim dividends, the Board of Directors' Meeting approves the distribution.

(23) Contingencies

A. Contingent Liabilities

The Group discloses contingent liabilities in the notes to consolidated financial statements if it has possible obligations at the fiscal year end, whose existence cannot be confirmed at that date, or if the obligations do not meet the recognition criteria of a provision described in "22. Provisions."

B. Contingent Assets

The Group discloses contingent assets in the notes to consolidated financial statements if an inflow of future economic benefits to the Group is probable, but not virtually certain at the fiscal year end.

(24) Adjusted Financial Measures

The adjusted financial measures are calculated by adding certain adjustment items to the non-adjusted financial data or by deducting the items from the non-adjusted financial data.

The adjustment items are determined by management's judgment, taking into consideration the nature and frequency of the income and costs such that they provide effective comparative information on the Group performance and that they reflect the way of managing our business appropriately. Adjusted financial measures are presented in the consolidated statement of income, "6. Operating Segments" and "32. Earnings per Share."

The adjusted financial measures are not defined under IFRS and are not comparable with equivalent indicators for other entities.

4. Significant Accounting Estimates and Judgments

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

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

Among the above estimates and assumptions, the following are items that may have a material effect on the amounts recognized in the consolidated financial statements of the Group:

A. Impairment of Property, Plant and Equipment, Goodwill, Intangible Assets and Investment Properties

With regard to property, plant and equipment, goodwill, intangible assets and investment properties, if there is any indication that the recoverable amount declines below the carrying amounts of the assets, the Group performs an impairment test.

The important indications include significant changes with adverse effect on the results of past or projected business performance, significant changes in the use of acquired assets or in overall business strategy, and significant deteriorations in industry trends and economic trends. With regard to goodwill, the impairment test is conducted at least once a year, regardless of any indication of the impairment, in order to ensure that the recoverable amount exceeds the carrying amount.

The impairment test is performed by comparing the carrying amount and the recoverable amount of assets. If the recoverable amount declines below the carrying amount, impairment losses are recognized. The recoverable amount is mainly calculated based on the discounted cash flow model. Certain assumptions are made for the useful lives and the future cash flows of the assets, discount rates and long-term growth rates. These assumptions are based on the best estimates and judgments made by management; however, there's a possibility that these assumptions may be affected by changes in uncertain future economic conditions, which may have a material impact on the consolidated financial statements in future periods.

The method for calculating the recoverable amount is described in "14. Property, Plant and Equipment," "15. Goodwill and Intangible Assets" and "17. Investment Property." With regard to goodwill, the sensitivity analysis is described in "15. Goodwill and Intangible Assets."

B. Employee Retirement Benefits and Mutual Pension Benefits

The Group has various types of retirement benefit plans, including defined benefit plans. In addition, the mutual pension benefits plan of the Company is one of the public pension systems under the jurisdiction of the government of Japan and the Company is legally obligated to bear a part of the pension costs of the plan.

The present value of defined benefit obligations on each of these plans and the related service costs are calculated based on actuarial assumptions. These actuarial assumptions require estimates and judgments on variables, such as discount rates and the long-term expected return on plan assets.

The Group obtains advice from external pension actuaries with respect to the appropriateness of these actuarial assumptions including these variables.

The actuarial assumptions are determined based on the best estimates and judgments made by management; however, there is a possibility that these assumptions may be affected by changes in uncertain future economic conditions, or by the publication or the amendment of related laws, which may have a material impact on the consolidated financial statements in future periods.

These actuarial assumptions and related sensitivity analysis are described in “24. Employee Benefits.”

C. Provisions

The Group recognizes various provisions, including provisions for asset retirement obligations and restructuring, in the consolidated statement of financial position.

These provisions are recognized based on the best estimates of the expenditures required to settle the obligations taking risks and uncertainty related to the obligations into account as of the fiscal year end date.

Expenditures required to settle the obligations are calculated by taking possible results into account comprehensively; however, they may be affected by the occurrence of unexpected events or changes in conditions which may have a material impact on the consolidated financial statements in future periods.

The nature and amount of recognized provisions are described in “22. Provisions.”

D. Income Taxes

The Group operates business activities around the world, and it recognizes current tax liabilities and income taxes as the estimated amounts to be paid to the tax authorities, based on the estimation in accordance with their laws and regulations.

Calculating current tax liabilities and income taxes requires estimates and judgment on various factors, including the interpretation of tax regulations by taxable entities and the tax authority in the jurisdiction or the experience of past tax audits.

Therefore, there may be differences between the amount recognized as tax liabilities and income taxes and the amount of actual tax liabilities and income taxes. These differences may have a material impact on the consolidated financial statements in future periods.

In addition, deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilized.

In recognizing the deferred tax assets, when judging the possibility of the future taxable income, we reasonably estimate the timing and amount of future taxable income based on the business plan.

The timing when taxable income arises and the amount of such income may be affected by changes in uncertain future economic conditions. Therefore, this may have a material impact on the consolidated financial statements in future periods.

The content and amount related to income taxes are described in “19. Income Taxes.”

E. Contingencies

With regard to contingencies, any items that may have a material impact on business in the future are disclosed in light of all the available evidence as of the fiscal year end date and by taking into account the probability of these contingencies and their impact on financial reporting.

The content of contingencies is described in “38. Contingencies.”

5. New Accounting Standards Not Yet Adopted by the Group

By the date of approval of the consolidated financial statements, new accounting standards, amended standards and new interpretations that have been issued, but have not been early adopted by the Group are as follows.

The implications from adoption of these standards and interpretations are assessed by the Group; however, we evaluate that none of them will have a material impact on our operating results and financial condition.

IFRS		Mandatory adoption (From the year beginning)	To be adopted by the Group	Description of New Standards/Amendments
IFRS1	First-time Adoption of International Financial Reporting Standards	January 1, 2013	Fiscal year ending March 2014	Exemption related to government grants
		January 1, 2013	Fiscal year ending March 2014	Provision related to reapplication of IFRS 1
		January 1, 2013	Fiscal year ending March 2014	Exemption related to adjustment of borrowing costs recognized before the application of IFRS
IFRS7	Financial Instruments: Disclosures	January 1, 2013	Fiscal year ending March 2014	Disclosure related to offsetting of financial assets and liabilities
IFRS10	Consolidated Financial Statements	January 1, 2013	Fiscal year ending March 2014	Amendment for definition of control, elements of control and basis of existence of control to be applied, regardless of the nature of the investee
IFRS11	Joint Arrangements	January 1, 2013	Fiscal year ending March 2014	Regarding arrangements of which two or more parties have joint control, provide the classification of a joint arrangement based on legal form, contractual arrangement on assets or liabilities and other facts and conditions, not based on only legal form of the arrangement Provide accounting treatment for each classification
IFRS12	Disclosure of Interests in Other Entities	January 1, 2013	Fiscal year ending March 2014	Expansion of the scope of the disclosure of ownership of interests in other entities, including unconsolidated structured entities
IFRS13	Fair Value Measurement	January 1, 2013	Fiscal year ending March 2014	Guidance of fair value measurement to be applied by all standards and unify the definition of fair value which was previously provided separately in each standard
IAS1	Presentation of Financial Statements	July 1, 2012	Fiscal year ending March 2014	Revision to the presentation of items in other comprehensive income
		January 1, 2013	Fiscal year ending March 2014	Provision for comparative information. When it is disclosed though not required under IFRS, related notes of that period are required
IAS16	Property, Plant and Equipment	January 1, 2013	Fiscal year ending March 2014	Clarification of treatment related to servicing equipment
IAS19	Employee Benefits	January 1, 2013	Fiscal year ending March 2014	Revision to recognition and presentation of actuarial gains and losses, past service cost, interest cost and others, and revision to disclosure of retirement benefits
IAS27	Separate Financial Statements	January 1, 2013	Fiscal year ending March 2014	Transfer of the provisions regarding consolidation to IFRS 10

IFRS		Mandatory adoption (From the year beginning)	To be adopted by the Group	Description of New Standards/Amendments
IAS28	Investments in Associates and Joint Ventures	January 1, 2013	Fiscal year ending March 2014	Amendments based on IFRS 10, IFRS 11 and IFRS 12
IAS32	Financial Instruments: Presentation	January 1, 2013	Fiscal year ending March 2014	Clarification of accounting treatment of income taxes related to dividends paid to the equity financial instruments holder
		January 1, 2014	Fiscal year ending March 2015	Clarification of conditions on offset disclosure and addition of guidelines
IAS34	Interim Financial Reporting	January 1, 2013	Fiscal year ending March 2014	Clarification of conditions on segment disclosure on interim financial reporting
IAS36	Impairment of Assets	January 1, 2014	Fiscal year ending March 2015	Amendment for recoverable amount disclosures for non-financial assets
IFRIC20	Stripping Costs in the Production Phase of a Surface Mine	January 1, 2013	Fiscal year ending March 2014	Accounting treatment for waste removal costs that are incurred in surface mining activity during the production phase of the mine (not applicable for costs incurred during the development phase)
IFRIC 21	Levies	January 1, 2014	Fiscal year ending March 2015	Clarification of the accounting for levies
IFRS 10 IFRS 12 IAS 27	Investment Entities	January 1, 2014	Fiscal year ending March 2015	Accounting treatment for the investments held by investment entities (measure their investments at fair value through profit or loss instead of consolidating them)

6. Operating Segments

(1) Outline of Reportable Segments

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

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

The Group changed its organizational 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, separate segment disclosures for the “Beverage Business” and the “Processed Food Business” have been included in the segment information since the second quarter ended September 30, 2012. The comparative segment information for the year ended March 31, 2012 is retrospectively adjusted.

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

(2) Revenues and Performances for Reportable Segments

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

For the year ended March 31, 2012

(Millions of yen)

	Reportable Segments								
	Domestic Tobacco	International Tobacco (Note 2)	Pharmaceuticals	Beverage	Processed Food	Total	Other (Note 3)	Elimination	Consolidated
Revenue									
External revenue (Note 4)	646,187	966,255	47,407	188,768	170,652	2,019,269	14,556	—	2,033,825
Intersegment revenue	28,115	27,497	—	85	770	56,467	9,257	(65,724)	—
Total revenue	674,303	993,752	47,407	188,853	171,422	2,075,736	23,813	(65,724)	2,033,825
Segment profit (loss)									
Adjusted EBITDA (Note 1)	262,257	314,755	(10,031)	14,584	5,416	586,981	(8,852)	(997)	577,132
Other items									
Depreciation and amortization	39,567	55,227	3,465	10,092	7,436	115,788	3,376	(319)	118,845
Impairment losses on other than financial assets	314	4,610	—	—	413	5,336	1,677	—	7,013
Reversal of impairment losses on other than financial assets	5	—	—	—	77	82	—	—	82
Share of profit (loss) in investments accounted for using the equity method	31	1,922	—	—	13	1,966	81	—	2,047
Capital expenditures	56,224	39,141	3,897	8,102	7,308	114,671	4,321	(0)	118,992

For the year ended March 31, 2013

(Millions of yen)

	Reportable Segments								
	Domestic Tobacco	International Tobacco (Note 2)	Pharmaceuticals	Beverage	Processed Food	Total	Other (Note 3)	Elimination	Consolidated
Revenue									
External revenue (Note 4)	687,138	1,010,655	53,158	185,478	168,747	2,105,177	15,019	—	2,120,196
Intersegment revenue	28,402	31,029	—	108	647	60,186	9,398	(69,583)	—
Total revenue	715,541	1,041,683	53,158	185,586	169,394	2,165,362	24,417	(69,583)	2,120,196
Segment profit (loss)									
Adjusted EBITDA (Note 1)	281,320	343,304	(12,720)	12,429	7,357	631,691	(8,971)	(595)	622,124
Other items									
Depreciation and amortization	41,074	51,101	3,440	10,072	7,141	112,828	3,947	(313)	116,462
Impairment losses on other than financial assets	14	322	—	—	1,248	1,584	1,629	—	3,213
Reversal of impairment losses on other than financial assets	—	—	—	—	—	—	—	—	—
Share of profit (loss) in investments accounted for using the equity method	48	2,685	—	—	(11)	2,722	54	—	2,775
Capital expenditures	71,238	37,504	5,761	12,029	4,596	131,128	6,527	(206)	137,450

Reconciliation from “Adjusted EBITDA” to “Profit before income taxes”

For the year ended March 31, 2012

(Millions of yen)

	Reportable Segments								
	Domestic Tobacco	International Tobacco (Note 2)	Pharmaceuticals	Beverage	Processed Food	Total	Other (Note 3)	Elimination	Consolidated
Adjusted EBITDA (Note 1)	262,257	314,755	(10,031)	14,584	5,416	586,981	(8,852)	(997)	577,132
Depreciation and amortization	(39,567)	(55,227)	(3,465)	(10,092)	(7,436)	(115,788)	(3,376)	319	(118,845)
Adjustment items (income) (Note 5)	–	564	–	–	–	564	29,368	–	29,932
Adjustment items (costs) (Note 5)	(13,426)	(7,737)	–	–	(434)	(21,597)	(7,443)	–	(29,039)
Operating profit (loss)	209,265	252,355	(13,497)	4,492	(2,454)	450,160	9,697	(677)	459,180
Financial income									5,603
Financial costs									(23,429)
Profit before income taxes									441,355

For the year ended March 31, 2013

(Millions of yen)

	Reportable Segments								
	Domestic Tobacco	International Tobacco (Note 2)	Pharmaceuticals	Beverage	Processed Food	Total	Other (Note 3)	Elimination	Consolidated
Adjusted EBITDA (Note 1)	281,320	343,304	(12,720)	12,429	7,357	631,691	(8,971)	(595)	622,124
Depreciation and amortization	(41,074)	(51,101)	(3,440)	(10,072)	(7,141)	(112,828)	(3,947)	313	(116,462)
Adjustment items (income) (Note 5)	1,200	395	–	–	–	1,595	32,639	–	34,234
Adjustment items (costs) (Note 5)	(154)	(3,057)	–	–	(6,039)	(9,250)	1,714	–	(7,536)
Operating profit (loss)	241,292	289,541	(16,160)	2,357	(5,822)	511,208	21,434	(282)	532,360
Financial income									5,493
Financial costs									(28,292)
Profit before income taxes									509,560

(Note 1) For adjusted EBITDA, the depreciation and amortization, and adjustment items (income and costs) are excluded from operating profit (loss).

(Note 2) The foreign subsidiaries group, which includes the core company of JT International S.A. that is part of the "International Tobacco Business" segment, has December 31 as its fiscal year end date and the profit or loss for the period from January 1 to December 31 is included in the years ended March 31, 2012 and 2013, respectively.

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

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

(Millions of yen)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Domestic tobacco	611,925	654,000
International tobacco	894,636	943,094

(Note 5) "Adjustment items (income)" include restructuring income of gains on sale of real estate.

"Adjustment items (costs)" include restructuring costs of the closing down of a factory, the effect of revision to laws and regulations related to the mutual pension benefits plan, the cooperation fee for terminating leaf tobacco farming and the adjustment amount of ceasing classification as non-current assets held-for-sale.

The breakdown of restructuring income is described in "28. Other Operating Income." Restructuring costs included in "Cost of sales" and "Selling, general and administrative expenses" are ¥2,445 million and ¥9,366 million, respectively, for the year ended March 31, 2013. The breakdown of restructuring costs in "Selling, general and administrative expenses" is described in "29. Selling, General and Administrative Expenses."

The breakdown of "Adjustment items (costs)" for each fiscal year is as follows:

(Millions of yen)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Restructuring costs	14,052	11,811
Effect of revision to laws and regulations related to the mutual pension benefits plan	—	(4,279)
Cooperation fee for terminating leaf tobacco farming	12,469	4
Adjustment of ceasing classification as non-current assets held-for-sale	2,518	—
Adjustment items (costs)	29,039	7,536

Restructuring costs for the year ended March 31, 2012 include costs of closing down of the Hofu Factory in the "Domestic Tobacco Business" and the Hainburg factory in the "International Tobacco Business."
Restructuring costs for the year ended March 31, 2013 include costs of rationalization measures in the "International Tobacco Business" and the dissolution of the processed fishery products business in the "Processed Food Business."

(3) Geographic Information

The regional breakdown of non-current assets and external revenues as of each fiscal year end is as follows:

Non-current Assets

(Millions of yen)

	As of March 31, 2012	As of March 31, 2013
Japan	556,102	577,208
Overseas	1,547,315	1,819,391
Consolidated	2,103,417	2,396,599

(Note) Non-current assets are segmented by the location of the assets, and financial instruments, deferred tax assets and retirement benefits assets are excluded.

External Revenue

(Millions of yen)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Japan	1,051,702	1,089,661
Overseas	982,123	1,030,535
Consolidated	2,033,825	2,120,196

(Note) Revenue is segmented by the sales destination.

(4) Major Customers Information

The “International Tobacco Business” of the Group sells products to the Megapolis Group that engages in distribution and wholesale business in Russia and other countries. The external revenue from the group is ¥236,050 million (11.6% of consolidated revenue) for the year ended March 31, 2012 and ¥268,566 million (12.7% of consolidated revenue) for the year ended March 31, 2013.

7. Business Combination

Acquisition of Gryson NV, V.D.M. Invest, Disprotab S.L. and Gryson Deutschland GmbH (hereinafter collectively referred to as “Gryson”).

(1) Summary of Business Combination

On August 14, 2012, the Group acquired 100% of the outstanding shares of Gryson NV, V.D.M. Invest and Disprotab S.L. as well as 50% of the outstanding shares of Gryson Deutschland GmbH. Gryson has established an important presence in the Roll Your Own (“RYO”) and Make Your Own (“MYO”) market across several European countries including France, Belgium, Luxembourg, Spain and Portugal, as well as in a number of other countries. Through this acquisition, the Group obtained further opportunities to enhance its presence in the growing RYO/MYO market.

(2) Financial Impact on the Group

Since the acquisition date, the acquired business has contributed to consolidated revenue of ¥3,032 million and consolidated operating profit of ¥125 million. Had the business been acquired on January 1, 2012, the Group estimates that total consolidated revenue would have increased by ¥5,627 million to ¥2,125,823 million and total consolidated operating profit would have increased by ¥2,084 million to ¥534,444 million.

(3) Consideration and Detail (Aggregated total of the acquisition)

The consideration was ¥54,857 million and it was paid in cash.

(4) Cash Out for the Acquisition of Subsidiaries (Aggregated total of the acquisition)

(Millions of yen)

	Cash Out
Cash consideration	54,857
Cash and cash equivalents in subsidiaries acquired	(3,525)
Net cash out for the acquisition of subsidiaries	51,332

(5) Fair Value of the Assets Acquired and Liabilities Assumed

(Millions of yen)

	Fair Value
Current assets	10,483
Non-current assets	9,696
Total assets acquired	20,179
Current liabilities	(1,106)
Non-current liabilities	(4,202)
Total liabilities assumed	(5,308)
Total equity	14,871
Goodwill	39,986

Goodwill of ¥39,986 million represents integration synergies including future economic benefits from enhanced business scale in the RYO/MYO market. Transaction costs of ¥71 million were expensed as incurred and recognized in “Selling, general and administrative expenses.”

Other Acquisition

In addition to the above, the Group acquired other entities through business combination for the year ended March 31, 2013, which are omitted as they are immaterial both individually and in aggregate.

8. Cash and Cash Equivalents

The breakdown of "Cash and cash equivalents" as of each fiscal year end is as follows:

(Millions of yen)

	As of March 31, 2012	As of March 31, 2013
Cash and deposits	108,797	121,753
Short-term investments	295,943	20,960
Total	404,740	142,713

Cash and cash equivalents are classified as financial assets measured at amortized cost.

Included in "Cash and cash equivalents" as of March 31, 2013 is ¥14,929 million (IRR 5,561 billion) held by the Group's Iranian subsidiary, JTI Pars PJS Co. Due to international sanctions and other factors imposed on Iran, the subsidiary's ability to remit funds outside of Iran is restricted.

9. Trade and Other Receivables

The breakdown of "Trade and other receivables" as of each fiscal year end is as follows:

(Millions of yen)

	As of March 31, 2012	As of March 31, 2013
Note and Account receivables	311,803	367,951
Other	17,693	21,470
Allowance for doubtful accounts	(1,729)	(1,584)
Total	327,767	387,837

Trade and other receivables are presented net of the allowance for doubtful accounts in the consolidated statement of financial position.

Trade and other receivables are classified as financial assets measured at amortized cost.

10. Inventories

The breakdown of "Inventories" as of each fiscal year end is as follows:

(Millions of yen)

	As of March 31, 2012	As of March 31, 2013
Merchandise and finished goods (Note 1)	112,477	133,144
Leaf tobacco (Note 2)	294,813	292,043
Other	39,327	47,855
Total	446,617	473,042

(Note 1) For imported tobacco products (merchandise) that are sold by TS Network Co., Ltd., a subsidiary of the Company, commissions solely from wholesale are included in revenue. The amount of imported tobacco products (merchandise) that the company holds at the end of each fiscal year is included in inventories and presented as "Merchandise and finished goods."

(Note 2) Leaf tobacco includes those products that will be used after 12 months from the end of each fiscal year, but they are included in inventories since they are held within the normal operating cycle.

11. Other Financial Assets

(1) The breakdown of “Other financial assets” as of each fiscal year end is as follows:

(Millions of yen)

	As of March 31, 2012	As of March 31, 2013
Derivative assets	1,941	4,077
Equity securities	39,106	46,699
Debt securities	8,835	15,676
Time deposits	24,306	5,347
Other	34,858	38,181
Allowance for doubtful accounts	(14,137)	(9,096)
Total	94,909	100,884
Current assets	27,361	29,103
Non-current assets	67,548	71,781
Total	94,909	100,884

Other financial assets are presented net of the allowance for doubtful accounts in the consolidated statement of financial position.

Derivative assets are classified as financial assets measured at fair value through profit or loss excluding that to which hedge accounting is applied, equity securities are classified as financial assets measured at fair value through other comprehensive income, and time deposits and debt securities are classified as financial assets measured at amortized cost.

(2) Names of major securities held as financial assets measured at fair value through other comprehensive income and their fair value as of each fiscal year end are as follows:

(Millions of yen)

Company name	As of March 31, 2012	As of March 31, 2013
KT&G Corporation	16,700	18,609
Seven & i Holdings Co., Ltd.	2,094	2,664
Mizuho Financial Group, Inc.	1,721	2,545
Mitsubishi UFJ Financial Group, Inc.	1,447	2,010
DOUTOR・NICHIRES Holdings Co., Ltd.	1,437	1,846
Mitsubishi Shokuhin Co., Ltd	1,269	1,772

Equity securities are held mainly for strengthening relationships with investees. Therefore, they are designated as financial assets measured at fair value through other comprehensive income.

In order to pursue the efficiency of assets held and to use them effectively, financial assets measured at fair value through other comprehensive income have been sold (derecognition).

The fair value at the time of sale and cumulative gain or loss that is recognized in equity through other comprehensive income for each fiscal year is as follows:

(Millions of yen)

Fiscal year ended March 31, 2012		Fiscal year ended March 31, 2013	
Fair Value	Cumulative gain or loss recognized in equity as other comprehensive income (Note)	Fair Value	Cumulative gain or loss recognized in equity as other comprehensive income (Note)
695	(89)	38	(2)

(Note) The cumulative gain or loss recognized in equity as other comprehensive income is transferred to retained earnings when equity instruments are sold or the decline in its fair value compared to its acquisition cost is significant.

12. Other Current Assets

The breakdown of “Other current assets” as of each fiscal year end is as follows:

(Millions of yen)

	As of March 31, 2012	As of March 31, 2013
Prepaid tobacco excise taxes	87,261	130,348
Prepaid expenses	10,736	9,546
Consumption tax payables	6,702	10,580
Other	18,465	27,384
Total	123,163	177,858

13. Non-current Assets Held-for-Sale

The breakdown of “Non-current assets held-for-sale” and “Liabilities directly associated with non-current assets held-for-sale” as of each fiscal year end is as follows:

Breakdown of Major Assets and Liabilities

(Millions of yen)

	As of March 31, 2012	As of March 31, 2013
Non-current assets held-for-sale		
Property, plant and equipment	302	112
Investment property	1,098	2,482
Total	1,401	2,594
Liabilities directly associated with non-current assets held-for-sale		
Long-term guarantee deposits	101	101
Total	101	101

“Non-current assets held-for-sale” as of March 31, 2012 are mainly rental properties and idle properties which are currently actively marketed for sale. Long-term guarantee deposits related to the rental properties are included in “Liabilities directly associated with non-current assets held-for-sale.”

With regard to such assets and assets sold, impairment losses of ¥243 million are recognized in “Selling, general and administrative expenses” in the consolidated statement of income for the year ended March 31, 2012.

“Non-current assets held-for-sale” as of March 31, 2013 are mainly rental properties and idle properties which are currently actively marketed for sale. Long-term guarantee deposits related to the rental properties are included in “Liabilities directly associated with non-current assets held-for-sale.”

14. Property, Plant and Equipment

(1) Schedule of Property, Plant and Equipment

The schedules of the carrying amount, acquisition cost, and accumulated depreciation and accumulated impairment losses of “Property, plant and equipment” are as follows:

(Millions of yen)

Carrying Amount	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of April 1, 2011	304,242	252,094	53,887	29,101	639,324
Individual acquisition	15,207	34,579	22,750	26,417	98,952
Capitalization of borrowing costs (Note)	－	－	－	23	23
Acquisition through business combinations	767	908	21	85	1,781
Transfer to investment property	(5,152)	(18)	(20)	－	(5,191)
Transfer to non-current assets held-for-sale	(966)	(2)	(2)	－	(969)
Depreciation	(14,922)	(48,959)	(18,993)	－	(82,874)
Impairment losses	(2,709)	(2,052)	(78)	－	(4,840)
Reversal of impairment losses	77	5	－	－	82
Sale or disposal	(716)	(4,051)	(445)	(253)	(5,464)
Exchange differences on translation of foreign operations	(6,011)	(11,674)	(1,041)	(1,524)	(20,250)
Other	3,632	18,370	(311)	(22,729)	(1,037)
As of March 31, 2012	293,449	239,199	55,768	31,120	619,536
Individual acquisition	17,583	45,367	26,432	22,766	112,148
Capitalization of borrowing costs (Note)	－	－	－	72	72
Acquisition through business combinations	1,386	1,945	61	－	3,391
Transfer to investment property	(2,452)	(6)	(23)	－	(2,482)
Transfer to non-current assets held-for-sale	(384)	(0)	(6)	－	(389)
Depreciation	(14,759)	(44,587)	(20,178)	－	(79,524)
Impairment losses	(570)	(202)	(88)	－	(860)
Sale or disposal	(282)	(4,762)	(462)	(115)	(5,621)
Exchange differences on translation of foreign operations	9,129	14,570	1,928	1,677	27,303
Other	4,233	19,684	1,822	(26,998)	(1,259)
As of March 31, 2013	307,332	271,207	65,256	28,522	672,316

(Note) The capitalization rates calculating the borrowing costs for capitalization are 3.7% for the year ended March 31, 2012 and 3.5 % for the year ended March 31, 2013, respectively.

(Millions of yen)

Acquisition Cost	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of April 1, 2011	617,438	690,412	152,580	29,101	1,489,531
As of March 31, 2012	593,988	670,645	155,232	31,120	1,450,985
As of March 31, 2013	615,682	720,165	171,351	28,522	1,535,719

(Millions of yen)

Accumulated Depreciation and Accumulated Impairment Losses	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of April 1, 2011	313,196	438,318	98,693	－	850,207
As of March 31, 2012	300,539	431,446	99,464	－	831,449
As of March 31, 2013	308,350	448,958	106,095	－	863,403

The carrying amount of property, plant and equipment as of each fiscal year end includes the carrying amount of the following leased assets:

(Millions of yen)

	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
As of April 1, 2011	227	3,170	8,569	11,966
As of March 31, 2012	279	2,875	6,749	9,902
As of March 31, 2013	1,378	3,364	6,798	11,540

(2) Impairment Losses

The grouping of property, plant and equipment for impairment test is the smallest cash-generating unit that independently generates cash inflow.

The Group recognized impairment losses of ¥4,840 million for the year ended March 31, 2012 and ¥860 million for the year ended March 31, 2013 in "Selling, general and administrative expenses" in the consolidated statement of income.

Impairment losses recognized in the year ended March 31, 2012, represent the losses incurred to reduce the carrying amounts to the recoverable amounts of the buildings, structures, machinery and vehicles which were closed down or individually selected for demolition.

The recoverable amounts of these assets are calculated mainly by their value in use, which is set at "zero."

Impairment losses recognized in the year ended March 31, 2013 represent the losses incurred to reduce the carrying amounts to the recoverable amounts of the buildings, structures, machinery and vehicles due to closure of businesses or individual selection for demolition.

The recoverable amounts of these assets are calculated mainly by their value in use, which is set at "zero."

15. Goodwill and Intangible Assets

(1) Schedule of Goodwill and Intangible Assets

The schedules of carrying amount, acquisition cost, and accumulated amortization and accumulated impairment losses of "Goodwill" and "Intangible assets" are as follows:

(Millions of yen)

Carrying Amount	Goodwill	Trademarks	Software	Other	Total
As of April 1, 2011	1,176,114	286,632	18,828	24,734	1,506,308
Individual acquisition	29	292	5,982	13,347	19,651
Acquisition through business combinations	29,352	6,947	—	—	36,298
Amortization (Note)	—	(21,141)	(7,567)	(5,894)	(34,602)
Impairment losses	—	—	(64)	(0)	(65)
Sale or disposal	(49)	(41)	(92)	(1,195)	(1,377)
Exchange differences on translation of foreign operations	(95,378)	(15,544)	(210)	(176)	(111,309)
Other	(22)	206	883	522	1,589
As of March 31, 2012	(1,110,046)	257,349	17,760	31,339	1,416,494
Individual acquisition	3	325	14,149	10,228	24,704
Acquisition through business combinations	46,509	13,240	1	1	59,750
Amortization (Note)	—	(20,767)	(7,721)	(5,815)	(34,303)
Impairment losses	—	—	(61)	(3)	(64)
Sale or disposal	—	—	(359)	(214)	(573)
Exchange differences on translation of foreign operations	159,918	37,255	394	310	197,877
Other	—	221	7,707	(6,524)	1,404
As of March 31, 2013	1,316,476	287,622	31,869	29,321	1,665,289

(Note) The amortization of intangible assets is included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of income.

(Millions of yen)

Acquisition Cost	Goodwill	Trademarks	Software	Other	Total
As of April 1, 2011	1,176,201	679,127	94,122	75,392	2,024,842
As of March 31, 2012	1,110,046	663,875	97,314	86,792	1,958,027
As of March 31, 2013	1,316,476	733,745	111,640	87,671	2,249,531

(Millions of yen)

Accumulated Amortization and Accumulated Impairment Losses	Goodwill	Trademarks	Software	Other	Total
As of April 1, 2011	87	392,495	75,294	50,658	518,534
As of March 31, 2012	—	406,526	79,553	55,453	541,533
As of March 31, 2013	—	446,122	79,770	58,350	584,242

The carrying amount of intangible assets as of each fiscal year end includes the carrying amount of the following leased assets:

	(Millions of yen)
	Software
As of April 1, 2011	38
As of March 31, 2012	11
As of March 31, 2013	5

(2) Material Goodwill and Intangible Assets

Goodwill and intangible assets recognized in the consolidated statement of financial position are mainly composed of goodwill and trademarks in the JTIH Group. The carrying amounts of goodwill as of March 31, 2012 and 2013 were ¥1,067,544 million and ¥1,273,971 million, respectively. The carrying amounts of trademarks as of March 31, 2012 and 2013 were ¥254,543 million and ¥284,861 million, respectively.

The majority of the goodwill and trademarks was recognized as a result of acquisitions of RJR Nabisco's non-U.S. tobacco operations in 1999 and Gallaher in 2007.

The trademarks are amortized using the straight-line method and the remaining amortization period is mainly 14 years.

(3) Impairment Test for Goodwill

For the year ended March 31, 2013, the carrying amount of the majority of goodwill is allocated to the international tobacco cash-generating unit of ¥1,273,971 million (¥1,067,544 million for the year ended March 31, 2012) and the processed food cash-generating unit of ¥25,368 million (¥25,368 million for the year ended March 31, 2012). Details of the result of impairment tests are as follows:

A. International Tobacco Cash-Generating Unit

The recoverable amount is calculated by the value in use based on the three-year business plan that was prepared by reflecting past experiences and external information and that was approved by management. After the three-year business plan, the Group sets a growth rate that decreases gradually from 5.4% in the fourth year (2012: 6.6%) to 4.2% in the ninth year (2012: 4.0%), and the same growth rate as the ninth year from the tenth year as a continued growth rate for inflation. The discount rate before taxes is 11.9% (2012: 11.8%). The value in use sufficiently exceeds the carrying amount of the cash-generating unit. Therefore, even in cases where the discount rate and growth rate used in calculating the value in use fluctuate within reasonable ranges, the Group assumes that the value in use will not become less than the carrying amount.

B. Processed Food Cash-Generating Unit

The recoverable amount is calculated by the value in use based on the three-year business plan that was prepared by reflecting past experiences and external information and that was approved by management. After the three-year business plan, the Group sets a growth rate that decreases gradually from 3.2% in the fourth year (2012: 3.6%) to 1.1% in the ninth year (2012: 0.3%), and the same growth rate as the ninth year issued from the tenth year as continued growth rate for inflation. The discount rate before taxes is 4.7% (2012: 5.4%). The value in use exceeds the carrying amount. If the discount rate increases by 2.7%, impairment losses would be recognized. In case that growth rate fluctuates within a reasonable range, the Group assumes that the value in use will not become less than the carrying amount.

16. Lease Transactions

The Group leases vehicles, vending machines and other assets as a lessee. Some of the lease contracts have renewal options or escalation clauses. There are no restrictions on additional debt and further leasing imposed by the lease arrangements.

(1) Present Value of Finance Lease Obligations

The total of future minimum lease payments for leased assets recognized based on the finance lease contracts, their present value and future financial costs as of each fiscal year end are as follows:

(Millions of yen)

	As of March 31, 2012	As of March 31, 2013
Not later than 1 year		
Total of future minimum lease payments	4,161	4,590
Future financial costs	216	289
Present value	3,945	4,301
Later than 1 year and not later than five years		
Total of future minimum lease payments	7,102	8,010
Future financial costs	408	586
Present value	6,693	7,424
Later than 5 years		
Total of future minimum lease payments	248	879
Future financial costs	34	62
Present value	215	817
Total		
Total of future minimum lease payments	11,511	13,480
Future financial costs	659	937
Present value	10,853	12,543

(2) Future Minimum Lease Payments under Non-cancellable Operating Leases

The total of future minimum lease payments under non-cancellable operating leases as of each fiscal year end is as follows:

(Millions of yen)

	As of March 31, 2012	As of March 31, 2013
Not later than 1 year	7,706	6,624
Later than 1 year and not later than 5 years	12,821	12,948
Later than 5 years	1,384	5,383
Total	21,912	24,955

(3) Total of Minimum Lease Payments and Contingent Rents

The total of minimum lease payments and contingent rents of operating lease contracts recognized as an expense for each fiscal year is as follows:

(Millions of yen)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Total of minimum lease payments	7,863	9,132
Contingent rents	2,628	1,056

17. Investment Property

(1) Schedule of Investment Property

The schedule of the carrying amount of “Investment property” for each fiscal year is as follows:

(Millions of yen)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Balance at the beginning of the year	36,477	67,387
Expenditure after acquisition	367	525
Transfer from property, plant and equipment	5,191	2,482
Transfer from non-current assets held-for-sale	32,784	−
Adjustment from ceasing classification as non-current assets held-for-sale	(2,518)	−
Transfer to non-current assets held-for-sale	(1,053)	(5,491)
Transfer to property, plant and equipment	(360)	(493)
Depreciation	(1,368)	(2,634)
Impairment losses	(1,866)	(2,289)
Sale or disposal	(340)	(506)
Exchange differences on translation of foreign operations	8	8
Other	65	8
Balance at the end of the year	67,387	58,995
Acquisition cost at the beginning of the year	79,922	114,976
Accumulated depreciation and accumulated impairment losses at the beginning of the year	43,445	77,589
Acquisition cost at the end of the year	144,976	127,493
Accumulated depreciation and accumulated impairment losses at the end of the year	77,589	68,498

(2) Fair Value

The carrying amount and fair value of investment property as of each fiscal year end are as follows:

(Millions of yen)

	As of March 31, 2012		As of March 31, 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Investment property	67,387	177,642	58,995	145,348

The fair value of investment property is determined based on a valuation conducted by an external real estate appraiser. The valuation is made in accordance with the appraisal of the country where the investment property is located and based on market evidence of transaction prices for similar assets.

(3) Income and Expenses from Investment Property

The rental income from investment property and direct operating expenses for each fiscal year are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Rental income	4,395	9,704
Direct operating expenses	3,476	6,674

(4) Impairment Losses

The grouping of investment properties for impairment test is based on the smallest cash-generating unit that independently generates cash inflow. Idle properties are grouped individually.

The Group recognized impairment losses of ¥1,866 million for the year ended March 31, 2012, and ¥2,289 million for the year ended March 31, 2013 in “Selling, general and administrative expenses” in the consolidated statement of income.

Impairment losses recognized for the year ended March 31, 2012 represent the difference between the recoverable amount and the carrying amount of land and buildings as idle properties which were individually selected for demolition.

The recoverable amount is calculated based on value in use basis, which is zero for buildings due to the decision of demolition, and the recoverable amount of other properties is calculated by the fair value less costs to sell.

Impairment losses recognized for the year ended March 31, 2013 represent the difference between the recoverable amount and the carrying amount of land and buildings as idle properties which were individually selected for demolition.

The recoverable amount is calculated based on value in use basis, which is zero for buildings due to the decision of demolition, and the recoverable amount of other properties is calculated by the fair value less costs to sell.

18. Investments Accounted for Using the Equity Method

Condensed financial information of associates as of each fiscal year end and for each fiscal year is as follows:

(Millions of yen)

	As of March 31, 2012	As of March 31, 2013
Statement of financial position		
Total assets	147,592	167,788
Total liabilities	124,112	141,483
Total equity	23,480	26,306

(Millions of yen)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Statement of income		
Revenue	1,415,412	1,359,534
Expense	1,407,548	1,352,423
Profit for the year	7,864	7,111

19. Income Taxes

(1) Deferred Tax Assets and Deferred Tax Liabilities

The breakdown and schedule of “Deferred tax assets” and “Deferred tax liabilities” by major causes of their occurrence for each fiscal year are as follows:

(Millions of yen)

Deferred Tax Assets	As of April 1, 2011	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of March 31, 2012
Fixed assets (Note 2)	36,093	7,216	—	(810)	42,500
Retirement benefits	105,451	(11,740)	837	(689)	93,859
Carryforward of unused tax losses	53,941	7,572	—	(1,783)	59,731
Other	80,418	(6,122)	10	(1,569)	72,737
Subtotal	275,903	(3,074)	847	(4,850)	268,826
Valuation allowance	(68,877)	3,988	2,256	954	(61,679)
Total	207,026	914	3,103	(3,896)	207,148

(Millions of yen)

Deferred Tax Liabilities	As of April 1, 2011	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of March 31, 2012
Fixed assets (Note 2)	(129,350)	21,491	—	70	(107,789)
Retirement benefits	(2,379)	(436)	(1,139)	37	(3,917)
Other	(22,421)	(24,273)	(1,628)	2,594	(45,728)
Total	(154,150)	(3,217)	(2,767)	2,701	(157,434)

(Millions of yen)

Deferred Tax Assets	As of April 1, 2012	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of March 31, 2013
Fixed assets (Note 2)	42,500	(2,036)	—	2,612	43,075
Retirement benefits	93,859	(5,992)	9,333	2,234	99,434
Carryforward of unused tax losses	59,731	2,564	—	3,277	65,572
Other	72,737	1,438	(107)	3,295	77,363
Subtotal	268,826	(4,026)	9,226	11,417	285,444
Valuation allowance	(61,679)	(8,104)	(148)	(1,899)	(71,829)
Total	207,148	(12,129)	9,079	9,518	213,615

(Millions of yen)

Deferred Tax Liabilities	As of April 1, 2012	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of March 31, 2013
Fixed assets (Note 2)	(107,789)	(736)	—	(10,413)	(118,937)
Retirement benefits	(3,917)	1,511	184	(1,218)	(3,440)
Other	(45,728)	(1,254)	(2,472)	(5,744)	(55,198)
Total	(157,434)	(479)	(2,289)	(17,375)	(177,576)

(Note 1) “Other” includes exchange differences on translation of foreign operations.
(Note 2) “Fixed assets” include property, plant and equipment, goodwill, intangible assets and investment property.

The deferred tax assets are recognized by taking taxable temporary differences, future taxable profits plan and tax planning into account. The carryforward of unused tax losses, for which the deferred tax assets are not recognized, was ¥42,145 million (including ¥35,615 million, for which the carryforward expires after five years) as of March 31, 2012, and ¥51,621 million (including ¥37,128 million, for which the carryforward expires after five years) as of March 31, 2013. Tax credits, for which the deferred tax assets are not recognized, were ¥3,228 million (including ¥2,593 million, for which the carryforward expires after five years) as of March 31, 2012, and ¥3,601 million (including ¥2,907 million, for which the carryforward expires after five years) as of March 31, 2013.

(2) Income Taxes

The breakdown of “Income taxes” for each fiscal year is as follows:

(Millions of yen)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Current income taxes	110,493	145,434
Deferred income taxes	2,303	12,608
Total income taxes	112,795	158,042

Deferred income taxes increased by ¥3,021 million for the year ended March 31, 2012 and decreased by ¥2,070 million for the year ended March 31, 2013, due to the effect of changes in tax rates in Japan and other countries.

(3) Reconciliation of the Effective Tax Rate

The breakdown of major items that caused differences between the effective statutory tax rate and the average actual tax rate for each fiscal year is as follows:

The Company is subject mainly to corporate tax, inhabitant tax, and enterprise tax, and the effective statutory tax rate calculated based on these taxes for the year ended March 31, 2012 and 2013 was 40.35% and 37.78%, respectively. In this fiscal year, ended March 31, 2013, the tax rate for corporate tax was lowered and special corporate tax for reconstruction was imposed.

Foreign subsidiaries are subject to income tax at their locations.

(%)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Effective statutory tax rate	40.35	37.78
Different tax rates applied to foreign subsidiaries	(11.65)	(9.60)
Non-deductible expenses	1.38	1.57
Losses on valuation of investments in subsidiaries	(7.07)	—
Overseas withholding tax	1.06	1.46
Valuation allowance	(0.78)	1.91
Uncertain tax position on income taxes	2.42	(0.85)
Other	(0.17)	(1.25)
Average actual tax rate	25.56	31.02

20. Trade and Other Payables

The breakdown of “Trade and other payables” as of each fiscal year end is as follows:

(Millions of yen)

	As of March 31, 2012	As of March 31, 2013
Note and account payables	165,427	173,458
Other payables	71,736	71,325
Other	61,500	67,959
Total	298,663	312,741

Trade and other payables are classified as financial liabilities measured at amortized cost.

21. Bonds and Borrowings (including Other Financial Liabilities)

(1) Breakdown of Financial Liabilities

The breakdown of “Bonds and borrowings” and “Other financial liabilities” as of each fiscal year end is as follows:

	(Millions of yen)		(%)	
	As of March 31, 2012	As of March 31, 2013	Average interest rate (Note1)	Due
Derivative liabilities	5,133	3,816	—	—
Short-term borrowings	43,486	23,847	9.74	—
Current portion of long-term borrowings	78,219	20,454	1.70	—
Current portion of bonds (Note 2)	90,061	—	—	—
Long-term borrowings	49,277	33,163	0.57	2014–2028
Bonds (Note 2)	230,473	237,236	—	—
Other	23,900	23,577	—	—
Total	520,548	342,094		
Current liabilities	219,805	52,851		
Non-current liabilities	300,743	289,243		
Total	520,548	342,094		

(Note 1) The average interest rate is calculated using the interest rate and outstanding balance as of March 31, 2013.

Derivative liabilities are classified as financial liabilities measured at fair value through profit or loss excluding those which hedge accounting is applied to, and bonds and borrowings are classified as financial liabilities measured at amortized cost.

There are no financial covenants that have a significant impact on the Group on bonds and borrowings.

(Note 2) The summary of the issuing conditions of the bonds is as follows:

Company	Name of bond	Date of issuance	As of March 31, 2012 (Millions of yen)	As of March 31, 2013 (Millions of yen)	Interest rate (%)	Collateral	Date of maturity
Japan Tobacco Inc.	4th Domestic straight bond	July 24, 2007	59,992 (59,992)	―	1.68	Yes	July 24, 2012
Japan Tobacco Inc.	5th Domestic straight bond	June 3, 2009	99,913	99,953	1.13	Yes	June 3, 2014
Japan Tobacco Inc.	6th Domestic straight bond	December 9, 2010	40,000	40,000	0.53	Yes	December 9, 2015
Japan Tobacco Inc.	7th Domestic straight bond	December 9, 2010	20,000	20,000	0.84	Yes	December 8, 2017
Japan Tobacco Inc.	8th Domestic straight bond	December 9, 2010	20,000	20,000	1.30	Yes	December 9, 2020
JTI (UK) Finance Plc	Straight bond in GBP	February 6, 2003	29,919 (29,919) [GBP 250 mil.]	―	5.75	Non	February 6, 2013
JTI (UK) Finance Plc	Straight bond in EUR	October 2, 2006	50,359 [EUR 500 mil.]	57,283 [EUR 500 mil.]	4.50	Non	April 2, 2014
Other bonds			350 (150)	― (―)			
Total			320,534 (90,061)	237,236 (―)			

(Note 1) Figure in parentheses ( ) represents the amount of the current portion of the bond.

(Note 2) Figure in parentheses [ ] represents the amount of the foreign currency-denominated bond.

(2) Assets Pledged as Collateral for Liabilities

A. Pursuant to the provisions of Article 6 of Japan Tobacco Inc. Act, the Company's properties are pledged as general collateral for bonds issued by the Company. Bondholders are entitled to claim satisfaction in preference to unsecured creditors of the Company properties (with the exception of national and local taxes and certain other statutory obligations).

B. Assets pledged as collateral by some subsidiaries and their corresponding debts as of each fiscal year end are as follows:

(Millions of yen)

Assets Pledged as Collateral	As of March 31, 2012	As of March 31, 2013
Land, buildings, and structures	9,231	6,149
Machinery and vehicles	571	—
Other	998	24
Total	10,800	6,173

(Millions of yen)

Corresponding Debts	As of March 31, 2012	As of March 31, 2013
Short-term borrowings	130	20
Current portion of long-term borrowings	901	275
Long-term borrowings	1,311	1,072
Other	350	—
Total	2,692	1,367

22. Provisions

The breakdown and schedule of "Provisions" for each fiscal year are as follows:

(Millions of yen)

	Asset retirement provisions	Restructuring provisions	Provisions for sales rebates	Other provisions	Total
As of April 1, 2011	1,357	1,078	3,458	2,802	8,696
Provisions	288	4,217	3,938	2,565	11,008
Interest cost associated with passage of time	17	—	—	—	17
Provisions used	(2)	(4,406)	(3,384)	(965)	(8,757)
Provisions reversed	—	(205)	(74)	(238)	(518)
Exchange differences on translation of foreign operations	—	(67)	—	(245)	(312)
As of March 31, 2012	1,660	618	3,938	3,919	10,135
Current liabilities	2	612	3,938	1,135	5,686
Non-current liabilities	1,659	6	—	2,784	4,448
Total	1,660	618	3,938	3,919	10,135

(Millions of yen)

	Asset retirement provisions	Restructuring provisions	Provisions for sales rebates	Other provisions	Total
As of April 1, 2012	1,660	618	3,938	3,919	10,135
Provisions	114	3,951	4,073	292	8,431
Interest cost associated with passage of time	31	—	—	—	31
Provisions used	(49)	(3,945)	(3,811)	(255)	(8,061)
Provisions reversed	(62)	(226)	(126)	(583)	(997)
Exchange differences on translation of foreign operations	—	53	—	451	503
As of March 31, 2013	1,695	450	4,073	3,824	10,043
Current liabilities	3	446	4,073	734	5,256
Non-current liabilities	1,692	5	—	3,090	4,786
Total	1,695	450	4,073	3,824	10,043

A. Asset Retirement Provisions

In order to settle the obligation of restoring and of removing hazardous substances from plant facilities and premises that the Group uses, the probable amount to be paid in the future is recognized based on past performances. These expenses are expected to be paid after one year or more; however, they may be affected by future business plans.

B. Restructuring Provisions

These provisions are mainly related to business integration and measures for the rationalization of international tobacco business. The timing of the payment may be affected by future business plans.

C. Provisions for Sales Rebates

These provisions are for contracts which reward the customers with discounts when the sales volume or sales amount in a given period exceeds specified volume or amount. They are expected to be paid within one year.

23. Other Liabilities

The breakdown of “Other current liabilities” and “Other non-current liabilities” as of each fiscal year end is as follows:

(Millions of yen)

	As of March 31, 2012	As of March 31, 2013
Tobacco excise tax payables (Note)	240,532	285,765
Tobacco special excise tax payables (Note)	15,052	14,473
Tobacco local excise tax payables (Note)	191,377	182,375
Consumption tax payables	83,182	85,388
Bonus to employees	39,739	45,461
Employee’s unused paid vacations liabilities	18,560	19,815
Other	94,509	136,255
Total	682,952	769,531
Current liabilities	590,717	656,305
Non-current liabilities	92,235	113,226
Total	682,952	769,531

(Note) Tobacco excise tax payables, tobacco special excise tax payables and tobacco local excise tax payables as of March 31, 2012 and 2013 include those unpaid due to bank holidays at each fiscal year end.

24. Employee Benefits

(1) Employee Retirement Benefits

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

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

A. Schedule of Defined Benefit Obligations

The schedule of the defined benefit obligations is as follows:

(Millions of yen)

	Japan	Overseas	Total
As of April 1, 2011	236,471	278,108	514,579
Current service cost	11,455	4,793	16,249
Interest cost	3,878	14,033	17,911
Contributions by plan participants	—	1,000	1,000
Actuarial gains and losses	6,445	4,947	11,392
Benefits paid	(20,467)	(14,058)	(34,525)
Past service cost	51	199	250
Special termination benefits	—	1,991	1,991
Closure of the plans (curtailment or settlement)	—	(52)	(52)
Exchange differences on transition of foreign operations	—	(16,355)	(16,355)
Other	57	313	370
As of March 31, 2012	237,890	274,918	512,808
Current service cost	12,152	5,151	17,304
Interest cost	3,201	12,923	16,123
Contributions by plan participants	—	875	875
Actuarial gains and losses	23,811	42,378	66,189
Benefits paid	(18,538)	(15,906)	(34,443)
Past service cost	(67)	(456)	(523)
Special termination benefits	—	799	799
Closure of the plans (curtailment or settlement)	—	(49)	(49)
Exchange differences on transition of foreign operations	—	44,462	44,462
Other	49	204	252
As of March 31, 2013	258,498	365,299	623,797

B. Schedule of Plan Assets

The schedule of the plan assets is as follows:

(Millions of yen)

	Japan	Overseas	Total
As of April 1, 2011	96,440	210,726	307,166
Expected return on plan assets	2,366	11,193	13,559
Actuarial gains and losses	(1,522)	1,119	(404)
Contributions by the employer	3,424	8,299	11,723
Contributions by plan participants	—	1,000	1,000
Benefits paid	(8,539)	(10,653)	(19,193)
Exchange differences on translation of foreign operations	—	(11,789)	(11,789)
Other	—	20	20
As of March 31, 2012	92,168	209,914	302,082
Expected return on plan assets	2,205	8,915	11,120
Actuarial gains and losses	18,042	10,019	28,060
Contributions by the employer	3,115	9,204	12,319
Contributions by plan participants	—	875	875
Benefits paid	(7,996)	(10,845)	(18,842)
Exchange differences on translation of foreign operations	—	34,897	34,897
Other	56	1,857	1,914
As of March 31, 2013	107,590	264,835	372,425

The Group plans to pay contributions of ¥12,930 million in the year ending March 31, 2014.

C. Reconciliation of Defined Benefit Obligations and Plan Assets

The reconciliation of the defined benefit obligations and plan assets to the liabilities and assets on retirement benefits recognized in the consolidated statement of financial position as of each fiscal year end is as follows:

(Millions of yen)

As of March 31, 2012	Japan	Overseas	Total
Funded defined benefit obligations	107,451	208,727	316,178
Plan assets	(92,168)	(209,914)	(302,082)
Subtotal	15,283	(1,187)	14,096
Unfunded defined benefit obligations	130,439	66,191	196,630
Unrecognized past service cost	—	129	129
Net amount of liabilities and assets recognized in consolidated statement of financial position	145,722	65,133	210,855
Retirement benefit liabilities	145,722	79,504	225,226
Retirement benefit assets	—	(14,371)	(14,371)
Net amount of liabilities and assets recognized in consolidated statement of financial position	145,722	65,133	210,855

(Millions of yen)

As of March 31, 2013	Japan	Overseas	Total
Funded defined benefit obligations	120,505	275,539	396,044
Plan assets	(107,590)	(264,835)	(372,425)
Subtotal	12,915	10,704	23,619
Unfunded defined benefit obligations	137,993	89,760	227,753
Unrecognized past service cost	—	84	84
Net amount of liabilities and assets recognized in consolidated statement of financial position	150,908	100,548	251,456
Retirement benefit liabilities	150,912	115,369	266,281
Retirement benefit assets	(4)	(14,821)	(14,825)
Net amount of liabilities and assets recognized in consolidated statement of financial position	150,908	100,548	251,456

D. Major Breakdown of Plan Assets

The breakdown of plan assets by major category as of each fiscal year end is as follows:

Japan (%)

	As of March 31, 2012	As of March 31, 2013
Equities	33.4	16.4
Bonds	21.7	21.2
General account of life insurance companies	44.3	44.6
Other	0.6	17.7
Total	100.0	100.0

Overseas (%)

	As of March 31, 2012	As of March 31, 2013
Equities	38.9	41.1
Bonds	50.3	46.2
Real estate	1.6	1.6
Other	9.2	11.1
Total	100.0	100.0

Total (%)

	As of March 31, 2012	As of March 31, 2013
Equities	37.2	34.0
Bonds	41.6	39.0
Real estate	1.1	1.1
General account of life insurance companies	13.5	12.9
Other	6.6	13.0
Total	100.0	100.0

(Note) The specified assumed interest rate and principal for the general account of life insurance companies is guaranteed by the life insurance companies.

The investment strategy for the Group’s major plans is as follows:

(Japan)

The Company’s pension fund is managed in accordance with the internal policy for securing stable profits in the middle- and long-term in order to ensure the redemption of the plan liability. Concretely, setting target rate of return and composition ratio of plan assets by asset category within the risk tolerance that is annually assessed, the Company invests plan assets consistently with the composition ratio. When reviewing the composition ratio, the Company considers introducing an asset investment which has high correlation with the liability.

In the case where an unexpected situation occurs in the market environment, it is temporarily allowed to make an adjustment on weight of risk assets complying with the policy.

(Overseas)

The investment strategy for the foreign subsidiaries’ funded pension plans is decided locally by the trustee of the plan or management according to local legislation. The Company’s objective for the foreign subsidiaries’ funded pension plans is to achieve a return on assets in excess of the movement in the value of the defined benefit obligation, while man- aging risk relative to the obligation.

Plan assets have significant allocations to liability matching bonds and the remaining assets are invested to target long term growth, predominantly in equities.

E.Matters Related for Actuarial Assumptions

The major items of actuarial assumptions as of each fiscal year end are as follows:

(%)

As of March 31, 2012	Japan	Overseas
Discount rate	1.4	2.5 ～ 5.5
Expected long-term return on plan assets	2.5	2.8 ～ 4.4
Inflation rate	－	1.5 ～ 3.1

(%)

As of March 31, 2013	Japan	Overseas
Discount rate	1.0	1.5 ～ 4.4
Inflation rate	－	1.5 ～ 2.9

(Note) The valuation of defined benefit obligations reflects a judgment on uncertain future events. The sensitivities of defined benefit obligations due to changes in major assumptions as of each fiscal year end are as follows. Each of these sensitivities assumes that other variables remain fixed; however, in fact, they do not always change independently. Negative figures show a decrease in pension plan obligations, while positive figures show an increase.

(Millions of yen)

As of March 31, 2012	Change in assumptions	Japan	Overseas
Discount rate	Increase by 0.5%	(9,438)	(17,195)
	Decrease by 0.5%	10,153	19,130
Inflation rate	Increase by 0.5%	－	12,547
	Decrease by 0.5%	－	(11,340)

(Millions of yen)

As of March 31,2013	Change in assumptions	Japan	Overseas
Discount rate	Increase by 0.5%	(10,223)	(24,121)
	Decrease by 0.5%	11,022	27,001
Inflation rate	Increase by 0.5%	－	18,082
	Decrease by 0.5%	－	(17,726)

F. Experience Adjustments Based on Results of Defined Benefit Obligations and Plan Assets

Experience adjustments based on results of defined benefit obligations and plan assets as of each fiscal year end are as follows:

(Millions of yen)

As of March 31, 2011	Japan	Overseas	Total
Defined benefit obligations	236,471	278,108	514,579
Plan assets	(96,440)	(210,726)	(307,166)
Undefined benefit obligations	140,031	67,381	207,412
Adjustment based on actual results (Defined benefit obligations)	5,264	(1,274)	3,990
Adjustment based on actual results (Plan assets)	524	(8,183)	(7,659)

(Millions of yen)

As of March 31, 2012	Japan	Overseas	Total
Defined benefit obligations	237,890	274,918	512,808
Plan assets	(92,168)	(209,914)	(302,082)
Undefined benefit obligations	145,722	65,004	210,726
Adjustment based on actual results (Defined benefit obligations)	(235)	(7,509)	(7,744)
Adjustment based on actual results (Plan assets)	1,522	(1,119)	404

(Millions of yen)

As of March 31, 2013	Japan	Overseas	Total
Defined benefit obligations	258,498	365,299	623,797
Plan assets	(107,590)	(264,835)	(372,425)
Undefined benefit obligations	150,908	100,464	251,372
Adjustment based on actual results (Defined benefit obligations)	13,902	5,431	19,333
Adjustment based on actual results (Plan assets)	(18,042)	(10,019)	(28,060)

(Note) The experience adjustments are the effects of differences between the previous actuarial assumptions and what has actually occurred of the actuarial gains and losses for each fiscal year.

G. Profit and Loss Related to Retirement Benefits

The profit and loss related to retirement benefits for each fiscal year are as follows:

Fiscal year ended March 31, 2012 (Millions of yen)

	Japan	Overseas	Total
Current service cost	11,455	4,793	16,249
Interest cost (Note 1)	3,878	14,033	17,911
Expected return on plan assets (Note 1)	(2,366)	(11,193)	(13,559)
Past service cost recognized in the year	51	179	231
Special termination benefits	―	1,991	1,991
Losses or gains on closure of the plans (curtailment or settlement)	―	(52)	(52)
Total	13,018	9,752	22,770
Actual return on plan assets	(843)	(12,312)	(13,155)

Fiscal year ended March 31, 2013 (Millions of yen)

	Japan	Overseas	Total
Current service cost	12,152	5,151	17,304
Interest cost (Note 1)	3,201	12,923	16,123
Expected return on plan assets (Note 1)	(2,205)	(8,915)	(11,120)
Past service cost recognized in the year	(67)	(515)	(581)
Special termination benefits	―	799	799
Losses or gains on closure of the plans (curtailment or settlement)	―	(49)	(49)
Total	13,081	9,394	22,475
Actual return on plan assets	(20,247)	(18,937)	(39,184)

(Note 1) The net amount of interest cost and the expected return on plan assets are included in "Financial costs." Other expenses are included in "Cost of sales" and "Selling, general and administrative expenses."

(Note 2) The cost of the required contributions to the defined contribution pension plans is ¥5,506 million for the year ended March 31, 2012 and ¥4,959 million for the year ended March 31, 2013. This cost is not included in the above.

(2) Obligation of Mutual Pension Benefits

The Company is obligated to bear pension costs for a mutual assistance association incurred with respect to the costs in or before June 1956 (prior to enforcement of the Act on the Mutual Aid Association of Public Corporation Employees). Such obligations are recognized as liabilities at their present value using the actuarial valuation method and included in retirement benefit liabilities.

A. Schedule of Mutual Pension Benefits Obligations

The schedule of mutual pension benefits obligations is as follows:

(Millions of yen)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Balance at the beginning of the year	97,577	89,794
Interest cost (Note 1)	1,171	718
Actuarial gains and losses	583	(529)
Benefits paid	(9,536)	(8,891)
Past service cost (Note 2)	—	(4,279)
Balance at the end of the year	89,794	76,814

(Note 1) The interest cost is included and presented in "Financial costs."

(Note 2) "The Act for Partial Revision of the Employees' Pension Insurance Act, etc. for unifying employees' pension insurance systems," (Law No. 63 in 2012), was promulgated on August 22, 2012 and the liabilities included in retirement benefit liabilities are expected to decrease in the future, due to the fact that the pension costs for the mutual assistance association that the Company is obligated to bear are expected to decrease. As a result, past service cost relating to this revision is recognized in the year ended March 31, 2013.

B. Matters Related to Actuarial Assumptions

The actuarial assumptions for each fiscal year are as follows:

(%)

	As of March 31, 2012	As of March 31, 2013
Discount rate	0.8	0.6

(Note) The valuation of obligation of mutual pension benefits reflects a judgment on future uncertain events. The sensitivities of mutual pension benefits obligations due to changes in major assumptions as of each fiscal year end are as follows. Negative figures show a decrease in obligation of mutual pension benefits, while positive figures show an increase.

(Millions of yen)

As of March 31, 2012	Change in assumptions	Effect of the change
Discount rate	Increase by 0.5%	(2,863)
	Decrease by 0.5%	2,963

(Millions of yen)

As of March 31, 2013	Change in assumptions	Effect of the change
Discount rate	Increase by 0.5%	(2,372)
	Decrease by 0.5%	2,501

(3) Schedule of Actuarial Gains and Losses included in “Other comprehensive income” in the consolidated statement of comprehensive income

Actuarial gains and losses included in “Other comprehensive income” in the consolidated statement of comprehensive income for each fiscal year are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Balance at the beginning of the year (cumulative total)	(34,461)	(45,131)
Accrued during the year	(10,669)	(28,200)
Balance at the end of the year (cumulative total)	(45,131)	(73,331)

(4) Other Employee Benefits Expense

The employee benefits expense other than employees’ retirement benefits and mutual pension benefits that are included in the consolidated statement of income for each fiscal year are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Remuneration and salary	213,412	215,369
Bonus to employees	62,590	69,161
Legal welfare expenses	37,075	39,982
Welfare expenses	22,194	22,662
Termination benefits	3,270	2,737

25. Equity and Other Equity Items

(1) Share Capital and Capital Surplus

A. Authorized Shares

The number of authorized shares as of March 31, 2012 and 2013 is 40,000 and 8,000,000 thousand ordinary shares, respectively.

B. Fully Paid Issued Shares

The schedule of the number of issued shares and share capital is as follows:

	(Thousands of shares) Number of ordinary issued shares	Share capital	(Millions of yen) Capital surplus
As of April 1, 2011	10,000	100,000	736,410
Increase (Decrease)	—	—	—
As of March 31, 2012	10,000	100,000	736,410
Increase (Decrease) (Note 2)	1,990,000	—	1
As of March 31, 2013	2,000,000	100,000	736,411

(Note 1) The shares issued by the Company are non-par value ordinary shares that have no restriction on any content of rights.

(Note 2) The number of ordinary shares issued increased by 1,990,000 thousand shares for the year ended March 31, 2013 due to the 200-for-one share split conducted, with basis date of June 30, 2012 and effective date of July 1, 2012.

(2) Treasury Shares

The schedule of the number of treasury shares and its amount as of each fiscal year end is as follows:

	(Thousands of shares) Number of shares	(Millions of yen) Amount
As of April 1, 2011	479	94,574
Increase (Decrease)	—	—
As of March 31, 2012	479	94,574
Increase (Decrease) (Notes 2,3)	182,032	249,999
As of March 31, 2013	182,510	344,573

(Note 1) The Company adopts share option plans and utilizes treasury shares for delivery of shares due to its exercise. Contract conditions and amount are described in “34. Share-Based Payments.”

(Note 2) The number of treasury shares purchased based on the resolution made by the Board of Directors was 86,806 thousand shares and the total purchase cost was ¥250,000 million for the year ended March 31, 2013, including 80,071 thousand shares that were acquired from the Minister of Finance in Japan for ¥230,606 million. The number of shares delivered upon exercise of share option is 1 thousand shares for the year ended March 31, 2013.

(Note 3) The number of treasury shares increased by 95,227 thousand shares for the year ended March 31, 2013 due to the 200-for-one share split that was conducted, with basis date of June 30, 2012 and effective date of July 1, 2012.

(3) Other Components of Equity

A. Subscription rights to shares

The Company adopts share option plans and issues subscription rights to shares based on the Companies Act. Contract conditions and amount, are described in “34. Share-based Payments.”

B. Exchange differences on translation of foreign operations

This is a foreign currency translation difference that occurred when consolidating financial statements of foreign subsidiaries prepared in foreign currencies.

C. Net gain (loss) on derivatives designated as cash flow hedges

The Company uses derivatives for hedging to avoid the risk of fluctuation in future cash flows. This is the effective portion of changes in the fair value of derivative transactions designated as cash flow hedges.

D. Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income

This is the valuation difference in the fair value of financial assets measured at fair value through other comprehensive income.

E. Actuarial gains (losses) on defined benefit retirement plans

Actuarial gains (losses) are the effects of differences between the actuarial assumptions at the beginning of the year and what has actually occurred, and the effects of changes in actuarial assumptions. Actuarial gains (losses) are fully recognized when occurred as other comprehensive income and are transferred immediately from other components of equity to retained earnings.

26. Dividends

Dividends paid for each fiscal year are as follows:

Fiscal year ended March 31, 2012

(Resolution)	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
Annual Shareholders Meeting (June 24, 2011)	Ordinary shares	38,086	4,000	March 31, 2011	June 27, 2011
Board of Directors (October 31, 2011)	Ordinary shares	38,086	4,000	September 30, 2011	December 1, 2011

Fiscal year ended March 31, 2012

(Resolution)	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
Annual Shareholders Meeting (June 22, 2012)	Ordinary shares	57,129	6,000	March 31, 2012	June 25, 2012
Board of Directors (October 30, 2012)	Ordinary shares	57,129	30	September 30, 2012	November 30, 2012

Dividends per share for which the basis date falls before June 30, 2012, do not reflect the effect of the 200-for-one share split conducted, with basis date of June 30, 2012 and effective date of July 1, 2012.

Assuming the share split coming into effect at the beginning of the year ended March 31, 2012 (April 1, 2011), dividends per share resolved at the Annual Shareholders' Meeting on June 24, 2011, the Board of Directors' Meeting on October 31, 2011, and Annual Shareholders' Meeting on June 22, 2012, would have been ¥20, ¥20 and ¥30, respectively.

Dividends, for which effective date falls in the following fiscal year, are as follows:

Fiscal year ended March 31, 2012

(Resolution)	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
Annual Shareholders Meeting (June 22, 2012)	Ordinary shares	57,129	6,000	March 31, 2012	June 25, 2012

Fiscal year ended March 31, 2013

(Resolution)	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
Annual Shareholders Meeting (June 21, 2013)	Ordinary shares	69,065	38	March 31, 2013	June 24, 2013

27. Revenue

The reconciliation from "Gross turnover" to "Revenue" for each fiscal year is as follows:

(Millions of yen)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Gross turnover	6,610,757	6,673,222
Tobacco excise taxes and agency transaction amount	(4,576,932)	(4,553,027)
Revenue	2,033,825	2,120,196

The tobacco excise taxes and other transactions in which the Group is involved as an agency are excluded from revenue. The inflow of economic benefits after deducting the tobacco excise taxes and other transactions is presented as "Revenue" in the consolidated statement of income.

Gross turnover is an item that the Group discloses voluntarily and is not "Revenue" as defined by IFRS.

28. Other Operating Income

The breakdown of "Other operating income" for each fiscal year is as follows:

(Millions of yen)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Gains on sale of property, plant and equipment, intangible assets and investment properties (Notes 1, 2)	30,134	35,195
Other (Note 2)	18,378	6,970
Total	48,512	42,165

(Note 1) Mainly from sales of old factory site, warehouse and company housing.

(Note 2) The amount of restructuring income included in each account for each fiscal year is as follows:

(Millions of yen)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Gains on sale of property, plant and equipment, intangible assets and investment properties	29,368	34,229
Other	564	5
Total	29,932	34,234

29. Selling, General and Administrative Expenses

The breakdown of “Selling, general and administrative expenses” for each fiscal year is as follows:

(Millions of yen)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Advertising expenses	21,530	20,566
Promotion expenses	128,007	137,480
Shipping, warehousing expenses	27,920	27,092
Commission	40,963	41,157
Employee benefits expenses (Note 2)	235,060	241,420
Research and development expenses (Note 1)	51,461	56,860
Depreciation and amortization	58,550	59,092
Impairment losses on other than financial assets (Note 2)	7,013	3,213
Losses on sale and disposal of property, plant and equipment, intangible assets, and investment property (Note 2)	11,454	9,265
Cooperation fee for terminating leaf tobacco farming	12,469	4
Other (Note 2)	138,743	137,235
Total	733,169	733,385

(Note 1) All research and development expenses are included in “Selling, general and administrative expenses.”
(Note 2) The amount of restructuring costs included in each account is the following.

(Millions of yen)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Employee benefits expenses	4,651	3,835
Impairment losses on other than financial assets	5,837	3,076
Losses on sale and disposal of property, plant and equipment, intangible assets, and investment property	3,342	1,258
Other	222	1,197
Total	14,052	9,366

30. Financial Income and Financial Costs

The breakdown of “Financial income” and “Financial costs” for each fiscal year is as follows:

(Millions of yen)

Financial Income	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Dividend income		
Financial assets measured at fair value through other comprehensive income	1,280	1,365
Interest income		
Financial assets measured at amortized cost		
Cash and deposits, and bonds	2,366	3,772
Other	1,958	356
Total	5,603	5,493

(Millions of yen)

Financial Costs	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Interest expenses		
Financial liabilities measured at amortized cost		
Bonds and borrowings (Note 2)	13,962	9,688
Other	415	446
Foreign exchange losses (Note 1)	2,738	11,285
Employee benefits expenses (Note 3)	5,523	5,721
Other	791	1,153
Total	23,429	28,292

(Note 1) Valuation gain (loss) of currency derivatives is included in the foreign exchange losses.
(Note 2) Valuation gain (loss) of interest rate derivatives is included in interest expenses.
(Note 3) The employee benefits expenses are the net amount of interest cost and the expected return on plan assets related to employee benefits.

31. Other Comprehensive Income

Amount arising during year, reclassification adjustments to profit or loss and tax effects for each component of "Other comprehensive income" for each fiscal year are as follows:

Fiscal year ended March 31, 2012

(Millions of yen)

	Amount arising	Reclassification adjustments	Before tax effects	Tax effects	Net of tax effects
Exchange differences on translation of foreign operations	(130,331)	—	(130,331)	—	(130,331)
Net gain (loss) on derivatives designated as cash flow hedges	(556)	317	(239)	73	(166)
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	6,248	—	6,248	(1,498)	4,750
Actual gains (losses) on defined benefit retirement plans	(12,379)	—	(12,379)	1,709	(10,669)
Total	(137,017)	317	(136,700)	284	(136,416)

Fiscal year ended March 31, 2013

(Millions of yen)

	Amount arising	Reclassification adjustments	Before tax effects	Tax effects	Net of tax effects
Exchange differences on translation of foreign operations	216,140	(22)	216,118	—	216,118
Net gain (loss) on derivatives designated as cash flow hedges	4,102	(3,914)	188	(66)	121
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	7,344	—	7,344	(2,545)	4,799
Actual gains (losses) on defined benefit retirement plans	(37,600)	—	(37,600)	9,400	(28,200)
Total	189,986	(3,936)	186,050	6,789	192,838

32. Earnings per Share

(1) Basis of Calculating Basic Earnings per Share

A. Profit Attributable to Ordinary Shareholders of the Parent Company (Millions of yen)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Profit attributable to owners of the parent company	320,883	343,612
Profit not attributable to ordinary shareholders of the parent company	—	—
Profit used for calculation of basic earnings per share	320,883	343,612

B. Weighted-Average Number of Ordinary Shares Outstanding During the Year (Thousands of shares)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Weighted-average number of shares during the year	1,904,295	1,897,636

(2) Basis of Calculating Diluted Earnings per Share

A. Profit Attributable to Diluted Ordinary Shareholders (Millions of yen)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Profit used for calculation of basic earnings per share	320,883	343,612
Adjustment	—	—
Profit used for calculation of diluted earnings per share	320,883	343,612

B. Weighted-Average Number of Diluted Ordinary Shares Outstanding During the Year (Thousands of shares)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Weighted-average number of ordinary shares during the year	1,904,295	1,897,636
Increased number of ordinary shares under subscription rights to shares	745	918
Weighted-average number of diluted ordinary shares during the year	1,905,040	1,898,553

(3) Adjusted Diluted Earnings per Share

(Millions of yen)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Profit used for calculation of adjusted diluted earnings per share	320,883	343,612
Adjustment items (income)	(29,932)	(34,234)
Adjustment items (costs)	29,039	7,536
Adjustments on income taxes and non-controlling interests	2,025	12,772
Adjustments on income taxes related to losses on valuation of investments in subsidiaries	(31,207)	—
Adjusted profit for the year	290,808	329,687
Adjusted diluted earnings per share (yen)	152.65	173.65

The weighted-average number of ordinary shares and the weighted-average number of diluted ordinary shares during the year reflect the effect of the share split conducted at a ratio of 200 shares to one share with June 30, 2012 as the basis date and July 1, 2012 as the effective date.

33. Non-cash Transactions

Significant Non-cash Transactions

The amount of assets acquired under finance leases was ¥2,977 million for the year ended March 31, 2012 and ¥4,756 million for the year ended March 31, 2013, respectively.

34. Share-Based Payments

The Company adopts share option plans. Share options are granted by the resolution of the Board of Directors based on the approval at the Annual Shareholders Meeting.

The outline of the share option plan is as follows:

(1) Share Option Contract Conditions

Positions of persons granted	:	Directors and Executive Officers
Settlement	:	Issuance of share
Effective period of granted share option	:	30 years after the date of grant
Vesting conditions	:	None

Conditions related to the exercise of share options are as follows:

(a) The subscription rights to shares become exercisable when a holder of a subscription right to shares no longer holds a position as a director, an audit & supervisory board member, or an executive officer. In the subscription rights to shares allocation contract with holders of such rights, it is provided for that the rights become exercisable from the date following the date on which one year has elapsed after leaving their positions (however, the rights become exercisable even within one year after leaving their positions only in the case where the Board of Directors find it to be unavoidable).

(b) In the case where any holders of subscription rights to shares waive such rights, they cannot exercise them.

(2) Changes in the Number of Share Options

(Shares)

	Fiscal year ended March 31, 2012			Fiscal year ended March 31, 2013		
	Directors	Executive Officers	Total	Directors	Executive Officers	Total
Balance at the beginning of the year	1,524	1,557	3,081	1,875	2,244	4,119
Effect of share splits	—	—	—	373,125	446,556	819,681
Granted	514	524	1,038	65,600	80,200	145,800
Exercised	—	—	—	—	(600)	(600)
Transfer	(163)	163	—	(116,200)	116,200	—
Balance at the end of the year	1,875	2,244	4,119	324,400	644,600	969,000
Exercisable balance at the end of the year	—	430	430	—	138,200	138,200

(Note 1) The number of share options is presented as the number of underlying shares.

(Note 2) All share options are granted with an exercise price of ¥1 per share.

(Note 3) Share options were granted to 8 directors and 15 executive officers for the year ended March 31, 2012, and 7 directors and 17 executive officers for the year ended March 31, 2013.
"Transfer" included in the "Changes in the Number of Share Options" represents the number of share options for persons granted whose management position changed during the year.

(Note 4) The weighted-average fair value per share of share options granted during the year was ¥277,947 for the year ended March 31, 2012 and ¥1,600 for the year ended March 31, 2013.

(Note 5) The weighted-average share price of share options at the time of exercise during the period was ¥2,924 for the year ended March 31, 2013. No share options were exercised for the year ended March 31, 2012.

(Note 6) The weighted-average remaining contract year of unexercised share options at the end of the year was 27.8 years for the year ended March 31, 2012 and 27.3 years for the year ended March 31, 2013.

(Note 7) The Company conducted the 200-for-one share split, with basis date of June 30, 2012 and effective date of July 1, 2012.

(3) Method of Measuring Fair Value of Share Options Granted During the Year

A. Valuation Model

Black-Scholes Model

B. Main Assumptions and Estimation

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Share price	¥367,000	¥2,238
Volatility of share price (Note 1)	35.5%	36.0%
Estimated remaining period (Note 2)	15 years	15 years
Estimated dividends (Note 3)	¥6,800 /share	¥50 /share
Risk free interest rate (Note 4)	1.48%	1.30%

(Note 1) Calculated based on daily share prices quoted for the past 15 years.
(Note 2) With difficulty in reasonable estimation due to insufficient data, the remaining period is estimated based on the assumption that share option rights would be exercised at a midpoint of exercise period.
(Note 3) Based on the latest dividends paid.
(Note 4) The yield of government bonds for a period of the expected remaining period.

(4) Share-Based Payments Expenses

The cost for share options included in “Selling, general and administrative expenses” in the consolidated statement of income is ¥265 million for the year ended March 31, 2012, and ¥247 million for the year ended March 31, 2013.

35. Financial Instruments

(1) Capital Management

The Group's management principle is pursuit of the "4S" model: balancing the interests of consumers, shareholders, employees and wider society, and fulfilling our responsibilities towards them, aiming to exceed their expectations.

The Group believes that sustainable profit growth in the mid- to long-term based on this principle will increase the Group's value in the mid- to long-term, and is consequently in the best interest of all stakeholders, including our shareholders.

In order to achieve sustainable growth, the Group understands that financing capacities sufficient enough to make agile business investments when there are opportunities, such as the acquisition of external resources for business growth are required. For that reason, the Group aims to maintain a well-balanced capital structure by ensuring sound and flexible financial conditions for future business investment as well as an appropriate return on equity.

The Group manages net interest-bearing debt, where cash and cash equivalents are deducted from interest-bearing debt, and capital (the part attributable to the owners of the parent company). The amounts as of each year end are as follows:

(Millions of yen)

	As of March 31, 2012	As of March 31, 2013
Interest-bearing debt	502,368	327,242
Cash and cash equivalents	(404,740)	(142,713)
Net interest-bearing debt	97,628	184,530
Capital (equity attributable to owners of the parent company)	1,634,050	1,806,125

There are specific rules for shares of the Company under the Japan Tobacco Inc. Act as follows:

The Japanese government shall hold more than one-third of all of the shares issued by the Company (excluding the type of shares, for which it is stipulated that voting rights may not be exercised on any matters that can be resolved by Annual Shareholders Meeting)(Article 2 (1)).

In cases where the Company intends to solicit persons to subscribe for shares to be issued or subscription rights to shares or where the Company intends to deliver shares (excluding treasury shares), subscription rights to shares (excluding subscription right to own shares) or bonds with subscription rights to shares (excluding bonds with subscription rights to shares) when exchanging with shares, the Company shall obtain the approval of the Minister of Finance (Article 2 (2)).

Disposal of shares owned by the Japanese government shall be within the limits on the number of shares decided by the Diet in the relevant annual budget (Article 3).

The Group monitors financial indicators in order to maintain a well-balanced capital structure by ensuring sound and flexible financial conditions for future investment as well as an appropriate return on equity. We monitor credit ratings for financial soundness and flexibility, and ROE (return on equity) for profitability, while focusing on changes in the domestic and overseas environment.

(2) Financial Risk Management

The Group is exposed to financial risks (credit risks, liquidity risks, foreign exchange risks, interest rate risks, and market price fluctuation risks) in the process of its management activities; and it manages risks based on a specific policy in order to avoid or reduce said risks. The results of risk management are quarterly reported by the treasury division to the Executive Committee of the Company.

The Group policy limits derivatives to transactions for the purpose for mitigating risks from transactions based on actual demand. Therefore, we do not transact derivatives for speculation purposes or trading purposes.

(3) Credit Risk

Receivables, such as note and account receivables, acquired from the operating activities of the Group are exposed to customer credit risk.

The Group holds mainly debt securities for surplus investment and equity securities of customers and suppliers to strengthen relationships with them; those securities are exposed to the issuer's credit risk. In addition, through derivative transactions that the Group conducts in order to hedge foreign exchange fluctuation risks and interest rate fluctuation risks, we are exposed to the credit risk of the financial institutions which are counterparties to these transactions.

In principle, the Group sets credit lines or transaction conditions with respect to trade receivables for counterparties based on the Credit Management Guidelines in order to control the credit risk relating to counterparties. In addition, the receivable balances of counterparties with high credit risk are monitored. The Treasury Division of the Company regularly monitors the status of the occurrence and collection of bad debts, and reports them to the Executive Committee of the Company. There is no overconcentrated credit risk for a single customer.

With regard to the investment of cash surpluses and derivatives, the Group invests in debt securities and other financial instruments with a certain credit rating and transacts with financial institutions with a high credit rating in principle in order to prevent credit risks from occurring and based on the Group Financial Operation Basic Policy. In addition, the Treasury Division of the Company regularly monitors the performances of these transactions and reports the results to the Executive Committee of the Company.

The maximum exposure pertaining to credit risks for financial assets is the carrying amount after considering impairment in the consolidated financial statements.

The analysis of the aging of financial assets that are past due but not impaired as of each fiscal year end date is as follows: The financial assets include amounts considered recoverable by credit insurance and collateral.

(Millions of yen)

As of March 31, 2012	Total	Amount past due			
		Within 30 days	Over 30 days, within 60 days	Over 60 days, within 90 days	Over 90 days
Trade and other receivables	2,635	2,376	60	8	191
Other financial assets	285	—	—	—	285

(Millions of yen)

As of March 31, 2013	Total	Amount past due			
		Within 30 days	Over 30 days, within 60 days	Over 60 days, within 90 days	Over 90 days
Trade and other receivables	6,709	6,494	120	20	76
Other financial assets	351	—	—	—	351

The Group reviews collectability of trade receivables depending on the credit conditions of counterparties and recognizes allowance for doubtful accounts. The schedule of the allowance of doubtful accounts is as follows:

(Millions of yen)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Balance at the beginning of the year	26,322	15,866
Addition	514	1,444
Decrease (intended use)	(8,795)	(6,016)
Decrease (reversal)	(2,120)	(922)
Other	(55)	309
Balance at the end of the year	15,866	10,681

(4) Liquidity Risk

The Group raises funds by borrowings, commercial paper and bonds; however, these liabilities are exposed to the liquidity risk that we would not be able to repay liabilities on the due date due to the deterioration of the financing environment.

In accordance with the Group Financial Operation Basic Policy, the Group establishes a finance plan based on the annual business plan and the Treasury Division of the Company regularly monitors and collects information on the balance of liquidity-in-hand and interest-bearing debt and reports it to the Executive Committee of the Company. In addition, the Group keeps necessary credit facilities to manage liquidity risk by having commitment lines with several financial institutions.

The financial liability balance (including derivative financial instruments) by maturity as of each fiscal year end is as follows:

As of March 31, 2012

(Millions of yen)

	Carrying amount	Contractual cash flow	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Non-derivative financial liabilities								
Trade and other payables	298,663	298,663	298,663	—	—	—	—	—
Short-term borrowings	43,486	43,486	43,486	—	—	—	—	—
Current portion of long-term borrowings	78,219	78,219	78,219	—	—	—	—	—
Long-term borrowings	49,277	49,277	—	20,593	1,103	27,158	23	401
Current portion of bonds	90,061	90,109	90,109	—	—	—	—	—
Bonds	230,473	230,583	—	100	150,483	40,000	—	40,000
Subtotal	790,179	790,337	510,477	20,693	151,586	67,158	23	40,401
Derivative financial liabilities (Note)								
Foreign exchange forward contract	1,630	1,630	1,630	—	—	—	—	—
Interest rate swap	152	152	48	38	37	28	—	—
Cross currency swap	3,350	2,472	(47)	(94)	(200)	2,813	—	—
Subtotal	5,133	4,254	1,632	(56)	(163)	2,841	—	—
Total	795,311	794,591	512,109	20,637	151,423	69,998	23	40,401

(Note) Figure in parentheses ( ) represents the amount of the cash receipt.

As of March 31, 2013

(Millions of yen)

	Carrying amount	Contractual cash flow	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Non-derivative financial liabilities								
Trade and other payables	312,741	312,741	312,741	—	—	—	—	—
Short-term borrowings	23,847	23,847	23,847	—	—	—	—	—
Current portion of long-term borrowings	20,454	20,454	20,454	—	—	—	—	—
Long-term borrowings	33,163	33,163	—	1,217	31,145	107	109	584
Bonds	237,236	237,298	—	157,298	40,000	—	20,000	20,000
Subtotal	627,441	627,504	357,042	158,515	71,145	107	20,109	20,584
Derivative financial liabilities								
Foreign exchange forward contract	3,614	3,614	3,614	—	—	—	—	—
Interest rate swap	202	200	83	66	50	—	—	—
Subtotal	3,816	3,814	3,698	66	50	—	—	—
Total	631,258	631,317	360,740	158,582	71,195	107	20,109	20,584

The total of commitment lines and withdrawal as of each fiscal year end are as follows:

(Millions of yen)

	As of March 31, 2012	As of March 31, 2013
Total committed line of credit	513,525	444,597
Withdrawing	76,933	—
Unused balance	436,592	444,597

(5) Foreign Exchange Risk

The Group operates businesses globally and, therefore, is exposed to the following risks due to foreign exchange fluctuation:

(i) The risk where the profit or loss and cash flow in each functional currency of the Group is influenced by foreign exchange fluctuation as a result of external transactions and intergroup transactions, including the payment and receipt of dividends, in currencies that are different from each functional currency of the Group.

(ii) The risk that the equity of the Group is influenced by foreign exchange fluctuation when equity denominated in each functional currency of the Group is translated into Japanese yen and consolidated.

(iii) The risk that the profit or loss of the Group is influenced by foreign exchange fluctuation when profit or loss denominated in each functional currency of the Group is translated into Japanese yen and consolidated. The Group hedges against risk (i) using derivatives or foreign currency-denominated interest-bearing debts when future cash flow is projected or when receivables and payables are fixed.

The Group hedges against risk (ii) using foreign currency-denominated interest-bearing debts and part of these are designated as net investment hedges. The Group does not hedge against risk (iii) in principle.

In order to mitigate risks mentioned above resulting from the foreign exchange fluctuation, in accordance with the Group Financial Operation Basic Policy, the Group establishes a foreign currency hedge policy based on the current conditions and forecast of the foreign exchange market, implement the aforementioned hedges under the supervision of the Financial Risk Management Committee of the Company, and the Treasury Division of the Company regularly reports the performances to the Executive Committee of the Company.

The breakdown of currency derivatives is as follows:

Derivative transactions to which hedge accounting is not applied

(Millions of yen)

	As of March 31, 2012			As of March 31, 2013		
	Contract amount	Over one year	Fair value	Contract amount	Over one year	Fair value
Foreign exchange forward contract						
Buying	87,143	—	(1,227)	318,342	—	2,298
Selling	35,091	—	350	157,921	—	(2,585)
Total	122,235	—	(877)	476,263	—	(287)

Foreign currency-denominated bonds and borrowings are designated as hedging instruments for consolidated subsidiaries in order to reduce fluctuation risk of foreign currency translation differences that are incurred by translating net investment in foreign operations into the reporting currency.

Bonds and borrowings that are designated as hedging instruments are as follows:

(Millions of yen)

	As of March 31, 2012		As of March 31, 2013	
	Carrying amount	Due	Carrying amount	Due
Bonds in EUR	50,359	2014	50,995	2014
Borrowings in EUR	13,226	2012	—	—
Borrowings in GBP	48,592	2012	—	—

Foreign Exchange Sensitivity Analysis

In cases where each currency other than the functional currency that denominates the financial instruments held by the Group as of each fiscal year end increases by 10% in value against the functional currency, the impact on profit before income taxes in the consolidated statement of income is as follows:

The impact from the translation of functional currency-denominated financial instruments, and assets, liabilities, income and expenses of foreign operations into Japanese yen is not included. Also, it is based on the assumption that currencies other than the currencies used for the calculation do not fluctuate.

(Millions of yen)

	As of March 31, 2012	As of March 31, 2013
Profit before income taxes	1,178	(118)

(6) Interest Rate Risk

Interest rate risk within the Group arises from interest-bearing debts after deducting cash equivalents. Borrowings and bonds with floating rates are exposed to interest rate fluctuation risk.

In accordance with the Group Financial Operation Basic Policy, the Group establishes an interest rate hedging policy based on the current condition and the forecast of the interest rates to reduce the interest rate fluctuation risk related to borrowings and bonds, implement the hedges using derivatives under the supervision of the Financial Risk Management Committee of the Company and the Treasury Division of the Company regularly reports the performances to the Executive Committee of the Company.

The descriptions of interest rate derivatives are as follows:

(i) Derivative transactions to which hedge accounting is not applied

(Millions of yen)

	As of March 31, 2012			As of March 31, 2013		
	Contract amount	Over one year	Fair value	Contract amount	Over one year	Fair value
Interest rate swap						
Fixed rate receipt and floating rate payment	29,959	―	1,187	―	―	―
Floating rate receipt and fixed rate payment	1,814	1,814	(150)	2,063	2,063	(202)
Interest rate cap						
Buying	29,959	―	0	―	―	―
Total	61,732	1,814	1,037	2,063	2,063	(202)

(ii) Derivative transactions to which hedge accounting is applied

(Millions of yen)

	As of March 31, 2012			As of March 31, 2013		
	Contract amount	Over one year	Fair value (Note)	Contract amount	Over one year	Fair value (Note)
Interest rate swap						
Floating rate receipt and fixed rate payment	198	58	(2)	58	―	(0)
Cross currency swap						
Floating rate receipt and fixed rate payment	30,000	30,000	(3,350)	30,000	30,000	750
Total	30,198	30,058	(3,352)	30,058	30,000	749

(Note) Recognized at fair value in the consolidated statement of financial position by application of cash flow hedge.

Interest Rate Sensitivity Analysis

In cases where the interest rate of financial instruments held by the Group as of each fiscal year end increases by 100bp, the impact on profit before income taxes in the consolidated statement of income is as follows:
The analysis is subject to financial instruments affected by interest rate fluctuation and based on the assumption that other factors, including the impacts of foreign exchange fluctuation, are constant.

(Millions of yen)

	As of March 31, 2012	As of March 31, 2013
Profit before income taxes	1,061	458

(7) Market Price Fluctuation Risk
With respect to securities, the Group regularly assesses the fair value and financial conditions of the issuers, and each relevant department reviews the portfolio held by taking into account the relationship with counterparty entities as necessary.

(8) Fair Value of Financial Instruments
The carrying amount and fair value of financial instruments as of each fiscal year end are as follows:

(Millions of yen)

	As of March 31, 2012		As of March 31, 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings (Note)	127,496	127,844	53,617	53,624
Bonds (Note)	320,534	328,767	237,236	245,334

(Note) Current portion is included.

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

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

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

(Millions of yen)

As of March 31, 2012

	Level 1	Level 2	Level 3	Total
Derivative assets	—	1,941	—	1,941
Equity securities	35,712	—	3,394	39,106
Other	71	—	945	1,016
Total	35,783	1,941	4,339	42,063
Derivative liabilities	—	5,133	—	5,133
Total	—	5,133	—	5,133

As of March 31, 2013

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Derivative assets	—	4,077	—	4,077
Equity securities	43,052	—	3,646	46,699
Other	120	—	978	1,098
Total	43,172	4,077	4,625	51,874
Derivative liabilities	—	3,816	—	3,816
Total	—	3,816	—	3,816

The schedule of financial instruments that are classified in Level 3 is as follows:

(Millions of yen)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Balance at the beginning of the year	4,530	4,339
Total gain (loss)		
Profit or loss (Note 1)	(337)	36
Other comprehensive income (Note 2)	333	231
Purchases	20	42
Sales	(206)	(24)
Balance at the end of the year	4,339	4,625

(Note 1) Gains and losses included in profit or loss for the year ended March 31, 2012 and 2013 are related to financial assets measured at fair value through profit or loss as of the fiscal year end date. These gains and losses are included in "Financial income" and "Financial costs."

(Note 2) Gains and losses included in other comprehensive income for the year ended March 31, 2012 and 2013 are related to financial assets measured at fair value through other comprehensive income as of the fiscal year end date. These gains and losses are included in "Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income."

36. Related Parties

Based on the Japan Tobacco Inc. Act, the Japanese government shall hold more than one-third of all of the shares issued by the Company (excluding the type of shares, for which it is stipulated that voting rights may not be exercised on any matters that can be resolved by Annual Shareholders Meeting). As of March 31, 2013, the Japanese government held 33.35% of all outstanding shares of the Company.

(1) Related-Party Transactions

Related-party transactions are conducted under the same conditions as regular business transactions.

The details of acquisition of treasury shares are described in "25. Equity and Other Equity Items."

(2) Remuneration for Directors and Audit & Supervisory Board Members

Remuneration for Directors and Audit & supervisory board members for each fiscal year is as follows:

(Millions of yen)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Remuneration and bonuses	762	880
Share-based payments	133	114
Total	895	994

37. Commitments

(1) Commitments for the Acquisition of Assets

Commitments for the acquisition of assets after fiscal year end date are as follows:

(Millions of yen)

	As of March 31, 2012	As of March 31, 2013
Acquisition of property, plant and equipment	32,541	78,802
Acquisition of intangible assets	8,183	2,108
Total	40,724	80,909

(2) Procurement of Domestic Leaf Tobacco

With regard to the procurement of domestic leaf tobacco by the Company, based on the Tobacco Business Act, the Company enters into purchase contracts with domestic leaf tobacco growers every year, and the contracts determine the area under cultivation by type of tobacco and the prices by type and quality of tobacco leaf. Under the contracts, the Company is obligated to purchase all domestic leaf tobacco produced pursuant to such contracts, except for any domestic leaf tobacco not suited for the manufacture of tobacco products.

38. Contingencies

Contingent Liabilities

The Company and some of its subsidiaries are defendants in lawsuits. Provisions are not accounted for in matters it is not practicable to reasonably estimate the final outcomes.

The Group believes that our allegations on these lawsuits are based on substantial evidence and implement the system for the response to action with the assistance of external lawyers.

(1) Smoking and Health Related Litigation

The Company and some of its subsidiaries become defendants in lawsuits filed by plaintiffs seeking damages for harm allegedly caused by smoking, the marketing of tobacco products, or exposure to tobacco smoke. As of March 31, 2013, there were a total of 28 smoking and health related cases pending in which one or more members of the Group were named as a defendant or for which the Company may have certain indemnity obligations pursuant to the agreement for the Company's acquisition of RJR Nabisco Inc.'s overseas (non-U.S.) tobacco operations.

The major ongoing smoking and health related cases are as follows:

a. Individual Claim

There is one individual case brought against the Company's indemnitee in South Africa.

South Africa Individual Claim (Joselowitz):

The individual claim was brought against the Company's indemnitee in South Africa in October 2000. Plaintiff seeks compensatory and punitive damages, alleging that the Company's indemnitee marketed products which it knew to be dangerous to health, manipulated nicotine content to foster addiction, failed to comply with South African labeling requirements and participated in a clandestine worldwide operation to encourage children to smoke. This case has been dormant since February 2001.

In addition, there are eight individual cases (some of which are stayed pending a ruling in one of the eight cases) brought against the Company's subsidiary in Ireland, and one individual case brought against the Company in Japan.

b. Class Actions

There are eight ongoing class actions in Canada against the Company's subsidiary and/or indemnitees.

Canada Quebec Class Action (Cecilia Letourneau):

This class action was brought in September 1998 against three Canadian tobacco manufacturers including JTI-Macdonald Corp. (hereinafter referred to as "JTI-Mac"), the Company's Canadian subsidiary. Plaintiffs are seeking compensatory and punitive damages for class members of approximately ¥1,648.6 billion (CAD 17.8 billion) without specifying any individual amount or percentages among the defendants. The class was certified by the court in February 2005. The trial commenced in March 2012. The defendants filed a third-party claim against the government of Canada seeking contribution and indemnity on the grounds that the Canadian government was highly involved in the tobacco industry in respect of smoking and health related matters. The Court of First Instance denied the government of Canada's motion to dismiss such third-party claim in February 2012. The Court of Appeal thereafter granted the government of Canada's appeal of the decision of the Court of First Instance in November 2012. The defendants did not appeal that decision, which dismissed the government of Canada as a defendant in the case.

Canada Quebec Class Action (Conseil Québécois sur le tabac et la santé):

This class action was brought in November 1998 against three Canadian tobacco manufacturers including JTI-Mac. Plaintiffs are seeking compensatory and punitive damages for class members of approximately ¥476.7 billion (CAD 5.1 billion) without specifying any individual amount or percentages among the defendants. The class was certified by the court in February 2005. The trial commenced in March 2012. The defendants filed a third-party claim against the government of Canada seeking contribution and indemnity on the grounds that the Canadian government was highly involved in the tobacco industry in respect of smoking and health related matters. The Court of First Instance denied the government of Canada's motion to dismiss such third-party claim in February 2012. The Court of Appeal thereafter granted the government of Canada's appeal of the decision of the Court of First Instance in November 2012. The defendants did not appeal that decision, which dismissed the government of Canada as a defendant in the case.

Canada Saskatchewan Class Action (Adams):

This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2009. Plaintiffs are seeking unspecified compensatory and punitive damages on behalf of class members who allege to be or have been addicted to the nicotine contained in cigarettes manufactured by the defendants. The preliminary motions are pending. The case is currently dormant.

Canada Manitoba Class Action (Kunta):

This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2009. Plaintiffs are seeking unspecified compensatory and punitive damages on behalf of class members who allege to be or have been addicted to the nicotine contained in cigarettes manufactured by the defendants. The statement of claim was served on the Company's indemnitees but not on JTI-Mac. The class action is currently dormant.

Canada Nova Scotia Class Action (Semple):
This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2009. Plaintiffs are seeking unspecified compensatory and punitive damages on behalf of class members who allege to be or have been addicted to the nicotine contained in cigarettes manufactured by the defendants. The statement of claim was served on the Company's indemnitees but not on JTI-Mac. The class action is currently dormant.

Canada British Columbia Class Action (Bourassa):
This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2010. Plaintiffs are seeking unspecified compensatory and punitive damages for class members. The preliminary motions are pending. The case is currently dormant.

Canada British Columbia Class Action (McDermid):
This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2010. Plaintiffs are seeking unspecified compensatory and punitive damages for class members. The preliminary motions are pending. The case is currently dormant.

Canada Ontario Class Action (Jacklin):
This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2012. Plaintiffs are seeking unspecified compensatory and punitive damages for class members. The class action has been dormant since the date it was served on defendants.

c. Health-Care Cost Recovery Litigation

There are nine ongoing health-care cost recovery cases in Canada pending against the Company's subsidiary and indemnitees brought by the Provinces of British Columbia, New Brunswick, Ontario, Newfoundland and Labrador, Manitoba, Quebec, Alberta, Saskatchewan and Prince Edward Island. These provinces filed lawsuits under their own provincial legislation which was enacted exclusively for the purpose of authorizing the provincial government to file a direct action against tobacco manufacturers to recoup the health-care costs the government has incurred and will incur, resulting from "tobacco related wrongs."

Canada British Columbia Health-Care Cost Recovery Litigation:
This health-care cost recovery litigation was filed by the Province of British Columbia in January 2001 against tobacco industry members including JTI-Mac and the Company's indemnitees based on its provincial legislation, the "Tobacco Damages and Health-Care Costs Recovery Act." The claim amount is unspecified. In 2001, several defendants challenged the legislation's constitutionality, which was ultimately rejected by the Supreme Court of Canada in September 2005. The action remains pending in the first instance. The defendants further filed a third-party claim against the government of Canada seeking contribution and indemnity on the grounds that the Canadian government was highly involved in the tobacco industry in respect of smoking and health related matters. In July 2011, the Supreme Court of Canada ultimately dismissed the defendants' third-party claim against the government of Canada. The pre-trial discovery process is ongoing. A trial date is not yet scheduled.

Canada New Brunswick Health-Care Cost Recovery Litigation:
This health-care cost recovery litigation was filed by the Province of New Brunswick in March 2008 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The pre-trial discovery process is ongoing. A trial date is not yet scheduled.

Canada Ontario Health-Care Cost Recovery Litigation:
This health-care cost recovery litigation was filed by the Province of Ontario in September 2009 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The statement of claim in this case contains allegations of joint and several liabilities among all the defendants but does not specify any individual amount or percentages within the total claimed amount of ¥4,629.0 billion (CAD 50.0 billion). The pre-trial process is ongoing. A trial date is not yet scheduled.

Canada Newfoundland and Labrador Health-Care Cost Recovery Litigation:
This health-care cost recovery litigation was filed by the Province of Newfoundland and Labrador in February 2011 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The pre-trial process is ongoing. A trial date is not yet scheduled.

Canada Manitoba Health-Care Cost Recovery Litigation:
This health-care cost recovery litigation was filed by the Province of Manitoba in May 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The pre-trial process is ongoing. A trial date is not yet scheduled.

Canada Quebec Health-Care Cost Recovery Litigation:
This health-care cost recovery litigation was filed by the Province of Quebec in June 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The statement of claim in this case contains allegations of joint and several liabilities among all the defendants but does not specify any individual amount or percentages, within the total amount of the claim ¥5,615.7 billion (CAD 60.7 billion). The pre-trial process is ongoing. A trial date is not yet scheduled.

Canada Alberta Health-Care Cost Recovery Litigation:
This health-care cost recovery litigation was filed by the Province of Alberta in June 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on the legislation similar to that introduced in the Province of British Columbia. The statement of claim in this case contains allegations of joint and several liabilities among all the defendants but does not specify any individual amount or percentages, within the total claimed amount of at least ¥925.8 billion (CAD 10.0 billion). The pre-trial process is ongoing. A trial date is not yet scheduled.

Canada Saskatchewan Health-Care Cost Recovery Litigation:
This health-care cost recovery litigation was filed by the Province of Saskatchewan in June 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The pre-trial process is ongoing. A trial date is not yet scheduled.

Canada Prince Edward Island Health-Care Cost Recovery Litigation:
This health-care cost recovery litigation was filed by the Province of Prince Edward Island in September 2012 against tobacco industry members including JTI-Mac and the Company’s indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The pre-trial process is ongoing. A trial date is not yet scheduled

In addition, there is 1 ongoing health-care cost recovery case pending against the Company’s subsidiaries in Spain.

(2) Other Litigation

The Company and some of its subsidiaries are also named as defendants in other litigation such as commercial and tax disputes. One major case is pending:

Commercial Litigation
Japan Compensatory Damages Claim:
In February 2010, a former President & CEO of Katokichi Co., Ltd. (renamed as TableMark Co., Ltd. after acquisition by the Company) filed a claim against TableMark Co., Ltd. and its subsidiary seeking damages allegedly incurred by the plaintiff from an asset purchase agreement between the plaintiff and Katokichi Co., Ltd and a joint and several guarantee provided by the plaintiff. The plaintiff argues the invalidity of the asset purchase agreement.

(Note) The amount of damages sought denominated in foreign currencies is translated into Japanese yen at the rates of 31 March 2013.

39. Subsequent Events

No items to report.

(2) 【Consolidated Supplementary Information】

(Millions of yen)

A. Quarterly Information for the Year ended March 31, 2013

	Q1 From April 1, 2012 to June 30, 2012	Q2 From April 1, 2012 to September 30, 2012	Q3 From April 1, 2012 to December 31, 2012	2013 From April 1, 2012 to March 31, 2013
Revenue	512,108	1,057,391	1,608,399	2,120,196
Profit before income taxes for the period (year)	124,391	252,106	392,042	509,560
Profit for the period (year)	86,406	171,836	268,633	351,518
Basic earnings per share for the period (year) (yen)	44.38	88.62	138.48	181.07

	Q1 From April 1, 2012 to June 30, 2012	Q2 From July 1, 2012 to September 30, 2012	Q3 From October 1, 2012 to December 31, 2012	Q4 From January 1, 2013 to March 31, 2013
Basic earnings per share for the quarter (yen)	44.38	44.24	49.85	42.57

(Note 1) Quarterly information from the second quarter to the fourth quarter is provided based on the "Cumulative differences method."

(Note 2) The Company conducted the 200-for-one share split, with basis date of June 30, 2012 and effective date of July 1, 2012. Basic earnings per share are calculated assuming that the share split was conducted at the beginning of the year ended March 31, 2013.

B. Significant Lawsuits

The significant lawsuits of the Group are as stated in "38. Contingencies" in the notes to consolidated financial statements.

2. Nonconsolidated financial statements

(1) Nonconsolidated financial statements

a. Nonconsolidated balance sheet

(Millions of yen)

		As of March 31, 2012		As of March 31, 2013
Assets				
Current assets				
Cash and deposits		8,263		35,069
Accounts receivable-trade	*2	57,438	*2	57,493
Securities		7,000		11,960
Merchandise and finished goods		24,607		28,563
Semi-finished goods		80,958		60,991
Work in process		3,570		4,150
Raw materials and supplies		37,260		33,685
Advance payments-trade	*2	485	*2	547
Prepaid expenses	*2	5,395	*2	4,788
Deferred tax assets		10,760		15,283
Short-term loans receivable from subsidiaries and affiliates		33,395		51,230
Other	*2, *3	297,716	*2	19,655
Allowance for doubtful accounts		(4)		(23)
Total current assets		566,843		323,391
Noncurrent assets				
Property, plant and equipment				
Buildings		389,205		387,269
Accumulated depreciation		(281,876)		(276,943)
Buildings, net		107,329		110,326
Structures		19,677		19,318
Accumulated depreciation		(16,725)		(16,182)
Structures, net		2,953		3,136
Machinery and equipment		318,517		311,757
Accumulated depreciation		(248,536)		(233,508)
Machinery and equipment, net		69,980		78,250
Vehicles		2,935		3,052
Accumulated depreciation		(1,489)		(1,379)
Vehicles, net		1,447		1,673
Tools, furniture and fixtures		89,256		101,912
Accumulated depreciation		(64,288)		(69,996)
Tools, furniture and fixtures, net		24,968		31,916
Land		91,336		87,046
Construction in progress		12,515		7,319
Total property, plant and equipment		310,528		319,666

(Millions of yen)

		As of March 31, 2012		As of March 31, 2013
Intangible assets				
Patent right		147		111
Leasehold right		13		12
Right of trademark		4,603		4,421
Design right		88		337
Software		9,334		17,462
Other		6,100		5,665
Total intangible assets		20,287		28,008
Investments and other assets				
Investment securities		32,764		38,898
Stocks of subsidiaries and affiliates		2,019,048		2,019,809
Investments in capital of subsidiaries and affiliates		782		782
Long-term loans receivable		290		250
Long-term loans receivable from subsidiaries and affiliates		14,464		11,093
Long-term prepaid expenses		6,867		7,162
Deferred tax assets		29,978		22,473
Other		15,355		13,814
Allowance for doubtful accounts		(555)		(432)
Total investments and other assets		2,118,994		2,113,849
Total noncurrent assets		2,449,808		2,461,523
Total assets		3,016,651		2,784,914
Liabilities				
Current liabilities				
Accounts payable-trade	*2	15,864	*2	15,536
Short-term loans payable		5		272
Current portion of bonds	*1	60,000		—
Current portion of long-term loans payable		120		20,040
Lease obligations	*2	4,324	*2	5,514
Accounts payable-other	*2	53,141	*2	50,441
Accrued expenses	*2	2,947	*2	2,412
National tobacco excise taxes payable	*6	97,323	*6	93,579
National tobacco special excise taxes payable	*6	15,052	*6	14,473
Local tobacco excise taxes payable	*6	112,516	*6	108,284
Income taxes payable		9,767		66,111
Accrued consumption taxes		25,608		23,871
Advances received		42		24
Deposits received		1,136		1,113
Cash management system deposits received	*4	267,817	*4	263,458
Unearned revenue	*2	193	*2	74
Provision for bonuses		12,070		13,475
Other	*2	1,904	*2	738
Total current liabilities		679,830		679,416

(Millions of yen)

		As of March 31, 2012		As of March 31, 2013
Noncurrent liabilities				
Bonds payable	*1	180,000	*1	180,000
Long-term loans payable		50,040		30,000
Lease obligations	*2	8,712	*2	11,810
Provision for retirement benefits		160,396		157,387
Asset retirement obligations		677		688
Lease and guarantee deposits received	*2	4,853	*2	4,545
Long-term accounts payable-other		7,406		6,540
Total noncurrent liabilities		412,083		390,970
Total liabilities		1,091,912		1,070,385
Net assets				
Shareholders’ equity				
Capital stock		100,000		100,000
Capital surplus				
Legal capital surplus		736,400		736,400
Other capital surplus		10		11
Total capital surpluses		736,410		736,411
Retained earnings				
Legal retained earnings		18,776		18,776
Other retained earnings				
Reserve for reduction entry		37,113		43,744
Special account for reduction entry		10,595		10,675
General reserve		955,300		955,300
Retained earnings brought forward		150,684		179,489
Total retained earnings		1,172,469		1,207,984
Treasury stock		(94,574)		(344,573)
Total shareholders’ equity		1,914,305		1,699,822
Valuation and translation adjustments				
Valuation difference on available-for-sale securities		9,406		13,433
Total valuation and translation adjustments		9,406		13,433
Subscription rights to shares		1,028		1,274
Total net assets		1,924,739		1,714,529
Total liabilities and net assets		3,016,651		2,784,914

b. Nonconsolidated statement of income

(Millions of yen)

		Fiscal year ended March 31, 2012		Fiscal year ended March 31, 2013
Net sales	*1	734,902	*1	781,067
Cost of sales				
Beginning merchandise and finished goods		8,438		24,607
Cost of products manufactured		267,706		274,070
Cost of purchased goods		495		516
Transfer to other account	*2	2,485	*2	657
Ending merchandise and finished goods		24,607		28,563
Cost of sales on real estate business		3,085		2,709
Total cost of sales		252,631		272,683
Gross profit		482,270		508,384
Selling, general and administrative expenses				
Advertising expenses		12,243		12,534
Promotion expenses		55,780		65,163
License fee		3,813		4,304
Transportation and warehousing expenses		19,184		19,417
Compensations, salaries and allowances		33,435		33,735
Retirement benefit expenses		12,713		12,103
Legal welfare expenses		6,102		6,399
Employees' bonuses		7,336		7,425
Provision for bonuses		7,430		8,244
Business consignment expenses		25,195		27,292
Depreciation		15,513		16,815
Research and development expenses	*6	43,378	*6	44,617
Other		39,104		41,179
Total selling, general and administrative expenses		281,225		299,227
Operating income		201,045		209,157
Non-operating income				
Interest income	*5	478	*5	520
Dividends income	*5	3,651	*5	4,707
Rent income from subsidiaries and affiliates		823		733
Other	*5	2,674	*5	2,126
Total non-operating income		7,626		8,086

(Millions of yen)

		Fiscal year ended March 31, 2012		Fiscal year ended March 31, 2013
Non-operating expenses				
Interest expenses		1,308		1,212
Interest on bonds		2,978		2,087
Financial support for domestic leaf tobacco growers		2,863		373
Compensation for damage		649		873
Other		2,803		2,130
Total non-operating expenses	*5	10,601	*5	6,675
Ordinary income		198,071		210,568
Extraordinary income				
Gain on sales of land		28,067		32,856
Gain on sales of other noncurrent assets		1,551		607
Other		5,566		1,737
Total extraordinary income		35,185		35,200
Extraordinary loss				
Loss on sales of noncurrent assets	*3	793	*3	380
Loss on retirement of noncurrent assets	*4,*5	7,483	*4,*5	7,370
Impairment loss		3,001		2,344
Loss on the Great East Japan Earthquake		13,425		—
Other		15,650		763
Total extraordinary losses		40,352		10,857
Income before income taxes		192,903		234,911
Income taxes-current		40,244		84,245
Income taxes-deferred		9,933		892
Total income taxes		50,178		85,138
Net income		142,726		149,773

Detailed statement of manufacturing cost

(Millions of yen)

Category	Note	Fiscal year ended March 31, 2012 Amount	%	Fiscal year ended March 31, 2013 Amount	%
I. Raw material cost		167,255	67.1	169,343	66.2
II. Labor cost		23,844	9.6	25,330	9.9
III. Other expenses		58,073	23.3	61,153	23.9
Total manufacturing cost of this fiscal year		249,172	100.0	255,826	100.0
Beginning semi-finished goods		102,959		80,958	
Beginning work in process		2,032		3,570	
Total		354,162		340,354	
Ending semi-finished goods		80,958		60,991	
Ending work in process		3,570		4,150	
Transfer to other account	*1	1,928		1,143	
Cost of products manufactured		267,706		274,070	

(Millions of yen)

Item	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Major item of other expenses		
Depreciation and amortization	20,066	20,412

Note: *1. Mainly consisting of transfers of semi-finished goods to loss on the Great East Japan Earthquake for the year ended March 31, 2012 and transfers of raw materials to experiment expenses for the year ended March 31, 2013.

Method of cost accounting

Process cost accounting system is used for the cost accounting for our major products, tobacco, where processes are classified as the process of threshing and processing tobacco leaves (process to manufacture semi-finished goods) and the process of manufacturing finished goods from semi-finished goods of tobacco leaves threshed and processed.

c. Nonconsolidated statement of changes in net assets

(Millions of yen)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Shareholders' equity		
Capital stock		
Balance at the beginning of current period	100,000	100,000
Balance at the end of current period	100,000	100,000
Capital surplus		
Legal capital surplus		
Balance at the beginning of current period	736,400	736,400
Balance at the end of current period	736,400	736,400
Other capital surplus		
Balance at the beginning of current period	10	10
Changes of items during the period		
Disposal of treasury stock	—	1
Total changes of items during the period	—	1
Balance at the end of current period	10	11
Total capital surplus		
Balance at the beginning of current period	736,410	736,410
Changes of items during the period		
Disposal of treasury stock	—	1
Total changes of items during the period	—	1
Balance at the end of current period	736,410	736,411
Retained earnings		
Legal retained earnings		
Balance at the beginning of current period	18,776	18,776
Balance at the end of current period	18,776	18,776
Other retained earnings		
Reserve for reduction entry		
Balance at the beginning of current period	37,128	37,113
Changes of items during the period		
Provision of reserve for reduction entry	5,339	13,073
Reversal of reserve for reduction entry	(8,192)	(6,442)
Increase in reserve for advanced depreciation incurred from change in tax rate	2,839	—
Total changes of items during the period	(14)	6,631
Balance at the end of current period	37,113	43,744
Special account for reduction entry		
Balance at the beginning of current period	1,882	10,595
Changes of items during the period		
Provision of reserve for special account for reduction entry	9,785	10,675
Reversal of reserve for special account for reduction entry	(1,882)	(10,595)
Increase in reserve for special account for advanced depreciation incurred from change in tax rate	810	—
Total changes of items during the period	8,713	79
Balance at the end of current period	10,595	10,675

(Millions of yen)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
General reserve		
Balance at the beginning of current period	955,300	955,300
Balance at the end of current period	955,300	955,300
Retained earnings brought forward		
Balance at the beginning of current period	92,829	150,684
Changes of items during the period		
Provision of reserve for reduction entry	(5,339)	(13,073)
Reversal of reserve for reduction entry	8,192	6,442
Increase in reserve for advanced depreciation incurred from change in tax rate	(2,839)	―
Provision of reserve for special account for reduction entry	(9,785)	(10,675)
Reversal of reserve for special account for reduction entry	1,882	10,595
Increase in reserve for special account for advanced depreciation incurred from change in tax rate	(810)	―
Dividends from surplus	(76,172)	(114,258)
Net income	142,726	149,773
Total changes of items during the period	57,855	28,805
Balance at the end of current period	150,684	179,489
Total retained earnings		
Balance at the beginning of current period	1,105,915	1,172,469
Changes of items during the period		
Dividends from surplus	(76,172)	(114,258)
Net income	142,726	149,773
Total changes of items during the period	66,554	35,515
Balance at the end of current period	1,172,469	1,207,984
Treasury stock		
Balance at the beginning of current period	(94,574)	(94,574)
Changes of items during the period		
Purchase of treasury stock	―	(250,000)
Disposal of treasury stock	―	1
Total changes of items during the period	―	(249,999)
Balance at the end of current period	(94,574)	(344,573)
Total shareholders' equity		
Balance at the beginning of current period	1,847,751	1,914,305
Changes of items during the period		
Dividends from surplus	(76,172)	(114,258)
Net income	142,726	149,773
Purchase of treasury stock	―	(250,000)
Disposal of treasury stock	―	2
Total changes of items during the period	66,554	(214,483)
Balance at the end of current period	1,914,305	1,699,822

(Millions of yen)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Valuation and translation adjustments		
Valuation difference on available-for-sale securities		
Balance at the beginning of current period	5,887	9,406
Changes of items during the period		
Net changes of items other than shareholders' equity	3,519	4,027
Total changes of items during the period	3,519	4,027
Balance at the end of current period	9,406	13,433
Total valuation and translation adjustments		
Balance at the beginning of current period	5,887	9,406
Changes of items during the period		
Net changes of items other than shareholders' equity	3,519	4,027
Total changes of items during the period	3,519	4,027
Balance at the end of current period	9,406	13,433
Subscription rights to shares		
Balance at the beginning of current period	763	1,028
Changes of items during the period		
Net changes of items other than shareholders' equity	265	245
Total changes of items during the period	265	245
Balance at the end of current period	1,028	1,274
Total net assets		
Balance at the beginning of current period	1,854,401	1,924,739
Changes of items during the period		
Dividends from surplus	(76,172)	(114,258)
Net income	142,726	149,773
Purchase of treasury stock	―	(250,000)
Disposal of treasury stock	―	2
Net changes of items other than shareholders' equity	3,784	4,273
Total changes of items during the period	70,338	(210,210)
Balance at the end of current period	1,924,739	1,714,529

【Notes to nonconsolidated financial statements】

Significant accounting policies

1. Basis and method of valuation for securities

(1) Investments in subsidiaries and affiliates:

Stated at cost determined by the moving-average method.

(2) Available-for-sale securities:

Securities with a fair value:

Stated at fair value based on market prices on the closing date of the accounting period. (Valuation difference is stated as a component of net assets and the cost of securities sold is calculated applying the moving-average method.)

Securities without a fair value:

Stated at cost determined by the moving-average method.

2. Basis and method of valuation for derivatives

Derivatives

Stated based on the fair value method.

3. Basis and method of valuation for inventories

Stated at cost determined by the average cost method.

(Balance sheet amounts are measured at the lower of cost or net selling value.)

4. Depreciation methods for depreciable assets

(1) Property, plant and equipment (excluding lease assets)

The declining-balance method (straight-line method is applied for buildings (excluding accompanying facilities) acquired on or after April 1, 1998).

The main useful lives are as follows:

Buildings (excluding accompanying facilities):	38 to 50 years
Machinery and equipment:	10 years

(2) Intangible assets (excluding lease assets)

Straight-line method

The main useful lives are as follows:

Patent right:	8 years
Right of trademark:	10 years
Software:	5 years

(3) Lease assets

For finance leases that do not transfer ownership of the leased property to the lessee, depreciation expense is mainly computed on the straight-line method over the lease period as the useful life assuming no residual value.

5. Policy on translation of assets and liabilities denominated in foreign currency into Japanese yen

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the rates prevailing at the closing date of the accounting period with translation differences treated as gains or losses.

6. Policy on accounting of provisions

(1) Allowance for doubtful accounts

Provided for possible losses from bad debts at an amount determined based on the historical default ratio for ordinary receivables and the individual recoverability of specific doubtful receivables from customers experiencing financial difficulties.

(2) Provision for bonuses

Provided based on the estimated payable amount to provide for the payment of bonuses to employees and directors.

(3) Provision for retirement benefits

Provided in preparation for the payment of retirement benefits to employees based on the estimated retirement benefits obligation and fair value of plan assets as of the end of this fiscal year.

Prior service cost is amortized using the straight-line method over the average remaining years of service of the employees (10 years).

Actuarial gains or losses are amortized from the year following the year in which the gains or losses are recognized using the straight-line method over the average remaining years of service of the employees (10 years).

Also included in the provision for retirement benefits is the portion of public pension expenses for mutual assistance association during certain periods in or before June 1956 (prior to the enforcement of the Act on the Mutual Aid Association of Public Corporation Employees).

7. Method of hedge accounting

(1) Method of hedge accounting

Deferral hedge accounting is applied.

For interest rate and currency swaps, if they satisfy the requirements for treatment that incorporates swaps into underlying accounting items (accounting by applying foreign exchange rate stipulated in the contracts; exceptional treatment), they are accounted for by incorporating swaps into underlying accounting items.

(2) Hedging instruments and hedged items

Hedging instruments --- Interest rate and currency swaps

Hedged items --- Loans payable

(3) Hedging policy

Derivative transactions are mainly used in line with the Group Basic Policy on Financial Operations for the purpose of avoiding or reducing foreign currency exchange risks associated with future foreign currency transactions and for the purpose of avoiding interest rate risks associated with interest receipts on debt securities and interest payments on loans.

(4) Assessment of hedge effectiveness

As a general rule, the effectiveness of hedging instruments is determined by comparing the accumulated amount of changes in hedging instruments with the accumulated amount of changes in hedged items. Assessment of effectiveness is omitted for interest rate and currency swaps treated with accounting that incorporates the swaps into underlying accounting items.

8. Other significant accounting policies

Consumption taxes

National consumption tax and local consumption tax are excluded from each amount in the nonconsolidated statement of income.

Changes in accounting policies

(Depreciation methods)

Following the amendment to the Corporate Tax Act, the Company changed its depreciation method of property, plant and equipment acquired on and after April 1, 2012 in accordance with it.

The impacts of this change on operating income, ordinary income and income before income taxes are immaterial.

Changes in method of presentation

(Nonconsolidated balance sheet)

In the previous fiscal year, “Short-term loans receivable” was presented separately in “Current assets;” however, in this fiscal year, it is included in “Other” in “Current assets” due to its decreased materiality. In order to reflect this change in presentation method, the financial statements for the previous fiscal year have been reclassified.

Accordingly, in the nonconsolidated balance sheet for the previous fiscal year, ¥279,923 million that was previously shown as “Short-term loans receivable” has been reclassified to “Other” in “Current assets.”

(Nonconsolidated statement of income)

1. In the previous fiscal year, “Compensation for damage” was included in “Other” in “Non-operating expenses;” however, in this fiscal year, it is presented separately in “Non-operating expenses” due to its increased materiality. In order to reflect this change in presentation method, the financial statements for the previous fiscal year have been reclassified. Accordingly, in the statement of income for the previous fiscal year, ¥3,452 million that was previously shown as “Other” has been reclassified to “Compensation for damage” (¥649 million) and “Other” (¥2,803 million) in “Non-operating expenses.”
2. In the previous fiscal year, “Cooperation fee for terminating leaf tobacco farming” was presented separately in “Extraordinary loss;” however, in this fiscal year, it is included in “Other” in “Extraordinary loss” due to its decreased materiality. In order to reflect this change in presentation method, the financial statements for the previous fiscal year have been reclassified. Accordingly, in the statement of income for the previous fiscal year, ¥12,469 million that was previously shown as “Cooperation fee for terminating leaf tobacco farming” has been reclassified to “Other” in “Extraordinary loss.”

Notes to nonconsolidated balance sheet

*1. Pursuant to Article 6 of the Japan Tobacco Inc. Act, the Company's assets are pledged as general collateral for corporate bonds issued by JT. Bondholders have the right to receive payment of their own claims for assets of JT in preference to other general creditors (with the exception of national taxes, local taxes and other obligations of a public nature).

*2. Amounts of transactions with subsidiaries and affiliates that are included in the relevant accounts other than those separately presented as such are as follows:

(Millions of yen)

	As of March 31, 2012	As of March 31, 2013
Assets for subsidiaries and affiliates	33,009	31,283
Liabilities for subsidiaries and affiliates	42,922	41,116

*3. In the previous fiscal year, "Repurchase agreement" of ¥279,923 million was included in "Other" in "Current assets" and the fair value of securities received as a collateral was ¥279,923 million.

*4. "Cash management system deposits received" represents the fund entrusted in the cash management system of domestic group companies.

*5. Contingent obligations
Guarantees are provided for bank loans and bonds of subsidiaries and affiliates as follows:

Bank loans

As of March 31, 2012			As of March 31, 2013		
	(Millions of yen)			(Millions of yen)	
JT International Holding B.V.	54,446	(GBP 306 million) (EUR 131 million) (USD 0 million)	JT International S.A.	34,189	(USD 275 million) (EUR 44 million) (CHF 31 million)
JTI Ireland Limited	21,415	(EUR 195 million)	JT International Company Netherlands B.V.	24,108	(EUR 200 million)
JT International Hellas A.E.B.E.	19,638	(EUR 179 million)	JTI Ireland Limited	23,472	(EUR 195 million)
JT International Company Netherlands B.V.	14,237	(EUR 130 million)	JT International Hellas A.E.B.E.	20,495	(EUR 171 million)
			Tobaccoland Handels GmbH & Co KG	10,813	(EUR 90 million)
Other (44 companies)	76,863		Other (37 companies)	65,568	
Total	186,598		Total	178,555	

Bonds

As of March 31, 2012			As of March 31, 2013		
	(Millions of yen)			(Millions of yen)	
JTI (UK) Finance PLC	90,130	(EUR 522 million) (GBP 252 million)	JTI (UK) Finance PLC	62,785	(EUR 522 million)
Total	90,130		Total	62,785	

Note: Guarantee obligations denominated in foreign currencies were translated to yen amounts using the exchange rate as of the closing date of the accounting period.

*6. National tobacco excise taxes payable, national tobacco special excise taxes payable and local tobacco excise taxes payable include the following amounts because the last day of each fiscal year was a holiday of financial institutions.

(Millions of yen)

	As of March 31, 2012	As of March 31, 2013
National tobacco excise taxes payable	45,711	44,085
National tobacco special excise taxes payable	7,070	6,818
Local tobacco excise taxes payable	52,749	50,888

Notes to nonconsolidated statement of income

*1. Net sales including tobacco excise taxes

(Millions of yen)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Net sales including tobacco excise taxes	2,019,143	2,152,073

Note: Net sales including tobacco excise taxes are net sales plus the amount equivalent to tobacco excise taxes.

*2. “Transfer to other account” mainly represents the amount of merchandise and finished goods related to loss on the Great East Japan Earthquake for the year ended March 31, 2012 and the amount of merchandise and finished goods related to sample expenses for the year ended March 31, 2013.

*3. The main components of “Loss on sales of noncurrent assets” are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Buildings	685	285

*4. The main components of “Loss on retirement of noncurrent assets” are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Buildings	2,952	2,018
Machinery and equipment	2,892	4,208

*5. Amounts of transactions with subsidiaries and affiliates that are included in the relevant accounts other than those separately presented as such are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Dividends income	1,880	3,498
Other non-operating income	846	863
Total non-operating expenses	973	695
Loss on retirement of noncurrent assets	836	2,303

*6. Research and development expenses

(Millions of yen)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Research and development expenses	43,378	44,617

Note: All research and development expenses are recorded as selling, general and administrative expenses.

Notes to nonconsolidated statement of changes in net assets

Fiscal year ended March 31, 2012

Class and number of treasury shares

(Thousands of shares)

	Number of shares as of April 1, 2011	Increase in the fiscal year ended March 31, 2012	Decrease in the fiscal year ended March 31, 2012	Number of shares as of March 31, 2012
Common stock	479	–	–	479
Total	479	–	–	479

Fiscal year ended March 31, 2013

Class and number of treasury shares

(Thousands of shares)

	Number of shares as of April 1, 2012	Increase in the fiscal year ended March 31, 2013	Decrease in the fiscal year ended March 31, 2013	Number of shares as of March 31, 2013
Common stock (Note)	479	182,032	1	182,510
Total	479	182,032	1	182,510

Note: The increase of 182,032 thousand shares is composed of 95,227 thousand shares due to the 200-for-one share split conducted, with basis date of June 30, 2012 and effective date of July 1, 2012, and 86,806 thousand shares due to acquisition based on the resolution made by the Board of Directors. The decrease of 1 thousand shares is due to the exercise of subscription rights to shares.

(Lease transactions)

No items to report.

(Securities)

As of March 31, 2012

Investments in subsidiaries and affiliates

(Millions of yen)

Type	Balance sheet amount	Fair value	Difference
Investments in subsidiaries	41,580	23,961	(17,620)
Total	41,580	23,961	(17,620)

As of March 31, 2013

Investments in subsidiaries and affiliates

(Millions of yen)

Type	Balance sheet amount	Fair value	Difference
Investments in subsidiaries	41,580	35,248	(6,332)
Total	41,580	35,248	(6,332)

Note: Investments in subsidiaries and affiliates whose fair value is deemed extremely difficult to determine

(Millions of yen)

Type	As of March 31, 2012	As of March 31, 2013
Investments in subsidiaries	1,977,313	1,978,074
Investments in affiliates	155	155

The above are not included in “Investments in subsidiaries and affiliates” because their market values are not available and their fair values are deemed extremely difficult to determine.

(Tax effect accounting)

1. Breakdown of deferred tax assets and deferred tax liabilities by major cause

(Millions of yen)

	As of March 31, 2012	As of March 31, 2013
Deferred tax assets		
Provision for retirement benefits	24,085	26,135
Obligations pertaining to mutual assistance association	32,711	29,596
Impairment loss on noncurrent assets	1,497	1,237
Provision for bonuses	4,560	5,091
Other	14,805	18,312
Subtotal	77,658	80,371
Less valuation allowance	(1,931)	(2,405)
Total	75,727	77,965
Deferred tax liabilities		
Reserve for reduction entry	(20,347)	(23,982)
Other	(14,643)	(16,227)
Total	(34,990)	(40,209)
Net deferred tax assets	40,738	37,756

2. Reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the nonconsolidated statement of income, if there is a significant difference

(%)

	As of March 31, 2012	As of March 31, 2013
Normal effective statutory tax rate	40.35	–
(Adjustment)		
Expenses not deductible permanently such as entertainment expenses	0.35	–
Income not taxable permanently such as dividends income	(0.41)	–
Tax credit on research and development	(1.50)	–
Valuation allowance	(16.18)	–
Reduction in deferred tax assets at fiscal year-end due to change in tax rate	2.82	–
Other	0.58	–
Actual effective tax rate	26.01	–

(Note) Difference between the normal effective statutory tax rate and the actual effective tax rate reflected in the nonconsolidated statement of income for this fiscal year is less than 5% of the normal effective statutory tax rate; therefore, the information as of March 31, 2013 is omitted.

(Business combination)

No items to report.

(Asset retirement obligations)

Omitted because of immateriality.

(Per share information)

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Net assets per share (Yen)	1,010.20	942.65
Net income per share (Yen)	74.95	78.93
Diluted net income per share (Yen)	74.92	78.89

Note 1: The Company conducted the 200-for-one share split, with basis date of June 30, 2012 and effective date of July 1, 2012. Per share information is calculated assuming that the share split was conducted at the beginning of the year ended March 31, 2012.

Note 2: Basis for computing basic and diluted net income per share is as follows:

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Net income per share		
Net income (Millions of yen)	142,726	149,773
Amounts not attributable to common shareholders (Millions of yen)	–	–
Net income related to common shares (Millions of yen)	142,726	149,773
Average number of common shares during the year (Thousands of shares)	1,904,295	1,897,636
Diluted net income per share		
Dilutive effects (Millions of yen)	–	–
Number of increased common shares (Thousands of shares)	745	918
(of which, subscription rights to shares) (Thousands of shares)	(745)	(918)
Dilutive shares that are not included in the calculation of diluted net income per share as they have no dilutive effects	–	–

(Subsequent events)

No items to report

d. Supplementary statements

Detailed schedule of securities and investment securities

Shares

Issues			Number of shares (Share)	Balance sheet amount (Millions of yen)
Investment securities	Available-for-sale securities	KT&G Corporation	2,864,904	18,609
		Seven & i Holdings Co., Ltd.	852,000	2,654
		Mizuho Financial Group, Inc.	12,750,700	2,537
		Mitsubishi UFJ Financial Group, Inc.	3,511,050	1,959
		DOUTOR-NICHIRES Holdings Co., Ltd.	1,320,000	1,826
		Sumitomo Mitsui Financial Group, Inc.	340,901	1,287
		Central Japan Railway Company	100,000	992
		OKAMURA CORPORATION	1,206,000	845
		NIPPON EXPRESS CO., LTD.	1,730,400	794
		NIPPON TELEGRAPH AND TELEPHONE CORPORATION	153,000	628
		48 other issues	13,634,265	5,829
Total			38,463,220	37,961

Other

Issues			Number of investment units (Unit)	Balance sheet amount (Millions of yen)
Securities	Available-for-sale securities	Certificates of deposit	—	11,960
		Subtotal	—	11,960
Investment securities	Available-for-sale securities	Securities issued by government agencies	50,000	500
		Preferred securities	1,115,540	319
		Investments for limited liability partnership (two partnerships)	100	118
		Subtotal	—	937
Total			—	12,897

Detailed schedule of property, plant and equipment and others

(Millions of yen)

Type of assets	Balance as of April 1, 2012	Increase in the fiscal year ended March 31, 2013	Decrease in the fiscal year ended March 31, 2013	Balance as of March 31, 2013	Accumulated depreciation or accumulated amortization as of March 31, 2013	Depreciation during the fiscal year ended March 31, 2013	Balance as of March 31, 2013
Property, plant and equipment							
Buildings	389,205	14,135	16,072 (388)	387,269	276,943	9,132	110,326
Structures	19,677	707	1,067 (19)	19,318	16,182	407	3,136
Machinery and equipment	318,517	29,306	36,065	311,757	233,508	17,596	78,250
Vehicles	2,935	849	733	3,052	1,379	446	1,673
Tools, furniture and fixtures	89,256	18,759	6,104	101,912	69,996	11,411	31,916
Land	91,336	46	4,336 (1,936)	87,046	—	—	87,046
Construction in progress	12,515	53,203	58,398	7,319	—	—	7,319
Total property, plant and equipment	923,441	117,007	122,775 (2,344)	917,673	598,007	38,993	319,666
Intangible assets							
Patent right	474	18	—	492	382	55	111
Leasehold right	13	—	1	12	—	—	12
Right of trademark	7,124	546	—	7,670	3,249	728	4,421
Design right	131	284	—	415	78	36	337
Software	58,265	12,531	8,395	62,401	44,939	4,089	17,462
Other	6,169	3,079	3,503	5,745	79	11	5,665
Total intangible assets	72,176	16,458	11,899	76,735	48,727	4,918	28,008
Long-term prepaid expenses	9,662	3,189	379	12,472	5,310	2,618	7,162

Notes: 1. The figures in parentheses in the “Decrease in the fiscal year ended March 31, 2013” column represent decreases due to impairment loss included in the figures above.

2. The balances as of April 1, 2012 of intangible assets (excluding software) and long-term prepaid expenses are presented net of the accumulated amortization up to April 1, 2012.

3. Other includes software in progress.

4. Major breakdowns of “Increase in the fiscal year ended March 31, 2013” and “Decrease in the fiscal year ended March 31, 2013” are as follows:

(Millions of yen)

Buildings	Increase	Buildings and accompanying facilities for factories	8,205
	Decrease	Idle assets	12,464
Machinery and equipment	Increase	Tobacco products manufacturing equipment and other	29,141
	Decrease	Tobacco products manufacturing equipment and other	34,708
Tools, furniture and fixtures	Increase	Lease assets (fixtures and fittings for tobacco sales purposes)	9,736

Detailed schedule of reserve allowances

(Millions of yen)

Category	Balance as of April 1, 2012	Increase in the fiscal year ended March 31, 2013	Decrease in the fiscal year ended March 31, 2013 (specific purposes)	Decrease in the fiscal year ended March 31, 2013 (other)	Balance as of March 31, 2013
Allowance for doubtful accounts	559	1	84	20	455
Provision for bonuses	12,070	13,475	12,070	—	13,475

Note: “Decrease in the fiscal year ended March 31, 2013 (other)” for allowance for doubtful accounts consists of ¥0 million of the credited reserve amount added back in full to the income in the following period on the historical default ratio for ordinary receivables and ¥20 million of reversal due to collection.

(2) Major assets and liabilities

Breakdowns of major assets and liabilities as of March 31, 2013 are as follows:

a. Assets

(a) Cash and deposits

(Millions of yen)

Category	Amount
Cash	53
Type of deposits	
Checking accounts	10
Saving accounts	5
Time deposits	35,000
Subtotal	35,016
Total	35,069

(b) Accounts receivable-trade

i. Balance by counter party

(Millions of yen)

Business partner	Amount
JT Beverage Inc.	10,062
LAWSON, INC.	6,230
FamilyMart Co., Ltd.	5,469
Torii Pharmaceutical Co., Ltd.	5,132
JT International S.A.	4,860
Other	25,740
Total	57,493

ii. Accrual, collection and retention of accounts receivable-trade

Balance as of April 1, 2012 (Millions of yen) (A)	Accrual in the fiscal year ended March 31, 2013 (Millions of yen) (B)	Collection in the fiscal year ended March 31, 2013 (Millions of yen) (C)	Balance carried forward (Millions of yen) (D)	Collection rate (%) $\frac{(C)}{(A)+(B)} \times 100$	Detention period (Day) $\dfrac{\frac{(A)+(D)}{2}}{\frac{(B)}{366}}$
57,438	2,256,755	2,256,700	57,493	97.5	9.3

Note: In JT's accounting, consumption taxes are, in general, excluded from transaction amounts. However, "Accrual in the fiscal year ended March 31, 2013" above includes consumption taxes.
In addition, although JT uses a method that excludes the amount equivalent to tobacco excise taxes in its accounting treatment for net sales, "Accrual in the fiscal year ended March 31, 2013" above includes the amount equivalent to tobacco excise taxes.

(c) Inventories

i. Merchandise and finished goods

(Millions of yen)

	Item	Amount
Merchandise	Vending machinery related products	62
	Other	80
	Subtotal	142
Finished goods	Tobacco products	25,304
	Other	3,118
	Subtotal	28,421
Total		28,563

ii. Semi-finished goods

(Millions of yen)

Item	Amount
Processed raw materials for tobacco products (threshed tobacco)	60,991
Total	60,991

iii. Work in process

(Millions of yen)

Item	Amount
Tobacco products Other	4,148 2
Total	4,150

iv. Raw materials and supplies

(Millions of yen)

	Item	Amount
Raw materials	Leaf tobacco	24,041
	Other	3,966
	Subtotal	28,007
Supplies	Supplies for tobacco products	2,512
	Other	3,165
	Subtotal	5,677
Total		33,685

(d) Investments in subsidiaries and affiliates

(Millions of yen)

Issue	Amount
JT International Group Holding B.V.	1,831,099
TableMark Co., Ltd.	67,776
Japan Beverage Holdings Inc.	48,069
Torii Pharmaceutical Co., Ltd.	41,580
Japan Filter Technology Co., Ltd.	12,706
Other	18,578
Total	2,019,809

b. Liabilities

(a) Accounts payable-trade

(Millions of yen)

Business partner	Amount
Japan Filter Technology Co., Ltd.	2,457
JT International S.A.	1,484
HOKKAI CAN CO., LTD	1,162
TOPPAN PROSPRINT CO., LTD	964
NISHINIHON CANPACK CO., LTD.	742
Other	8,727
Total	15,536

(b) Cash management system deposits received

Details are described in “Notes to nonconsolidated balance sheets, Notes to nonconsolidated financial statements of (1) Nonconsolidated financial statements in 2. Nonconsolidated financial statements.”

(c) Bonds

The breakdown is described in “21. Bonds and borrowings (including other financial liabilities)”, “Notes to consolidated financial statements of (1) Consolidated financial statements in 1. Consolidated financial statements.”

(d) Provision for retirement benefits

i. Retirement benefits

(Millions of yen)

Category	Amount
Projected benefit obligations	209,350
Fair value of plan assets	(84,832)
Unrecognized actuarial gains or losses	(60,063)
Unrecognized prior service cost	(2,700)
Prepaid pension cost	12,053
Subtotal	73,807

ii. Obligations pertaining to mutual assistance association (Note)

(Millions of yen)

Category	Amount
Benefit obligations	76,814
Unrecognized actuarial gains or losses	2,915
Unrecognized prior service cost	3,851
Subtotal	83,580

(Millions of yen)

Total	157,387

Note: As described in "(3) Provision for retirement benefits, 6. Policy for reserve allowances of Significant accounting policies of (1) Nonconsolidated financial statements in 2. Nonconsolidated financial statements," JT computes the amount of mutual assistance association obligation separately and includes it in provision for retirement benefits.

(3) Others

No items to report.

INDEPENDENT AUDITOR'S REPORT

June 21, 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)

Audit of Financial Statements

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements included in the Accounting Section, namely, the consolidated statement of financial position, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows of Japan Tobacco Inc. (the "Company") and its consolidated subsidiaries for the fiscal year from April 1, 2012 to March 31, 2013 , and notes to the 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 International Financial Reporting Standards under the provision of Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements, 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 present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as of March 31, 2013, and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Audit of Internal Control

Pursuant to the second paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited management's report on internal control over financial reporting of the Company as of March 31, 2013.

Management's Responsibility for the Report on Internal Control

Management is responsible for designing and operating effective internal control over financial reporting and for the preparation and fair presentation of its report on internal control in accordance with assessment standards for internal control over financial reporting generally accepted in Japan. There is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

Auditor's Responsibility

Our responsibility is to express an opinion on management's report on internal control based on our internal control audit. We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether management's report on internal control is free from material misstatement.

An internal control audit involves performing procedures to obtain audit evidence about the results of the assessment of internal control over financial reporting in management's report on internal control. The procedures selected depend on the auditor's judgment, including the significance of effects on reliability of financial reporting. An internal control audit includes examining representations on the scope, procedures and results of the assessment of internal control over financial reporting made by management, as well as evaluating the overall presentation of management's report on internal control.

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

Opinion

In our opinion, management's report on internal control over financial reporting referred to above, which represents that the internal control over financial reporting of the Company as of March 31, 2013 is effectively maintained, presents fairly, in all material respects, the results of the assessment of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting 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.

INDEPENDENT AUDITOR'S REPORT

June 21, 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 paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the financial statements included in the Accounting Section, namely, the nonconsolidated balance sheet, and the related nonconsolidated statements of income, and changes in net assets of Japan Tobacco Inc. (the "Company") for the 28th fiscal year from April 1, 2012 to March 31, 2013, and the significant accounting policies and other related notes and supplemental schedules.

Management's Responsibility for the Nonconsolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the nonconsolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the nonconsolidated 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 nonconsolidated 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 nonconsolidated 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 nonconsolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company 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.