

[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.]

<JT logo>

To Our Shareholders and Investors

Business Report

<Logo> Report on the Consolidated Financial Results for the First Three Months of the Fiscal Year
Ending March 31, 2014

<Logo> JT NEWS

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<Logo> CLOSE UP! (JT Group Companies / Business Divisions)

<Logo> JT Topics

<Logo> A lesson from the past at the end of a journey

<Photo>

Planting rice in central Tokyo for “Takata no yume” original brand of rice supported by JT

<Photo>

JT Group company

Japan Filter Technology, Ltd.

<Photo>

Publication of “JT Group CSR Report 2013” introducing the Group’s global CSR initiatives

Volume 42

TOP MESSAGE

We made a solid start toward achieving record profit projected for FY ending March 31, 2014 (FY2013)

Consolidated financial results for the three months ended June 30, 2013

In the three months ended June 30, 2013, although the business environment remained difficult mainly because of industry contraction in the tobacco business, revenue and profits grew on the back of favorable pricing in the international tobacco business and depreciation in the yen.

In the domestic tobacco business, steady growth in the market share of Mevius boosted overall share, bringing the total share in the first three months to 60.5%. This was the first time for the total market share for a three-month period to exceed 60% since the Great East Japan Earthquake hit in 2011. In addition, market share rose in each of the months of the period, to 60.2% in April, 60.6% in May and 60.7% in June. We will continue working to strengthen the impact of our brands to make them even more popular with our customers.

In the international tobacco business (January to March), shipment volume fell on a year-on-year basis as a result of industry contraction and trade inventory adjustments. On the other hand, thanks to our well-balanced brand portfolio, our market share grew in almost all of our key markets, while adjusted EBITDA at constant rates of exchange increased by 10.5% thanks to favorable pricing. Looking at shipment volume in the April to June period, GFB shipment volume was about level year on year despite a decline in total shipment volume. Market share continued to grow in almost all of our key markets.

The pharmaceutical, beverage and processed food businesses got off to solid starts toward achieving the respective profits projected for them in FY2013. Looking at the pharmaceutical business, “Stribild[®] Combination Tablets” containing JT’s first original new drug, JTK-303, was approved and launched, and GlaxoSmithKline, which is our licensee for the MEK inhibitor compound (trametinib), obtained approval for this drug as an indication for melanoma from the U.S. Food and Drug Administration (FDA) in May 2013. The drug was launched in the U.S. in June, and an application for approval has been submitted to the European Medicines Agency (EMA).

All of our businesses have made solid starts toward achieving the record profits we have projected for FY2013, as announced in April.

Mitsuomi Koizumi, President & CEO

<Photo>

Consolidated Financial Results for the First Three Months of the Fiscal Year Ending March 31, 2014
(FY2013)

(Billions of yen)

	Three months ended June 30, 2013	Year-on-year change
Revenue	547.9	+7.0%
Adjusted EBITDA ^{*1} at constant rates of exchange	162.2	+4.0%
Adjusted EBITDA ^{*1}	177.2	+13.6%
Operating profit	146.5	+13.9%
Profit for the period ^{*2}	98.1	+16.1%

1. Adjusted EBITDA = operating profit + depreciation and amortization ± adjustment items (income and costs)

*adjustment items (income and costs) = impairment losses on goodwill ±restructuring income and costs ± others*2. Attributable to owners of the parent company

Domestic Tobacco Business

Market share boosted by steady growth in the share of Mevius

Amid the effects of industry contraction, the strong performance of Mevius boosted market share, and sales volume was about level year on year. As a result, core revenue was almost level year on year while adjusted EBITDA showed a slight decline year on year.

(Billions of yen)

	Three months ended June 30, 2013	Year-on-year change
Core revenue	165.2	-0.1%
Adjusted EBITDA	75.8	-1.1%

Total sales volume

(Billions of cigarettes)

	Three months ended June 30, 2013	Year-on-year change
Total sales volume	29.3	-0.2%

JT market share (on a monthly basis)

(%)

	January 2013	February 2013	March 2013	April 2013	May 2013	June 2013
JT market share	58.5	60.0	60.0	60.2	60.6	60.7
Market share of Mevius	30.2	31.9	32.2	31.7	32.6	32.4

International Tobacco Business

Growth in adjusted EBITDA driven by favorable pricing

Although shipment volume declined as a result of industry contraction due to economic slowdown in Europe and trade inventory adjustments in several markets, this was partially offset by favorable pricing effects. As a result, core revenue was almost level year on year, while adjusted EBITDA grew by 6.2%. Yen-based adjusted EBITDA increased by 23.8% as a result of yen depreciation.

(Millions of dollar)

	Three months ended June 30, 2013	Year-on-year change
Core revenue	2,729	-0.1%
Adjusted EBITDA	1,070	+6.2%
Yen-based adjusted EBITDA	¥99.0 billion	+23.8%

* Results for the international tobacco business are for the period from January 1 to March 31, 2013.

Shipment volume

(Billions of cigarettes)

	Three months ended June 30, 2013	Year-on-year change
JTI shipment volume	92.6	-6.4%
GFB shipment volume	58.4	-4.5%

Market share

Market share continued to grow year on year in most of our key markets.

	March 2012	March 2013	Year-on-year change
France	16.1%	18.2%	+2.1%pt
Spain	20.6%	20.7%	+0.1%pt
Italy	20.7%	21.5%	+0.8%pt
Russia	36.9%	36.5%	-0.4%pt
(GFB share)	20.9%	22.2%	+1.3%pt
Taiwan	37.9%	39.3%	+1.4%pt
Turkey	24.7%	26.3%	+1.6%pt
U.K.	38.4%	39.8%	+1.4%pt

* Data sourced from Nielsen, Logista and Altadis.

* “%pt” is an abbreviation of “percentage point.”

Pharmaceutical Business

Higher revenue at both JT and Torii Pharmaceutical and improvement in adjusted EBITDA

Revenue increased at JT's subsidiary Torii Pharmaceutical Co., Ltd. as a result of continued sales growth for REMITCH CAPSULES and Truvada Tablets. At JT, revenue grew because of increased milestone revenue related to progress in development and sales expansion for an original JT compound that has been out-licensed in addition to royalty income. Adjusted EBITDA also improved year on year, reflecting the increase in revenue. Looking at the R&D pipeline, JTE-151 for the treatment of autoimmune/allergic diseases entered the clinical trial stage, a new single tablet regimen containing JTK-303 entered Phase 3 trials, while developments of JTT-705 and JTT-302 were terminated.

Pharmaceutical business: Clinical development (as of July 30, 2013)

<In-house development>

Code (generic name)	Potential indication/dosage form	Mechanism		Phase	Note
JTK-303 (elvitegravir)	HIV infection /Oral	HIV Integrase inhibitor	Integrase inhibitor which works by blocking integrase, an enzyme that is involved in the replication of HIV	Standalone-Agent Preparing to file (Japan)	In-house
				New Single Tablet Regimen (Phase 3) (Global Study*) (Japan)	Elvitegravir; In-house Cobicistat, Emtricitabine, Tenofovir Alafenamide; In-license
JTT-751 (ferric citrate)	Hyperphosphatemia/Oral	Phosphate binder	Decreases serum phosphorous level by binding phosphate derived from dietary in the gastrointestinal tract	NDA filed (Japan)	In-license Co-development with Torii
JTT-851	Type 2 diabetes mellitus/Oral	G protein-coupled receptor 40 agonist	Decreases blood glucose by stimulation of glucose-dependent insulin secretion	Phase 2 (Japan) Phase 2 (Overseas)	In-house
JTZ-951	Anemia associated with chronic kidney disease/Oral	HIF-PHD inhibitor	Increases red blood cells by stimulating production of erythropoietin, an erythropoiesis-stimulating hormone, via inhibition of HIF-PHD	Phase 1 (Japan) Phase 1 (Overseas)	In-house
JTE-051	Autoimmune/allergic diseases/Oral	Interleukin-2 inducible T cell kinase inhibitor	Suppresses overactive immune response via inhibition of the signal to activate T cells related to immune response	Phase 1 (Overseas)	In-house
JTE-052	Autoimmune/allergic diseases/Oral	JAK inhibitor	Suppresses overactive immune response via inhibition of Janus kinase (JAK) related to immune signal	Phase 1 (Japan)	In-house
JTE-151	Autoimmune/allergic diseases/Oral	ROR γ antagonist	Suppresses overactive immune response via inhibition of ROR γ related to Th 17 activation	Phase 1 (Overseas)	In-house

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

* Part of global study conducted by Gilead Sciences

<Licensed compounds>

Compound (JT's code)	Licensee	Mechanism		Note
elvitegravir (JTK-303)	Gilead Sciences	HIV Integrase inhibitor	Integrase inhibitor which works by blocking integrase, an enzyme that is involved in the replication of HIV	<u>Elvitegravir</u> : U.S. and EU marketing approvals submitted <u>New Single Tablet Regimen</u> : Phase 3
trametinib	GlaxoSmithKline	MEK inhibitor	Inhibits cellular growth by specifically inhibiting the activity of MAPK/ERK Kinase (MEK1/2)	<u>Metastatic melanoma</u> : EU marketing approval submitted <u>Metastatic melanoma, trametinib+dabrafenib</u> : U.S. and EU marketing approvals submitted
Anti-ICOS monoclonal antibody	MedImmune	ICOS antagonist	Suppresses overactive immune response via inhibition of ICOS which regulates activation of T cells	

Updates since the previous announcement on April 25, 2013:

<In-house development>

- New single tablet regimen containing elvitegravir (JTK-303) has entered into phase 3 (part of global study conducted by Gilead Sciences).
- JTE-151 has entered into the clinical trial stage overseas.
- Developments of JTT-705 and JTT-302 have been terminated.

<Licensed compounds>

- Gilead Sciences announced that single tablet regimen containing elvitegravir (JTK-303) has been approved in EU on May 28, 2013.
- GlaxoSmithKline announced that MEK inhibitor trametinib has been approved in the U.S. on May 29, 2013.
- GlaxoSmithKline announced the submission of supplemental New Drug Application (NDA) to the U.S. FDA for trametinib/dabrafenib combination in metastatic melanoma on July 9, 2013.
- Deleted dalcetrapib (JTT-705) due to the termination of clinical trial procedure by Roche.

Beverage Business

Lower profit reflecting investment in sales capabilities but strong sales of “Momono Tennen sui”

Processed Food Business

Firm performance by staple food products and steady top-line growth

Although there was growth in sales of “Momono Tennen sui,” which is being fostered as a second pillar brand with “Roots,” there was a decline in revenue from cup vending machines in the vending machines sales channel and intensification of competition in the bottle-can coffee segment, and these developments contributed to an overall decrease in revenue. Adjusted EBITDA also declined, mainly reflecting the revenue decline in addition to an increase in expenses for efforts to strengthen sales capabilities such as further strengthening of high-quality vending machine operations and expansion of sales channels. Although revenue in the processed food business declined because of the closure of the processed fishery products business in the previous fiscal year, if the impact of the closure is disregarded, revenue increased due to growth in sales of staple food products. Adjusted EBITDA showed a slight year-on-year increase despite the impact of a rise in cost prices in line with the yen’s depreciation, partly because of growth in sales of staple food products.

Beverage business

(Billions of yen)

	Three months ended June 30, 2013	Year-on-year change
Revenue	45.9	-0.6
Adjusted EBITDA	1.0	-1.6

Processed food business

(Billions of yen)

	Three months ended June 30, 2013	Year-on-year change
Revenue	37.4	-4.6
[excluding processed fishery products business]		[+0.5]
Adjusted EBITDA	1.8	+0.0

Forward-looking and cautionary statements

This material contains forward-looking statements about the business results of the Company and the JT Group. These forward-looking statements may include such expressions as “we believe,” “we expect,” “we anticipate,” “we forecast,” “we foresee,” “plan,” “strategy” and “possibility,” as well as similar expressions about future business activities, business results, events or assumed conditions.

Forward-looking statements are provided on the basis of the judgments, predictions, expectations, plans, perceptions and evaluations, etc., of management based on the information that is currently available.

These forward-looking statements are not intended to be construed as our assurance for it to materialize in the future, and we assume no duty or obligation to update any forward-looking statement or to advise of any change in the assumptions and factors on which they are based. Furthermore, forward-looking statements are subject to a wide range of risks and uncertainties, and actual business results may differ materially from the projections in the forward-looking statements. At present, the main envisaged risks and uncertainties or other factors that could cause actual results to differ materially from those expressed in any forward-looking statement include, without limitation:

- (1) health concerns relating to the use of tobacco products;
- (2) legal or regulatory developments and changes, including, without limitation, tax increases and restrictions on the sale of tobacco products, obligations to purchase leaf tobacco sourced in Japan, restrictions on packaging and labeling, restrictions on the marketing and usage of tobacco products, and governmental investigations and privately imposed smoking restrictions;
- (3) litigation in Japan and elsewhere;
- (4) our ability to further diversify our business beyond the tobacco industry;
- (5) our ability to successfully expand internationally and make investments outside of Japan;
- (6) competition, changing consumer preferences and decreasing tobacco demand;
- (7) the impact of any acquisitions or similar transactions;
- (8) local and global economic conditions;
- (9) fluctuations in foreign exchange rates and the costs of raw materials; and
- (10) catastrophes, including natural disasters.

Consolidated Financial Statements

In accordance with the revised IAS19, figures on a financial reporting basis and figures at constant rates of exchange for FY 2012 have been adjusted retrospectively.

This adjustment does not have a material impact on the financial statements.

Consolidated statements of financial position

(Millions of yen)

	As of March 31, 2013	As of June 30, 2013	Increase (Decrease)
Assets			
Current assets	1,213,146	1,284,748	71,601*1
Non-current assets	2,639,421	2,739,543	100,122
Property, plant and equipment	672,316	696,917	24,601
Goodwill	1,316,476	1,378,470	61,994*2
Intangible assets	348,813	353,344	4,532
Investment property	58,995	58,631	(364)
Retirement benefit assets	14,825	15,859	1,034
Investments accounted for using the equity method	22,940	23,524	585
Other financial assets	71,781	75,544	3,763
Deferred tax assets	133,276	137,252	3,976
Total assets	3,852,567	4,024,290	171,723
Liabilities and equity			
Liabilities			
Current liabilities	1,112,968	1,318,941	205,973
Non-current liabilities	847,168	697,865	(149,304)
Total liabilities	1,960,137	2,016,806	56,670
Equity			
Equity attributable to owners of the parent company	1,806,543	1,920,479	113,935
Share capital	100,000	100,000	–
Capital surplus	736,411	736,411	0
Treasury shares	(344,573)	(344,572)	0
Other components of equity	(155,420)	(70,486)	84,934 *3
Retained earnings	1,470,125	1,499,125	29,000
Non-controlling interests	85,887	87,005	1,118
Total equity	1,892,431	2,007,484	115,054
Total liabilities and equity	3,852,567	4,024,290	171,723

Note: Yen amounts are rounded to the nearest million.

- *1. Current assets: Rose as a result of an increase in prepaid tobacco excise taxes in the international tobacco business.
- *2. Goodwill: Increased due to the effect of foreign currency movement on overall goodwill.
- *3. Other components of equity: Increased as a result of yen depreciation.

Consolidated statements of income

(Millions of yen)

	Three months ended June 30, 2012	Three months ended June 30, 2013	Increase (Decrease)
Revenue	512,108	547,937	35,829 *4
Cost of sales	(216,819)	(220,522)	(3,703)
Gross profit	295,289	327,415	32,127
Other operating income	3,027	4,748	1,721
Share of profit in investments accounted for using the equity method	246	274	28
Selling, general and administrative expenses	(169,991)	(185,954)	(15,963)
Operating profit	128,570	146,483	17,913
Financial income	1,085	1,444	359
Financial costs	(5,310)	(6,336)	(1,026)
Profit before income taxes	124,345	141,591	17,246
Income taxes	(37,951)	(41,684)	(3,733)
Profit for the period	86,394	99,907	13,513
Profit for the period attributable to:			
Owners of the parent company	84,519	98,104	13,585
Non-controlling interests	1,875	1,803	(72)
Profit for the period	86,394	99,907	13,513

Note: Yen amounts are rounded to the nearest million.

*4. Revenue: Increased due to favorable pricing in the international tobacco business and depreciation in the yen.

Consolidated statements of comprehensive income

(Millions of yen)

	Three months ended June 30, 2012	Three months ended June 30, 2013	Increase (Decrease)
Profit for the period	86,394	99,907	13,513
Other comprehensive income	151,237	84,748	(66,489)
Comprehensive income for the period	237,631	184,655	(52,976)
Comprehensive income for the period attributable to:			
Owners of the parent company	235,447	182,942	(52,505)
Non-controlling interests	2,185	1,713	(471)
Comprehensive income for the period	237,631	184,655	(52,976)

Note: Yen amounts are rounded to the nearest million.

Consolidated statements of cash flows

(Millions of yen)

	Three months ended June 30, 2012	Three months ended June 30, 2013	Increase (Decrease)
Net cash flows from operating activities	98,124	3,867	(94,257)
Net cash flows from investing activities	(26,419)	(15,309)	11,109
Net cash flows from financing activities	(140,501)	(4,122)	136,379 *5
Net increase (decrease) in cash and cash equivalents	(68,796)	(15,565)	53,231
Cash and cash equivalents at the beginning of the period	404,740	142,713	(262,028)
Effect of exchange rate changes on cash and cash equivalents	4,756	3,665	(1,090)
Cash and cash equivalents at the end of the period	340,700	130,813	(209,887)

Note: Yen amounts are rounded to the nearest million.

*5. Net cash flows from financing activities: Due to the repayments of long-term borrowings in the same period of the previous fiscal year.

JT NEWS

Rice Planting Event Held in Central Tokyo for Recovery Support for Rikuzentakata City

A rice planting event for “Takata no yume,” a JT-supported original brand of rice from Rikuzentakata City, Iwate Prefecture, was held at “mori tora farm,” a rental vegetable garden in “MORI TRUST GARDEN TORA4,” an open-air, multi-purpose facility.

“Takata no yume” is a new type of rice previously owned by JT’s Plant Innovation Center (PIC). As a long-term measure to support recovery, the PIC donated the rice, including its ownership rights, to Rikuzentakata City, and the rice’s name was decided through a public competition in 2012. The planned crop yield for FY2013 is approximately 50 tons, and further increases in the yield and the number of farms growing the rice are expected in the future.

On the day, the Mayor of Rikuzentakata City, Futoshi Toba, participated along with foreign residents and Japanese children from the Tokyo metropolitan area. These visitors were given the chance to enjoy planting rice in the unique environment of a “central Tokyo rice field” surrounded by buildings and spread the word about the newly created “Takata no yume” from the Tokyo metropolitan area across the whole of Japan. It is planned for the rice to be harvested from the “mori tora farm” at the end of September 2013.

<Photo>

<Photo>

“Takata no yume” is characterized by its shiny appearance, its clean, sweet taste and sticky texture

Publication of “JT Group CSR Report 2013” Introducing the Group’s Global CSR Initiatives

<Photo>

JT has published the “JT Group CSR Report 2013” with the aim of fostering deeper understanding of the Group’s approach to CSR and its initiatives in this area.

For the JT Group to grow, development of sustainable society is essential. In order to contribute to this development, the JT Group is carrying out initiatives to help solve a wide variety of societal problems in over 120 countries in which the Group has a business presence.

The report introduces the issues the JT Group is addressing and its initiatives to this end based on the ISO26000 international guideline.

* There is a PDF version of the “JT Group CSR Report 2013” available on JT’s website at the following link: <http://www.jt.com/csr/report/index.html>

JT Group Products

Introducing New Tobacco Products

Two Products of the “Zerostyle Snus” Range

Now on Sale at Selected Retail Stores in Osaka City!

Released in early August!

<Photo>

Zerostyle Snus Regular

1 case contains 12 sachets (4.0g)

Price: ¥380

<Photo>

Zerostyle Snus Mint

1 case contains 12 sachets (4.0g)

Price: ¥380

JT has added two new products, “Zerostyle Snus Regular” and “Zerostyle Snus Mint,” to its Zerostyle smokeless tobacco line. The new products were put on sale at selected retail stores in Osaka City from early August 2013.

“Snus” is a type of snuff, which is smokeless tobacco. Using snus involves placing powdered tobacco in the mouth and enjoying its taste and aroma. Snus is a traditional tobacco product of Sweden, and continues to be widely enjoyed by many consumers.

The recently launched “Zerostyle Snus” range consists of snus whose taste, aroma and sachet size have been specially developed by JT to meet the preferences of Japanese consumers. The range consists of two products: the regular flavored “Zerostyle Snus Regular,” which features a mild sweetness and roasted flavor, and the mint flavored “Zerostyle Snus Mint,” offering a brisk flavor that spreads in the mouth. The packages of both products consist of a stylish black design that features an emblem in the center representing the sachet.

■ Directions for use

(1) Place the “sachet” containing powdered tobacco in your mouth and place it between your cheek and gum.

* Do not bite into the sachet as this may break the sachet and cause the tobacco leaf to come out

* Please limit your use to one sachet at a time

(2) Personal tastes vary, but one sachet generally lasts for 15 to 30 minutes.

(3) Once the taste and aroma have faded, please wrap the sachet in paper or similar material and dispose of it appropriately without littering.

Comments from person in charge

As a trial for snus in the Japanese market, JT has put the products on sale at around 150 retail stores in Osaka City. We will continue working to meet diverse customer needs by proposing products that bring new value and striving to enhance customer satisfaction.

Yusuke Hosoda, Marketing & Sales Group, Brand Planning Division, Tobacco Business, Japan Tobacco Inc.

<Photo>

* This page is intended as an explanation of JT's business for shareholders. As such, it is not intended to promote product sales to consumers or to encourage them to smoke.

Introducing New Beverage Products

<Photo>

Released

- > A water-type beverage containing fiber
- > Features a subtle peach flavor and refreshing aftertaste

Momono Tennen sui CLEAR

500ml pet bottle/¥120 (tax not included)

Comments from person in charge

We have launched a new product in the “Momono Tennen sui” series, a water-type beverage containing fiber named “Momono Tennen sui CLEAR.” The packaging features a transparent design studded with drops of water to create the effect of a healthy and lively atmosphere. Providing a subtle peach flavor combined with a refreshing aftertaste, this drink is a delicious way to get hydrated.

Fumiko Yoneyama, Brand Planning Department, Beverage Business Division, Japan Tobacco Inc.

<Photo>

<Photo>

- > Made with JT’s new, unique “aqua-roast” roasting method
- > Combines a smooth taste with a clear, rich flavor

Recommended

Roots “Aroma Black”

400g bottle-can

¥140 (tax not included)

<Photo>

- > Lavishly blended with richly aromatic mocha
- > Large-volume bottle-can coffee containing sugar and milk

Recommended

Roots “Aroma Rosso”

370g bottle-can

¥152 (tax not included)

JT Group Products

Introducing New Food Products

<Photo>

Tannen-jikomi Authentic Sanuki *Udon* Noodles 3 packs

3 servings/600g

Released on September 1

> TableMark proudly offers this product, for which the materials were specially chosen and the dough was kneaded to bring out the tastiness of the noodles even more

Comments from person in charge

We created authentic sanuki *udon* noodles by stretching out thoroughly matured dough lengthwise and widthwise. The noodles not only have body but also go down well and have a chewy texture. The noodles have been cut with a knife and the sauce clings to them, providing the authentic taste of hand-made noodles.

Emi Takeuchi, Product Development Division, TableMark Co., Ltd.

<Photo>

<Photo>

Released on September 1

> Prepare at your convenience in the microwave! Contains thick cheese flavored sauce

Thick Baked Curry Bread

Pack of 3

<Photo>

Released on September 2

> Low-volume type containing popular brand of rice from Hokkaido

Steaming Hokkaido Yumepirika Rice (Divided) 4 packs

600g (2 packs of 2 x 150g servings)

CLOSE UP!

Introducing JT Group companies and business divisions to our shareholders.

Japan Filter Technology, Ltd.

Providing up-to-date filters required around the world and working to develop the tobacco business further

As specialist manufacturer of tobacco filters, Japan Filter Technology, Ltd. is engaged in research and development to meet a variety of needs inside Japan and overseas. We always provide products incorporating sophisticated technology for the satisfaction of our customers.

Sadao Furuya, President and Representative Director

<Photo>

Japan Filter Technology, Ltd.

Location of head office

3rd floor, JT Shibuya Building, 5-1, Nanpeidai-cho, Shibuya-ku, Tokyo

Locations of factories

Hamura Factory: 4, Sakae-cho 3-chome, Hamura City, Tokyo

Tsubata Factory: 1-1, Aza-suginose, Tsubata-machi Kahoku-gun, Ishikawa Prefecture

Tagawa Factory: 467-1, Oaza-natsuyoshi, Tagawa City, Fukuoka Prefecture

Description of business

Manufacture and sale of tobacco filter plugs (in Japan and overseas)

Manufacture and sale of filter manufacturing machinery (overseas)

Manufacture and sale of cooking-use paper towels, etc. (in Japan)

Established September 1958

Number of employees Approx. 690

<Photo>

Head office

<Photo>

Hamura Factory

<Photo>

Tsubata Factory

<Photo>

Tagawa Factory

Japan Filter Technology, Ltd. (JFT) is the JT Group's only tobacco filter manufacturer. To carry out this role, with its mission defined as "contributing to the development of the JT Group through the manufacture of filters with value as the filter business development of the Group," JFT not only develops the products but also manufactures and sells them. The globalization of the JT Group has progressed at a stunning pace in the last ten or so years. JFT contributes to this work by running a globally conscious business and is now engaged in the sale of tobacco filter products not only to JT but also the Group's global business, JT International. Aside from filter products, the company is engaged in developing and manufacturing machinery used in manufacturing the products and other business applying the company's technology.

While it goes without saying that JFT must maintain and enhance quality, cost and its ability to keep delivery deadlines, which are the fundamentals of a manufacturing business, the company also makes sure to invest aggressively in technological and product development for the future. Keeping in mind that the company's role is to continue providing up-to-date filter products that bring satisfaction to customers around the world, JFT will continue striving to develop the tobacco business further.

Filter development and manufacturing business

Tobacco products containing filters were first put on sale in the U.S. around 80 years ago, and in the early days they were made from paper. The 1950's saw the arrival of filters rolled from acetate fiber, which remains the main material used in them to this day. In addition to acetate filters, JFT's products include dual charcoal filters, the mainstay type in Japan; CVD dual filters, of which JFT is the only manufacturer in the world; recessed capsule filters and embedded capsule filters, which contain capsules that change the taste of a cigarette when crushed; and center hole filters and FTF filters (flavor thread filters), which were developed to bring variation to the cigarette's appearance. The company manufactures around 37 billion filters (at least 100 types) a year.

Factual snippet about Japan Filter Technology

Using its filter manufacturing technology, the company also manufactures highly oil-absorbent and water-retentive paper towels for cooking use.

<Photo>

<Photo>

AF (acetate filter)

CF (charcoal filter)

Dual charcoal filter

<Photo>

CF (charcoal filter)

CVD (channel ventilation dam)

CVD dual filter

<Photo>

Empty space (recessed capsule)

AF (FTF = flavor thread filter)

NWA (non-wrapped acetate)

Recessed capsule filter

<Photo>

AF (FTF = flavor thread filter)

AF (capsule)

Embedded capsule filter

<Photo>

CH (center hole)

AF (acetate filter)

CF (charcoal filter)

Center hole filter

<Photo>

FTF filter (flavor thread filter)

Filter manufacturing machinery development and export business

JFT also exports the “ND-5 machine,” a filter manufacturing machinery developed in-house. JFT is currently working at a fast pace on development of the next generation of machinery in response to enhancements in product quality and aging of the current machinery. The development and export of manufacturing machinery also plays an important role as one of JFT’s major business fields.

<Photo>

The ND-5 machine

JT TOPICS

Now in its 10th year!

Pick Up and You Will Love Your City Campaign

Gathering trash around Japan because we want to spread good manners around Japan.

<Photo>

<Photo>

JT has been operating the nationwide Pick Up and You Will Love Your City Campaign (the “Pick Up Campaign”), a civic participation clean up activity, since May 2004. The activity was started as a means to discourage people from littering by giving them the experience of picking up trash. With the support from a wide variety of public bodies, schools, volunteers, event planning committees and participating organizations around Japan, JT intends to spread good manners even further around Japan.

Over the ten years of the Pick Up Campaign, at least 1.4 million people have participated in activities out of agreement with JT’s aims. Looking ahead, we hope to secure the participation and cooperation of even more people.

Comments from person in charge

Started in 2004 and approaching its 10th anniversary this year, the Pick Up Campaign has benefitted from the participation of at least 1.4 million people in all 47 prefectures of Japan. As the person in charge, I have found the campaign challenging and worthwhile, with a survey* of participants indicating that about 70% of respondents intend to never litter again. If you see a “Pick Up Campaign” at a place such as a festival area, be sure to volunteer and join in.

* Carried out by JT in 2012 (1,761 responses)

Seiya Okada, Corporate Affairs Division, Japan Tobacco Inc.

<Photo>

Hiroshima Flower Festival (Hiroshima City, Hiroshima Prefecture)

<Photo>

Volunteers in action at the 10th “Pick Up Campaign” to be held at the Hiroshima Flower Festival. During the event, players from JT’s male volleyball team, JT Thunders, joined in with participants in the clean up activity.

The 52nd Hakata Dontaku Port Festival (Hakata City, Fukuoka Prefecture)

<Photo>

About 1,500 people participated over two days. Under a clear blue sky, they joined in with the clean up activity without being overwhelmed by the bustling crowds.

The 43rd Kobe Festival (Kobe City, Hyogo Prefecture)

<Photo>

Staff from the organization “Machi Bika Angels” also participated on the day. Undeterred by heavy rain, about 200 volunteers gathered at the “Pick Up Campaign” booth and picked up trash.

Minna De Kappo! Midosuji Festa 2013 (Osaka City, Osaka Prefecture)

<Photo>

Following the success of our three previous “Pick Up Campaign” events at the festival, we participated again at the request of the Midosuji Kappo Executive Committee.

<Photo>

<Photo>

2013 Narita Gion Festival (Narita City, Chiba Prefecture)

<Photo>

This is a big event to celebrate the coming of summer to Narita. Even though the rainy season ended and the summer heat began in earnest during the period of the event, we were able to attract a large number of participants.

Results of activities to date

Number of times 1,517

Number of participants 1,432,200

Number of participating organizations 3,024

May 3, 2004 to July 31, 2013

The latest information about the Pick Up and You Will Love Your City Campaign is available at the following link: hiromachi.jp

JT TOPICS

Report of Shareholder Questionnaire Results

Thank you for participating in the questionnaire that was sent with the convocation notice for the 28th Ordinary General Meeting of Shareholders. This time, we received an extremely large number of completed questionnaires, with over 50,000 shareholders participating.

The following are results of the questionnaire on complimentary gifts for shareholders (Shareholder Special Benefit Plan) and share holding status.

Shareholder Special Benefit Plan

Contents of this year's complimentary gifts for shareholders

Satisfied 52.3%

Not satisfied 7.3%

Average 39.2%

Unclear 1.2%

The breakdown of shareholders choices of complimentary gifts were: beverage and rice assortment set (approximately 48%), rice set (approximately 20%), soup and condiment set (approximately 20%), 1 case of beverages (approximately 8%) and donation for reconstruction support following the Great East Japan Earthquake (approximately 4%).

JT's Stock

How many shares of JT's stock do you own?

100 to 199	24.3%
200 to 299	20.5%
300 to 399	9.5%
400 to 499	4.0%
500 to 999	10.5%
1,000 to 1,999	18.2%
2,000 to 2,999	3.4%
3,000 or more	2.8%
None at present	4.9%
Unclear	1.9%

How long have you held JT's stock?

Less than 6 months	63.7%
Between 6 months and less than 1 year	2.9%
Between 1 year and less than 3 years	2.3%

Between 3 years and less than 5 years	2.5%
Between 5 years and less than 10 years	9.6%
10 years or more	15.5%
Unclear	3.5%

85% of the shareholders who answered “less than 6 months” started holding JT’s stock at the time of the March 2013 offering, 68% of those who answered “between 5 years and less than 10 years” started holding JT’s stock at the time of the June 2004 offering, and 84% of those who answered “10 years or more” started holding JT’s stock at the time of the listing in October 1994.

Holding of stock

Reason for holding JT’s stock

	(%)
Expecting stable growth in results	18.8
Recommendation from securities company	12.6
Familiarity / brand power	8.5
Global business expansion	6.5
Attracted by development of pharmaceutical business	6.3
Attracted by dividends	5.5
Sound financial composition	5.3
High level of technology / capacity in research and development	4.0

JT welcomed a large number of shareholders through the stock offering conducted in March 2013, and shareholders’ reasons for holding JT’s stock have changed considerably from last year. Of these reasons, almost 19% of shareholders cited expectations of stable growth in the JT Group’s results as their reason for holding JT’s stock. JT will continue to steadily implement its strategy for medium- to long-term sustainable growth. In view of the fact that close to 6% of respondents cited the attraction of dividends as their reason for holding JT’s stock, JT also intends to strive to provide competitive shareholder returns.

How to receive your complimentary gift

We started forwarding the complimentary gifts to shareholders as of March 31, 2013 from late July. If there are any shareholders who are yet to receive their complimentary gifts, please contact the JT Shareholder Special Benefit Plan Office, the details of which are displayed below.

Similarly, since the complimentary gifts were forwarded to the addresses of shareholders recorded in the shareholder registry as of March 31, 2013, we would like to request any shareholders who changed their address in April or later as a result of moving, etc. to inform the JT Shareholder Special Benefit Plan Office. Please also carry out the address change procedures at the securities company where you have your account.

For those shareholders using special accounts, we ask that you carry out the procedures at Mitsubishi UFJ Trust and Banking Corporation, the special-account managing institution.

JT Shareholder Special Benefit Plan Office

(Complimentary gifts distribution agent: JT Creative Service Co., Ltd.)

0120-791-187 (toll-free number available only in Japan)

(Business hours: 9 a.m. to 5 p.m. on weekdays excluding public holidays)

<Photos>

Important note regarding applications

■ If you make an error or leave something out when filling in any of the necessary items, your gift may arrive after late July or JT may become unable to provide you with your preferred complimentary gift.

We appreciate your understanding on this in advance.

■ If you make an error or leave something out when filling in the form or submit your application after the deadline, JT will deliver the following gifts for each different course.

Course A (shareholders with 100 to 199 shares): beverage assortment set

Course B (shareholders with 200 to 999 shares): beverage assortment set

Course C (shareholders with 1,000 to 1,999 shares): beverage and rice assortment set

Course D (shareholders with 2,000 or more shares): beverage and rice assortment set and rice assortment set

The Lure of Tobacco Smoke

A lesson from the past at the end of a journey

Tokyo Metropolitan Hibiya High School [Tokyo]

<Photo>

Traces of a Glorious Past at the Site of the Mansion of Kichibei Murai, the “King of Tobacco”

Kichibei Murai, of Murai Brothers Shokai, was known as the “Kyoto king of tobacco” and found success manufacturing cigarettes in the early Meiji period. Murai engaged in a fierce advertising battle with Matsuhei Iwaya of rival company Iwaya Shokai, achieving great success in both sales and the realm of advertising. He moved his base of operations from Kyoto to Tokyo in 1901. When the tobacco industry became a monopoly industry in 1904, Murai used his riches to transform his business into a major conglomerate consisting of the Murai Bank and other operations. During this period, Murai also acquired what is now the site of Tokyo Metropolitan Hibiya High School.

In the Taisho period, Murai had a private estate called “Sanno-so” built in both the Japanese style and the western style. Featuring several buildings including a mansion, a museum and a storehouse for works of art on a site of over 5,000 *tsubo* (each equivalent to about 3.3 square meters), the grandeur of the estate also earned it the name “Sanno Palace.” Following Murai’s sudden death in 1926, the Murai family suffered various difficulties including the insolvency of the bank due to the financial panic of the following year. As a result, the site of the estate was sold to Tokyo Prefecture (now Tokyo Metropolis). The land then became the site of Hibiya High School’s predecessor, Tokyo First Junior High School, and some parts of Murai’s heritage were preserved on the site. Traces of Murai that remain today include the front gate of the Murai mansion and his storehouse for works of art. Having silently seen out year after year, these remnants of Murai’s presence are sure to give visitors a real sense of the period in which he lived.

<Photo>

A lacquered box with the Murai family crest of three Daimyo Oaks enclosed in a circle embossed on its side. The jet-black design gives the box a sense of solidity, making it stand out among the exhibits in the museum

<Photo>

A napkin ring embossed with the same crest of three Daimyo Oaks enclosed in a circle.

This object provides a glimpse of the dining habits of the Murai family

<Photo>

The front gate of the present Hibiya High School. Features such as the previous arch, iron gate and lamps have been removed, but the appearance of the gateposts is unchanged

<Photo>

The former storehouse for works of art is now used as Tokyo Metropolitan Hibiya High School's "100th Anniversary Memorial Museum." Although the museum focuses on Tokyo First Junior High School, the current school's predecessor founded in 1878, and the history of graduates from the school, materials on Kichibei Murai are also available. At present, some past graduates of the high school are working hard on researching the buildings left behind by Murai. They are undertaking this work to evaluate the buildings' historical significance and to communicate their value to future generations. Their efforts should help to provide a fuller picture of Murai the man.

■ Tokyo Metropolitan Hibiya High School

Location

16-1, Nagatacho 2-chome, Chiyoda-ku, Tokyo 100-0014, Japan

Walk for about 5 minutes from Tameike-sanno Station, Kokkai-gijidomae Station, Nagatacho Station, or Akasaka-mitsuke Station on the Tokyo Metro Line

<http://www.hibiya-h.metro.tokyo.jp/>

* This fiscal year, the museum will not be open to the public during the "Seiryō Festival," the school's annual festival, because of improvement work on the school buildings.

<Map>

Company Profile

Trade name: Japan Tobacco Inc.

Location of head office: JT Building, 2-1, Toranomom 2-chome, Minato-ku, Tokyo 105-8422, Japan

Tel.: +81-3-3582-3111 (Main)

Fax: +81-3-5572-1441

Established: April 1, 1985

Paid-in capital: ¥100 billion

Common Stock (as of June 30, 2013)

Composition of shareholders (excluding shares held as treasury shares)

The Minister of Finance: 36.70%

Financial institutions: 17.18%

Individuals and others: 4.55%

Securities companies: 0.47%

Other institutions: 0.86%

Foreign institutions and others: 40.24%

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

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

(Number of treasury shares: 182,509,788 shares)

Number of shareholders: 121, 215

How to receive dividends

Shareholders can receive dividends safely and securely by opting to receive them by bank remittance.

Cash	Shareholder	Dividend warrants	JT
		←==	
		Dividend warrants	Japan Post Bank Post Office
		==>	
Bank remittance	Designated financial institution account	Dividends	JT
		←==	
	◇ In the case of receiving dividends by designating a deposit account at a bank, etc. for each issue held		
	Designated financial institution account X	Dividends	JT
		←==	
	Designated financial institution account Y	Dividends	Company A
		←==	
	◇ In the case of receiving dividends for all issues held in a lump-sum at a deposit account held at a bank, etc.		
	Designated financial institution account X	Dividends	JT
		←==	
Designated financial institution account X	Dividends	Company A	
	←==		
◇ In the case of receiving dividends in a trading account held at a securities company (if a balance exists at several securities companies, dividends are allocated according to balance)			
Securities company X / JT shares / ● shares	Dividends from ● shares	JT	
	←==		
Securities company Y / JT shares / ○ shares	Dividends from ○ shares		
	←==		
* Not available for use by shareholders who use special accounts			

Members of the Board, Audit & Supervisory Board Members, and Executive Officers

Members of the Board

Chairman of the Board	Hiroshi Kimura
Representative Director, President	Mitsuomi Koizumi
Representative Director, Executive Deputy President	Yasushi Shingai
Representative Director, Executive Deputy President	Noriaki Okubo
Representative Director, Executive Deputy President	Akira Saeki
Executive Deputy President	Hideki Miyazaki
Member of the Board	Masamichi Terabatake
Member of the Board	Motoyuki Oka
Member of the Board	Main Kohda

Audit & Supervisory Board Members

Audit & Supervisory Board Member	Futoshi Nakamura
Audit & Supervisory Board Member	Tomotaka Kojima
Audit & Supervisory Board Member	Koichi Ueda
Audit & Supervisory Board Member	Yoshinori Imai

Executive Officers (*shikkoyakuin*)

President, Chief Executive Officer	Mitsuomi Koizumi
Executive Deputy President, Compliance, Strategy, HR, General Administration, Legal and Operational Review & Business Assurance	Yasushi Shingai
Executive Deputy President, Pharmaceutical, Beverage, and Processed Food Business	Noriaki Okubo
Executive Deputy President, President, Tobacco Business	Akira Saeki
Executive Deputy President, CSR, Finance and Communications	Hideki Miyazaki
Senior Executive Vice President, Chief Marketing & Sales Officer, Tobacco Business	Kenji Iijima
Senior Executive Vice President, Compliance and General Affairs	Ryoji Chijiiwa
Senior Executive Vice President, Chief Strategy Officer	Mutsuo Iwai
Executive Vice President, Head of Domestic Leaf Tobacco General Division, Tobacco Business	Shinichi Murakami
Senior Vice President, Chief Corporate, Scientific & Regulatory Affairs Officer, Tobacco Business	Kazuhito Yamashita
Senior Vice President, Chief R&D Officer, Tobacco Business	Yasuyuki Yoneda
Senior Vice President, Head of Manufacturing General Division, Tobacco Business	Masahiko Sato
Senior Vice President, Head of China Division, Tobacco Business	Atsuhiro Kawamata

Senior Vice President, Head of Tobacco Business Planning Division, Tobacco Business	Junichi Fukuchi
Senior Vice President, President, Pharmaceutical Business	Muneaki Fujimoto
Senior Vice President, Head of Central Pharmaceutical Research Institute, Pharmaceutical Business	Junichi Haruta
Senior Vice President, Chief CSR Officer	Ryoko Nagata
Senior Vice President, Chief Human Resources Officer	Chito Sasaki
Senior Vice President, Chief Financial Officer	Naohiro Minami
Senior Vice President, Chief General Affairs Officer	Haruhiko Yamada
Senior Vice President, Chief Legal Officer	Kiyohide Hirowatari
Senior Vice President, Chief Science Officer, Central Pharmaceutical Research Institute, Pharmaceutical Business	Shigenori Ohkawa
Senior Vice President, Head of Beverages Business	Goichi Matsuda
Senior Vice President, Chief Communications Officer	Yuki Maeda

Trends in Share Price

Share prices of JT, from IPO on October 27, 1994 to July 2013 (closing prices on the TSE, monthly basis)

<Chart of JT's share price>

First sale

Sale by bidding

Contract price ¥1,362,000 to ¥2,110,000 (fixed date of the contract price August 29, 1994)

Sale without bidding

Sale price ¥1,438,000 (fixed date of the sale price August 31, 1994)

Second sale

Sale price ¥815,000 (fixed date of the sale price June 17, 1996)

Third sale

Sale price ¥843,000 (fixed date of the sale price June 7, 2004)

Fourth sale

Sale price ¥2,924 (fixed date of the sale price March 11, 2013)

* Due to a 5 for 1 stock split on April 1, 2006, and a 200 for 1 stock split on July 1, 2012, stock prices reflect post-split levels.

Memo for Shareholders

Closing date: March 31 of each year

Ordinary General Meeting of Shareholders: June of each year

Record date for year-end dividend: March 31 of each year

Record date for interim dividend: September 30 of each year

Share trade unit: 100 shares

Method of public notice:

Electronic public notice

Public notices will be posted on JT's website: <http://www.jti.co.jp/>

* If JT is unable to make electronic public notice due to an accident or any other compelling reason, it will make an alternative public notice in "The Nikkei" newspaper.

Shareholder registry administrator/special-account managing institution:

Mitsubishi UFJ Trust and Banking Corporation

■ Office for handling business

4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan

Mitsubishi UFJ Trust and Banking Corporation

Corporate Agency Division

■ Inquiry/mailing address

10-11, Higashisuna 7-chome, Koto-ku, Tokyo 137-8081, Japan

Mitsubishi UFJ Trust and Banking Corporation

Corporate Agency Division

0120-232-711 (toll-free number available only in Japan; 9 a.m. to 5 p.m. on weekdays)

■ Request for procedure forms related to special account

The special-account managing institution accepts requests for administrative procedure for shareholders using special accounts (including notification of change of address, forms for designation or change of direct deposit of dividends, and forms for requesting procedures for inheritance of shares) at

0120-244-479 (toll-free number available only in Japan) 24 hours a day.

Concerning share handling procedures:

Shareholders are asked to contact the securities company where they have accounts.

Share Handling Procedures

Shareholders holding accounts with securities companies

[Procedures and contents of inquiries]

- Change in registered address, name, etc.
- Change in method to receive dividends or remittance account
- Requests for purchase or sale of shares less than one unit and similar matters

=> The securities company where the account is opened

- Shipment / return of mail items
- Dividends after the payment period has passed
- Problems including non-receipt of documents and loss of dividend warrants and similar matters

=> Mitsubishi UFJ Trust and Banking Corporation

Shareholders using special accounts

[All procedures and inquiries]

- Change in registered address, name, etc.
- Change in method to receive dividends or remittance account
- Requests for purchase or sale of shares less than one unit
- Shipment / return of mail items
- Dividends after the payment period has passed
- Other general inquiries on business concerning shares and similar matters

=> Inquiries

Mitsubishi UFJ Trust and Banking Corporation

Corporate Agency Division

10-11, Higashisuna 7-chome, Koto-ku, Tokyo 137-8081, Japan

0120-232-711 (toll-free number available only in Japan; 9 a.m. to 5 p.m. on weekdays)

Requests for procedure forms

- Requests by interactive voice response telephone service

0120-244-479 (toll-free number available only in Japan; 24 hours)

Japan Tobacco Inc.

JT Building

2-1, Toranomom 2-chome, Minato-ku, Tokyo 105-8422, Japan

Tel.: +81-3-3582-3111

URL: <http://www.jti.co.jp/>

This Report was printed using vegetable oil inks along with FSC approved paper to protect our forests.