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

[Cover]

Document to be filed:	Quarterly Securities Report
Provisions to base upon:	Article 24-4-7, paragraph 1 of the Financial Instruments and Exchange Act
Filing to:	Director-General of the Kanto Local Finance Bureau
Date of filing:	July 31, 2014
Quarterly accounting period:	First quarter of the 30th term (from April 1, 2014 to June 30, 2014)
Company name (Japanese):	日本たばこ産業株式会社 (*Nihon Tabako Sangyo Kabushiki-Kaisha*)
Company name (English):	JAPAN TOBACCO INC.
Title and name of representative:	Mitsuomi Koizumi, President, Chief Executive Officer and Representative Director
Location of head office:	2-1, Toranomon 2-chome, Minato-ku, Tokyo, Japan
Telephone number:	+81-3-3582-3111 (Main)
Contact person:	Yuki Maeda, Senior Vice President and Chief Communications Officer
Place of contact:	2-1, Toranomon 2-chome, Minato-ku, Tokyo, Japan
Telephone number:	+81-3-3582-3111 (Main)
Contact person:	Yuki Maeda, Senior Vice President and Chief Communications Officer
Places where the document to be filed is available for public inspection:	Tokyo Stock Exchange, Inc. (2-1, Nihonbashi-kabutocho, Chuo-ku, Tokyo)

A. Company Information

I. Overview of the JT Group

1. Trends in principal management benchmarks

Term	Three months ended June 30, 2013	Three months ended June 30, 2014	29th term
Accounting period	From April 1, 2013 to June 30, 2013	From April 1, 2014 to June 30, 2014	From April 1, 2013 to March 31, 2014
Revenue (Millions of yen)	547,937	556,448	2,399,841
Profit before income taxes (Millions of yen)	141,591	147,516	636,203
Profit for the period (Millions of yen)	99,907	107,796	435,291
Profit attributable to owners of the parent company (Millions of yen)	98,104	106,181	427,987
Comprehensive income (loss) for the period (Millions of yen)	184,655	3,465	850,261
Total equity (Millions of yen)	2,007,484	2,480,969	2,596,091
Total assets (Millions of yen)	4,024,290	4,399,198	4,616,766
Basic earnings per share (Yen)	53.98	58.42	235.48
Diluted earnings per share (Yen)	53.95	58.39	235.35
Ratio of equity attributable to owners of the parent company to total assets (%)	47.72	54.47	54.27
Net cash flows from (used in) operating activities (Millions of yen)	3,867	(27,111)	396,496
Net cash flows from (used in) investing activities (Millions of yen)	(15,309)	(27,437)	(163,473)
Net cash flows from (used in) financing activities (Millions of yen)	(4,122)	(51,938)	(145,189)
Cash and cash equivalents at the end of the period (Millions of yen)	130,813	138,659	253,219

Notes: 1. The JT Group prepares the consolidated financial statements based on International Financial Reporting Standards (hereinafter, "IFRS").
2. Filing company's trends in principal management benchmarks are not disclosed as JT prepares quarterly consolidated financial statements.
3. The yen amounts are rounded to the nearest million.
4. Revenue does not include consumption taxes.
5. The JT Group made a partial change to its accounting policies effective from the first quarter ended June 30, 2014. Principal management benchmarks for the three months ended June 30, 2013, and the fiscal year ended March 31, 2014, have been adjusted retrospectively to reflect the change. For details, please refer to "IV. Accounting, 1. Condensed interim consolidated financial statements, Notes to condensed interim consolidated financial statements, 3. Significant accounting policies, (Changes in accounting policies)."

2. Business description

During the three months ended June 30, 2014, there were neither material changes in the business of the JT Group (JT, 215 consolidated subsidiaries and 13 companies accounted for by the equity method) mentioned in the previous fiscal year's Annual Securities Report nor changes in principal subsidiaries and affiliates.

With the aim of creating a flexible and competitive operational structure, TableMark Co., Ltd., which runs the JT Group's processed food business, conducted a company split with an effective date of April 1, 2014, in which TableMark Co., Ltd. is the company conducting business operations and TableMark Holdings Co., Ltd. is a pure holding company.

II. Review of operations

1. Business and other risks

During the three months ended June 30, 2014, there were no new business or other risks.

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

2. Important operational contracts, etc.

No important operational contracts were decided or entered into during the first quarter ended June 30, 2014.

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

Matters concerning the future in this document were determined by the JT Group as of June 30, 2014.

(Non-GAAP financial measures)

The JT Group discloses certain additional financial measures that are not required or defined under IFRS, which is the accounting standard JT adopted. These measures are used internally to manage each of our business operations to understand their underlying performance, in view of our aiming for medium- to long-term sustainable growth, and we believe that they are 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 operating profit

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

Furthermore, adjusted operating profit (at constant rates of exchange) growth rate in the consolidated performance is also presented as additional information. This is a financial measurement that excludes foreign exchange effects by translating and calculating adjusted operating profit for the current period in the international tobacco business using the foreign exchange rates of the same period of the previous fiscal year.

(1) Operating results

<Revenue>

Revenue increased by ¥8.5 billion or 1.6%, from the same period of the previous fiscal year to ¥556.4 billion. This was mainly the result of favorable pricing in the international tobacco business and depreciation in the yen, despite factors including a demand decline in the domestic tobacco business resulting from a rush in demand ahead of a consumption tax hike in April 2014.

(Billions of yen)

	Three months ended June 30, 2013	Three months ended June 30, 2014	Change	
Revenue	547.9	556.4	8.5	1.6%
Domestic Tobacco Business	173.0	152.5	(20.5)	(11.8)%
Of which, core revenue	165.2	144.2	(20.9)	(12.7)%
International Tobacco Business	271.1	305.1	34.1	12.6%
Of which, core revenue	252.3	283.7	31.4	12.5%
Pharmaceutical Business	16.8	13.1	(3.7)	(22.2)%
Beverage Business	45.9	44.9	(1.0)	(2.2)%
Processed Food Business	37.4	37.3	(0.1)	(0.2)%

* 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 “IV. Accounting, 1. Condensed interim consolidated financial statements, Notes to condensed interim consolidated financial statements, 5. Operating segments, (2) Revenues and performances for reportable segments.”

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

Adjusted operating profit decreased by ¥2.5 billion, or 1.7%, from the same period of the previous fiscal year to ¥148.9 billion. This was mainly the result of the demand decline in the domestic tobacco business resulting from a rush in demand ahead of the consumption tax hike, despite factors including favorable pricing in the international tobacco business and depreciation in the yen. Adjusted operating profit at constant rates of exchange decreased by 2.8% from the same period of the previous fiscal year. Operating profit increased by ¥1.7 billion, or 1.2%, from the same period of the previous fiscal year to ¥148.2 billion, due to an increase in gain on sales of non-current assets.

Profit attributable to owners of the parent company increased by ¥8.1 billion, or 8.2%, from the same period of the previous fiscal year to ¥106.2 billion, due mainly to the increase in operating profit and a fall in the effective tax rate.

(Billions of yen)

	Three months ended June 30, 2013	Three months ended June 30, 2014	Change	
Adjusted operating profit	151.4	148.9	(2.5)	(1.7)%
Domestic Tobacco Business	64.6	51.3	(13.4)	(20.7)%
International Tobacco Business	90.2	105.1	14.8	16.4%
Pharmaceutical Business	(0.9)	(3.8)	(2.8)	-
Beverage Business	(1.6)	(1.4)	0.2	-
Processed Food Business	0.1	0.0	(0.1)	(67.2)%
Operating profit	146.5	148.2	1.7	1.2%
Profit attributable to owners of the parent company	98.1	106.2	8.1	8.2%

* Operating profit and adjusted operating profit include operating profit and adjusted operating profit relating to factors other than the segments shown above. For details, please refer to "IV. Accounting, 1. Condensed interim consolidated financial statements, Notes to condensed interim consolidated financial statements, 5. Operating segments, (2) Revenues and performances for reportable segments."

Operating results by segment are as follows.

Domestic Tobacco Business

In the three months ended June 30, 2014, JT worked to further enhance brand equity aimed at retaining customers.

In the three months ended June 30, 2014, sales volume fell by 15.6% and market share was 59.6% compared with 61.0% for the previous fiscal year due to the demand decline in the domestic tobacco business resulting from a rush in demand ahead of the consumption tax hike. Nevertheless, monthly market share steadily recovered, particularly for Mevius, after falling to 59.1% in April, rising to 59.7% in May and 60.0% in June.

(Billions of cigarettes)

Domestic Tobacco Business	Three months ended June 30, 2013	Three months ended June 30, 2014	Change	
Sales volume	29.3	24.7	(4.6)	(15.6)%

* In addition to the figure stated above, during the three months ended June 30, 2014, 0.8 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 (this amount was 0.9 billion cigarettes in the same period of the previous fiscal year).

Core revenue decreased by 12.7% from the same period of the previous fiscal year as a result of decrease in the sales volume. Domestic cigarette revenue per 1,000 cigarettes was ¥5,652.

In addition, although there were benefits from continued cost reductions and others, these were exceeded by the effect of the decrease in sales volume. As a result, adjusted operating profit decreased by 20.7%.

(Billions of yen)

Domestic Tobacco Business	Three months ended June 30, 2013	Three months ended June 30, 2014	Change	
Revenue	173.0	152.5	(20.5)	(11.8)%
Of which, core revenue	165.2	144.2	(20.9)	(12.7)%
Adjusted operating profit	64.6	51.3	(13.4)	(20.7)%

International Tobacco Business

Among GFBs(Note 1) in the three months ended June 30, 2014, shipment volumes of Winston grew in Germany, shipment volumes of LD increased in Caucasia, while RYO/MYO(Note 2) also performed strongly. Even so, these effects were exceeded by a decrease in total demand, mainly in Russia and Europe, and negative effects from inventory adjustments in Turkey. As a result, overall shipment volume decreased by 5.5% from the same period of the previous fiscal year.

Furthermore, total shipment volume including GFBs decreased by 5.4% from the same period of the previous fiscal year.

(Billions of cigarettes)

International Tobacco Business	Three months ended June 30, 2013	Three months ended June 30, 2014	Change	
Shipment volume	92.8	87.7	(5.0)	(5.4)%
Of which, GFBs	58.5	55.3	(3.2)	(5.5)%

* The translation method for RYO/MYO has been partially amended.

Although there were impacts from unfavorable foreign exchange effects on local currencies, particularly the ruble, and from the decrease in shipment volume, these were exceeded by favorable pricing. As a result, dollar-based core revenue rose by 1.2% and adjusted operating profit increased by 4.7%. Adjusted operating profit at constant rates of exchange increased by 14.4%.

(Millions of U.S. dollar)

International Tobacco Business (U.S. dollar-based)	Three months ended June 30, 2013	Three months ended June 30, 2014	Change	
Revenue	2,932	2,969	37	1.3%
Of which, core revenue	2,729	2,761	32	1.2%
Adjusted operating profit	976	1,022	46	4.7%

As a result of the effects of a weaker yen when making conversions to that currency, yen-based core revenue increased by 12.5% and adjusted operating profit increased by 16.4%.

(Billions of yen)

International Tobacco Business	Three months ended June 30, 2013	Three months ended June 30, 2014	Change	
Revenue	271.1	305.1	34.1	12.6%
Of which, core revenue	252.3	283.7	31.4	12.5%
Adjusted operating profit	90.2	105.1	14.8	16.4%

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

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

* In the three months ended June 30, 2014, the exchange rates of currencies against the U.S. dollar were as follows.

Foreign exchange rate per U.S. dollar	Three months ended June 30, 2013	Three months ended June 30, 2014
Yen	92.46	102.77
Ruble	30.40	34.97
Pounds sterling	0.64	0.60
Euro	0.76	0.73

Pharmaceutical Business

In the pharmaceutical business, we are striving to establish a stronger profit platform by maximizing the value of each product and promoting R&D on next-generation strategic products. In the area of product development, JTT-252, a type-2 diabetes drug, and the anti-HIV drug JTK-351, newly proceeded to clinical trials. On the other hand, development of the anti-HIV mono agent JTK-303 was terminated. This decision was taken because need for use of the product in the domestic market is extremely limited due to changes in development and market competition, and as a result terminating development is unlikely to be disadvantageous to patients. As a result of the above, the number of compounds developed in-house that are under clinical development is now 10.

In the three months ended June 30, 2014, Riona® Tablets 250mg, a hyperphosphatemia treatment, was put on sale by our subsidiary Torii Pharmaceutical Co., Ltd. in May 2014. In addition, Torii Pharmaceutical is currently making preparations for the smooth market launch of CEDARTOLEN® SUBLINGUAL DROP - Japanese Cedar Pollen, a sublingual immunotherapy drug for Japanese cedar pollinosis. GlaxoSmithKline announced that it obtained approval from the European Medicines Agency (EMA) in July 2014 for the MEK-inhibitor “Mekinist,” which is an original JT compound that has been out-licensed, for metastatic melanoma.

Revenue in the three months ended June 30, 2014, decreased by ¥3.7 billion, or 22.2%, from the same period of the previous fiscal year to ¥13.1 billion because milestone revenue related to progress in development of an original JT compound that has been out-licensed was recorded in the same period of the previous fiscal year, and because there was a demand decline at Torii Pharmaceutical following temporarily heightened demand ahead of the consumption tax hike in April 2014. Owing to the above-mentioned decline in revenue, adjusted operating loss was ¥3.8 billion, a deterioration of ¥2.8 billion from the loss of ¥0.9 billion posted in the same period of the previous fiscal year.

* Products released to the market since the fiscal year ended March 31, 2013

- Anti-HIV drug “Stribild® Combination Tablets”: Sold in Japan by Torii Pharmaceutical Co., Ltd. and overseas as “Stribild” by Gilead Sciences, Inc., mainly in the US and Europe.
- MEK-inhibitor “Mekinist” (for metastatic melanoma): Sold in the US by GlaxoSmithKline.
- Riona® Tablets 250mg, a hyperphosphatemia treatment: Sold in Japan by Torii Pharmaceutical Co., Ltd.

Beverage Business

In the three months ended June 30, 2014, we actively implemented various product launches. These included a renewal of the 400g bottle can of “Roots Aroma Black,” the “gold standard” for black coffee in a bottle can, in our flagship coffee brand “Roots,” and the new launch of “Momono Tennen sui Salt & Peach,” a beverage that not only maintains the delicious peach taste of this product line but also functions as a salt supplement to counter heatstroke.

Revenue in the three months ended June 30, 2014, decreased by ¥1.0 billion, or 2.2%, from the same period of the previous fiscal year to ¥44.9 billion due to a decline in sales volume. Despite the above-mentioned decline in revenue, owing to beneficial factors such as a decrease in costs, adjusted operating loss was ¥1.4 billion, an improvement of ¥0.2 billion from the loss of ¥1.6 billion posted in the same period of the previous fiscal year.

Processed Food Business

In the three months ended June 30, 2014, we continued working to expand sales of staple food products such as frozen noodles, frozen rice, packed rice and baked frozen bread. Specifically, we conducted vigorous sales promotions for products including frozen udon noodle products “Sanuki Udon Noodles 5 packs,” “Tannen-jikomi Authentic Sanuki Udon Noodles 3 packs” and others to mark the 40th anniversary of the launch of our frozen udon noodles, and the “Cool Noodles No. 1” series aimed at boosting demand in the summer season.

Revenue in the three months ended June 30, 2014, was about level with the same period of the previous fiscal year at ¥37.3 billion. Adjusted operating profit was about level with the same period of the previous fiscal year at ¥0.0 billion due mainly to a decrease in costs, despite a rise in cost prices in line with the yen’s depreciation.

(2) Operational and financial issues to be addressed

During the three months ended June 30, 2014, there were no material changes in issues to be addressed by the JT Group mentioned in the previous fiscal year’s Annual Securities Report.

(3) Research and development activities

Research and development expenses for the entire JT Group during the three months ended June 30, 2014 were ¥13.7 billion.

During the three months ended June 30, 2014, there were no material changes in the status of the JT Group’s research and development activities mentioned in the previous fiscal year’s Annual Securities Report.

(4) Analysis of capital resources and liquidity of funds

a. Funding requirements

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

b. Resources of funds

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

<Cash flows>

Cash and cash equivalents at the end of the first quarter ended June 30, 2014 decreased by ¥114.6 billion from the end of the previous fiscal year to ¥138.7 billion. Cash and cash equivalents at the end of the same period of the previous fiscal year was ¥130.8 billion.

Cash flows from (used in) operating activities

Net cash flows used in operating activities during the three months ended June 30, 2014 were ¥27.1 billion, compared with ¥3.9 billion provided in the same period of the previous fiscal year. This was mainly due to the payment of income taxes and bonuses, despite the generation of a stable cash inflow from the tobacco business.

Cash flows from (used in) investing activities

Net cash flows used in investing activities during the three months ended June 30, 2014 were ¥27.4 billion, compared with ¥15.3 billion used in the same period of the previous fiscal year. This was mainly due to the purchase of property, plant and equipment.

Cash flows from (used in) financing activities

Net cash flows used in financing activities during the three months ended June 30, 2014 were ¥51.9 billion, compared with ¥4.1 billion used in the same period of the previous fiscal year. This was mainly due to redemption of bonds and the payment of cash dividends, despite proceeds from borrowings and commercial paper.

<Interest-bearing debt>

Long-term debt

Bonds issued (including the current portion) as of March 31, 2014 and as of June 30, 2014 accounted for ¥303.5 billion and ¥130.4 billion respectively and long-term borrowings as loans from financial institutions (including the current portion) accounted for ¥36.3 billion and ¥35.6 billion respectively. Long-term lease obligations totaled ¥9.7 billion as of March 31, 2014 and ¥9.8 billion as of June 30, 2014.

Short-term debt

Short-term borrowings from financial institutions totaled ¥21.9 billion as of March 31, 2014 and ¥140.8 billion as of June 30, 2014, respectively. There was no commercial paper outstanding as of March 31, 2014, but commercial paper outstanding as of June 30, 2014, totaled ¥116.0 billion. Short-term lease obligations totaled ¥4.4 billion as of March 31, 2014 and ¥4.3 billion as of June 30, 2014.

c. Liquidity

We have historically had, and expect to continue to have, significant cash flows from operating activities. We expect that cash generated from operating activities will continue to be stable and cover funds needed for regular business activities. On June 30, 2014, we had committed lines of credit from major financial institutions both domestic and international. In addition, we have a domestic commercial paper program, uncommitted lines of credit, and a domestic bond shelf registration.

III. Filing company

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

(1) Total number of shares authorized

a. Total number of shares authorized

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

b. Number of shares issued

Class	Number of shares issued (Share; as of June 30, 2014)	Number of shares issued (Share; as of the date of filing: July 31, 2014)	Name of financial instruments exchange where the stock of JT is traded or the name of authorized financial instruments firms association where JT is registered	Details
Ordinary shares	2,000,000,000	2,000,000,000	Tokyo Stock Exchange (First Section)	(Note 2)
Total	2,000,000,000	2,000,000,000	–	–

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

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

(2) Status of subscription rights to shares

There were no subscription rights to shares newly issued during the first quarter ended June 30, 2014.

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

No items to report

(4) Details of rights plan

No items to report

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

Date	Fluctuation in the number of shares issued (Thousands of shares)	Balance of shares issued (Thousands of shares)	Fluctuation in capital stock (Millions of yen)	Balance of capital stock (Millions of yen)	Fluctuation in capital reserve (Millions of yen)	Balance of capital reserve (Millions of yen)
April 1, 2014 to June 30, 2014	–	2,000,000	–	100,000	–	736,400

(6) Status of major shareholders

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

(7) Status of voting rights

a. Shares issued

(As of June 30, 2014)

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 182,451,300	–	(Note 2)
Shares with full voting rights (Other)	Ordinary shares 1,817,528,700	18,175,287	(Note 2)
Shares less than one unit	Ordinary shares 20,000	–	(Note 3)
Total number of shares issued	2,000,000,000	–	–
Total number of voting rights	–	18,175,287	–

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

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

3. 88 shares of treasury stock are included.

b. Treasury stock

(As of June 30, 2014)

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	182,451,300	–	182,451,300	9.12
Total	–	182,451,300	–	182,451,300	9.12

2. Status of officers

After filing of the previous fiscal year’s Annual Securities Report, there were no personnel changes of officers during the three months ended June 30, 2014.

IV. Accounting

1. Preparation policy for the condensed interim consolidated financial statements

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

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

2. Audit certification

In accordance with the provisions of Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act, the condensed interim consolidated financial statements for this first quarter period (from April 1, 2014 to June 30, 2014) and for the three months ended June 30, 2014 were reviewed by Deloitte Touche Tohmatsu LLC.

1. 【Condensed interim consolidated financial statements】

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

(Millions of yen)

	As of March 31, 2014 Restated*	As of June 30, 2014
Assets		
Current assets		
Cash and cash equivalents (Note 6)	253,219	138,659
Trade and other receivables	440,210	394,220
Inventories	550,987	527,314
Other financial assets	17,333	21,357
Other current assets	226,012	295,255
Subtotal	1,487,761	1,376,804
Non-current assets held-for-sale	1,952	1,040
Total current assets	1,489,713	1,377,844
Non-current assets		
Property, plant and equipment (Note 7)	779,987	758,998
Goodwill (Note 7)	1,584,432	1,521,847
Intangible assets (Note 7)	385,101	368,801
Investment property	61,421	62,634
Retirement benefit assets	16,530	16,951
Investments accounted for using the equity method	106,107	104,750
Other financial assets	92,596	91,605
Deferred tax assets	100,880	95,768
Total non-current assets	3,127,053	3,021,354
Total assets	4,616,766	4,399,198

(Millions of yen)

	As of March 31, 2014 Restated*	As of June 30, 2014
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	360,025	294,430
Bonds and borrowings	195,562	291,389
Income tax payables	77,158	44,351
Other financial liabilities	9,491	8,618
Provisions	7,362	5,797
Other current liabilities	606,161	567,361
Subtotal	1,255,759	1,211,947
Liabilities directly associated with non-current assets held-for-sale	75	–
Total current liabilities	1,255,834	1,211,947
Non-current liabilities		
Bonds and borrowings	166,165	131,342
Other financial liabilities	17,731	17,897
Retirement benefit liabilities	340,462	338,526
Provisions	5,241	5,123
Other non-current liabilities	126,539	108,566
Deferred tax liabilities	108,703	104,829
Total non-current liabilities	764,842	706,282
Total liabilities	2,020,675	1,918,229
Equity		
Share capital	100,000	100,000
Capital surplus	736,400	736,401
Treasury shares	(344,463)	(344,462)
Other components of equity	251,107	147,133
Retained earnings	1,762,566	1,757,143
Equity attributable to owners of the parent company	2,505,610	2,396,215
Non-controlling interests	90,481	84,755
Total equity	2,596,091	2,480,969
Total liabilities and equity	4,616,766	4,399,198

* Please refer to Note “3. Significant Accounting Policies.”

(2) 【Condensed interim consolidated statement of income】

(Millions of yen)

	Three months ended June 30, 2013	Three months ended June 30, 2014
Revenue (Notes 5, 9)	547,937	556,448
Cost of sales	(220,522)	(226,392)
Gross profit	327,415	330,056
Other operating income (Note 10)	4,748	7,637
Share of profit in investments accounted for using the equity method	274	1,279
Selling, general and administrative expenses (Note 11)	(185,954)	(190,745)
Operating profit (Note 5)	146,483	148,227
Financial income (Note 12)	1,444	3,049
Financial costs (Note 12)	(6,336)	(3,760)
Profit before income taxes	141,591	147,516
Income taxes	(41,684)	(39,720)
Profit for the period	99,907	107,796
Attributable to:		
Owners of the parent company	98,104	106,181
Non-controlling interests	1,803	1,615
Profit for the period	99,907	107,796
Interim earnings per share		
Basic (Yen) (Note 13)	53.98	58.42
Diluted (Yen) (Note 13)	53.95	58.39

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

(Millions of yen)

	Three months ended June 30, 2013	Three months ended June 30, 2014
Operating profit	146,483	148,227
Amortization cost of acquired intangibles	6,384	7,335
Adjustment items (income)	(1,624)	(6,957)
Adjustment items (costs)	128	267
Adjusted operating profit (Note 5)	151,371	148,872

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

(Millions of yen)

	Three months ended June 30, 2013	Three months ended June 30, 2014
Profit for the period	99,907	107,796
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	900	3,348
Remeasurements of defined benefit plans	(26)	–
Total of items that will not be reclassified to profit or loss	874	3,348
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	83,856	(107,424)
Net gain (loss) on derivatives designated as cash flow hedges	19	(254)
Total of items that may be reclassified subsequently to profit or loss	83,874	(107,678)
Other comprehensive income (loss), net of taxes	84,748	(104,330)
Comprehensive income (loss) for the period	184,655	3,465
Attributable to:		
Owners of the parent company	182,942	1,858
Non-controlling interests	1,713	1,607
Comprehensive income (loss) for the period	184,655	3,465

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

(Millions of yen)

	Equity attributable to owners of the parent company						
				Other components of equity			
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income
As of April 1, 2013	100,000	736,411	(344,573)	1,274	(171,341)	(187)	14,835
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	83,978	19	901
Comprehensive income (loss) for the period	—	—	—	—	83,978	19	901
Acquisition of treasury shares	—	—	(0)	—	—	—	—
Disposal of treasury shares	—	0	1	(1)	—	—	—
Share-based payments	—	—	—	58	—	—	—
Dividends (Note 8)	—	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—	(21)
Other increase (decrease)	—	—	—	—	—	—	—
Total transactions with the owners	—	0	0	57	—	—	(21)
As of June 30, 2013	100,000	736,411	(344,572)	1,331	(87,363)	(169)	15,715
As of April 1, 2014	100,000	736,400	(344,463)	1,443	229,990	293	19,380
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	(107,423)	(254)	3,354
Comprehensive income (loss) for the period	—	—	—	—	(107,423)	(254)	3,354
Acquisition of treasury shares	—	—	—	—	—	—	—
Disposal of treasury shares	—	1	1	(2)	—	—	—
Share-based payments	—	—	—	64	—	—	—
Dividends (Note 8)	—	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	—	263	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—	23
Other increase (decrease)	—	—	—	—	—	—	—
Total transactions with the owners	—	1	1	62	263	—	23
As of June 30, 2014	100,000	736,401	(344,462)	1,506	122,831	39	22,758

(Millions of yen)

	Equity attributable to owners of the parent company					
	Other components of equity					
	Remeasurements of defined benefit plans	Total	Retained earnings	Total	Non-controlling interests	Total equity
As of April 1, 2013	–	(155,420)	1,470,125	1,806,543	85,887	1,892,431
Profit for the period	–	–	98,104	98,104	1,803	99,907
Other comprehensive income (loss)	(60)	84,838	–	84,838	(90)	84,748
Comprehensive income (loss) for the period	(60)	84,838	98,104	182,942	1,713	184,655
Acquisition of treasury shares	–	–	–	(0)	–	(0)
Disposal of treasury shares	–	(1)	–	0	–	0
Share-based payments	–	58	–	58	–	58
Dividends (Note 8)	–	–	(69,065)	(69,065)	(1,755)	(70,819)
Changes in the ownership interest in a subsidiary without a loss of control	–	–	–	–	–	–
Transfer from other components of equity to retained earnings	60	39	(39)	–	–	–
Other increase (decrease)	–	–	–	–	1,160	1,160
Total transactions with the owners	60	96	(69,104)	(69,007)	(595)	(69,602)
As of June 30, 2013	–	(70,486)	1,499,125	1,920,479	87,005	2,007,484
As of April 1, 2014	–	251,107	1,762,566	2,505,610	90,481	2,596,091
Profit for the period	–	–	106,181	106,181	1,615	107,796
Other comprehensive income (loss)	–	(104,323)	–	(104,323)	(7)	(104,330)
Comprehensive income (loss) for the period	–	(104,323)	106,181	1,858	1,607	3,465
Acquisition of treasury shares	–	–	–	–	–	–
Disposal of treasury shares	–	(2)	–	0	–	0
Share-based payments	–	64	–	64	–	64
Dividends (Note 8)	–	–	(90,877)	(90,877)	(1,209)	(92,087)
Changes in the ownership interest in a subsidiary without a loss of control	–	263	(20,703)	(20,440)	(5,733)	(26,173)
Transfer from other components of equity to retained earnings	–	23	(23)	–	–	–
Other increase (decrease)	–	–	–	–	(391)	(391)
Total transactions with the owners	–	349	(111,604)	(111,253)	(7,333)	(118,587)
As of June 30, 2014	–	147,133	1,757,143	2,396,215	84,755	2,480,969

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

(Millions of yen)

	Three months ended June 30, 2013 Restated*	Three months ended June 30, 2014
Cash flows from operating activities		
Profit before income taxes	141,591	147,516
Depreciation and amortization	32,181	34,234
Impairment losses	146	41
Interest and dividend income	(1,244)	(2,957)
Interest expense	2,235	2,125
Share of profit in investments accounted for using the equity method	(274)	(1,279)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	(730)	(5,884)
(Increase) decrease in trade and other receivables	(1,917)	31,881
(Increase) decrease in inventories	4,593	10,031
Increase (decrease) in trade and other payables	(27,278)	(54,485)
Increase (decrease) in retirement benefit liabilities	(505)	667
(Increase) decrease in prepaid tobacco excise taxes	(42,817)	(63,816)
Increase (decrease) in tobacco excise tax payables	59,608	(6,772)
Increase (decrease) in consumption tax payables	(9,220)	9,505
Other	(67,030)	(44,200)
Subtotal	89,337	56,607
Interest and dividends received	2,123	3,991
Interest paid	(1,944)	(1,619)
Income taxes paid	(85,649)	(86,090)
Net cash flows from operating activities	3,867	(27,111)
Cash flows from investing activities		
Purchase of securities	(434)	(1,633)
Proceeds from sale and redemption of securities	4,129	626
Purchase of property, plant and equipment	(22,963)	(28,844)
Proceeds from sale of investment property	9,319	7,274
Purchase of intangible assets	(9,977)	(3,226)
Payments into time deposits	(162)	(11)
Proceeds from withdrawal of time deposits	4,198	—
Other	581	(1,622)
Net cash flows from investing activities	(15,309)	(27,437)

(Millions of yen)

	Three months ended June 30, 2013 Restated*	Three months ended June 30, 2014
Cash flows from financing activities		
Dividends paid to owners of the parent company (Note 8)	(66,508)	(89,506)
Dividends paid to non-controlling interests	(1,109)	(502)
Increase (decrease) in short-term borrowings and commercial paper	64,899	235,957
Proceeds from long-term borrowings	70	—
Repayments of long-term borrowings	(185)	(135)
Redemption of bonds	—	(170,670)
Repayments of finance lease obligations	(1,288)	(1,207)
Acquisition of treasury shares	(0)	—
Payments for acquisition of interests in subsidiaries from non-controlling interests	—	(25,876)
Other	0	0
Net cash flows from financing activities	(4,122)	(51,938)
Net increase (decrease) in cash and cash equivalents	(15,565)	(106,485)
Cash and cash equivalents at the beginning of the period	142,713	253,219
Effect of exchange rate changes on cash and cash equivalents	3,665	(8,074)
Cash and cash equivalents at the end of the period (Note 6)	130,813	138,659

* Please refer to Note “3. Significant Accounting Policies.”

【Notes to condensed interim consolidated financial statements】

1. Reporting entity

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

The condensed interim consolidated financial statements for the three-month period ended June 30, 2014 of the Company and its subsidiaries (hereinafter referred to as the "Group") were approved on July 30, 2014 by Mitsuomi Koizumi, President and Chief Executive Officer.

2. Basis of preparation

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

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

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 three-month period from January 1, 2014 to March 31, 2014 into the Group's consolidated financial results for the three-month period ended June 30, 2014.

Although there is a three month difference between the fiscal year end of the JTIH Group and that of the Company, 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 positions and results of operations of the Group.

In addition, the Company and its subsidiaries with fiscal year ends other than December 31 will change and unify fiscal year ends to December 31 starting from the year of 2014. As a consequence, this accounting period difference will no longer exist.

3. Significant accounting policies

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

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

(Changes in accounting policies)

The Group has adopted the following new accounting standards, amended standards and interpretations from the quarter ended June 30, 2014.

IFRS		Description of new standards and amendments
IAS 39	Financial Instruments: Recognition and Measurement	Requirements for continuation of hedge accounting in certain circumstances in which there is a change in counterparty to a hedging instrument
IFRIC 21	Levies	Clarifying the accounting for levies

The effect of the above standards and interpretations on the condensed interim consolidated financial statements is immaterial.
Regarding IFRIC 21 mentioned above, the comparative information was retrospectively adjusted in accordance with the transitional provisions.

4. Significant accounting estimates and judgments

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

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

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

5. Operating segments

(1) Outline of reportable segments

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

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

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

(2) Revenues and performances for reportable segments

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

For the three months ended June 30, 2013

(Millions of yen)

	Reportable Segments						Other (Note 3)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco (Note 2)	Pharma-ceuticals	Beverage	Processed Food	Total			
Revenue									
External revenue (Note 4)	172,984	271,092	16,845	45,929	37,425	544,276	3,662	—	547,937
Intersegment revenue	5,462	8,731	—	33	204	14,430	2,518	(16,949)	—
Total revenue	178,446	279,823	16,845	45,963	37,629	558,706	6,180	(16,949)	547,937
Segment profit (loss)									
Adjusted operating profit (Note 1)	64,644	90,249	(949)	(1,589)	97	152,452	(1,005)	(76)	151,371

For the three months ended June 30, 2014

(Millions of yen)

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

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

For the three months ended June 30, 2013

(Millions of yen)

	Reportable Segments						Other (Note 3)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco (Note 2)	Pharma-ceuticals	Beverage	Processed Food	Total			
Adjusted operating profit (Note 1)	64,644	90,249	(949)	(1,589)	97	152,452	(1,005)	(76)	151,371
Amortization cost of acquired intangibles	–	(6,384)	–	–	–	(6,384)	–	–	(6,384)
Adjustment items (income) (Note 5)	1,044	–	–	–	126	1,171	454	–	1,624
Adjustment items (costs) (Note 5)	–	17	–	–	(71)	(53)	(75)	–	(128)
Operating profit (loss)	65,688	83,883	(949)	(1,589)	153	147,185	(626)	(76)	146,483
Financial income									1,444
Financial costs									(6,336)
Profit before income taxes									141,591

For the three months ended June 30, 2014

(Millions of yen)

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

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

In addition, the key performance indicator of the Group has changed from “Adjusted EBITDA” to “Adjusted operating profit” since this quarter. Accordingly, the segment information of the comparable period was retrospectively adjusted.

(Note 2) The foreign subsidiaries group, which includes a core company of JT International S.A., that is part of the “International Tobacco Business” segment, has December 31 as its fiscal year end date and the profit or loss for the period from January 1 to March 31 is included in the three months ended June 30, 2013 and 2014, 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)

	Three months ended June 30, 2013	Three months ended June 30, 2014
Domestic Tobacco	165,164	144,238
International Tobacco	252,291	283,731

(Note 5) “Adjustment items (income)” include restructuring income of gain on sale of real estate. “Adjustment items (costs)” include restructuring costs of the closing down of a factory. The breakdown of restructuring income is described in “10. Other operating income.” The breakdown of restructuring costs is described in “11. Selling, general and administrative expenses.”

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

(Millions of yen)

	Three months ended June 30, 2013	Three months ended June 30, 2014
Restructuring costs	128	267
Adjustment items (costs)	128	267

6. Cash and cash equivalents

Included in “Cash and cash equivalents” as of June 30, 2014 is ¥45,954 million (IRR 13,462.0 billion) held by the Group’s Iranian subsidiary, JTI Pars PJS Co. Due to international sanctions and other factors imposed on Iran, the subsidiary’s ability to remit funds outside of Iran is restricted.

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

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

(Millions of yen)

Carrying Amount	Property, plant and equipment	Goodwill	Intangible assets
As of April 1, 2014	779,987	1,584,432	385,101
Individual acquisition	25,106	—	3,324
Capitalization of borrowing costs	125	—	—
Transfer to investment property	(2,389)	—	—
Depreciation or amortization	(22,731)	—	(10,954)
Impairment losses	(41)	—	—
Reversal of impairment loss	12	—	—
Sale or disposal	(1,004)	—	(45)
Exchange differences on translation of foreign operations	(20,494)	(62,585)	(8,655)
Other	427	—	30
As of June 30, 2014	758,998	1,521,847	368,801

8. Dividends

Dividends paid for each interim period are as follows:

For the three months ended June 30, 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

For the three months ended June 30, 2014

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

9. Revenue

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

(Millions of yen)

	Three months ended June 30, 2013	Three months ended June 30, 2014
Gross turnover	1,718,620	1,675,445
Tobacco excise taxes and agency transaction amount	(1,170,683)	(1,118,997)
Revenue	547,937	556,448

10. Other operating income

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

(Millions of yen)

	Three months ended June 30, 2013	Three months ended June 30, 2014
Gain on sale of property, plant and equipment, intangible assets and investment property (Note)	1,745	6,862
Other (Note)	3,003	776
Total	4,748	7,637

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

(Millions of yen)

	Three months ended June 30, 2013	Three months ended June 30, 2014
Gain on sale of property, plant and equipment, intangible assets and investment property	1,486	6,670
Other	138	–
Total	1,624	6,670

11. Selling, general and administrative expenses

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

(Millions of yen)

	Three months ended June 30, 2013	Three months ended June 30, 2014
Advertising expenses	4,519	4,303
Promotion expenses	29,840	28,475
Shipping, warehousing expenses	6,624	6,679
Commission	10,219	11,920
Employee benefit expenses (Note)	67,203	71,300
Research and development expenses	13,868	13,690
Depreciation and amortization	16,877	17,668
Impairment losses on other than financial assets (Note)	146	41
Loss on sale and disposal of property, plant and equipment, intangible assets and investment property (Note)	1,260	1,484
Other (Note)	35,400	35,187
Total	185,954	190,745

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

(Millions of yen)

	Three months ended June 30, 2013	Three months ended June 30, 2014
Employee benefit expenses	—	181
Impairment losses on other than financial assets	20	—
Loss on sale and disposal of property, plant and equipment, intangible assets and investment property	71	80
Other	38	5
Total	128	267

12. Financial income and financial costs

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

(Millions of yen)

Financial Income	Three months ended June 30, 2013	Three months ended June 30, 2014
Dividend income	340	381
Interest income	904	2,576
Other	199	92
Total	1,444	3,049

(Millions of yen)

Financial Costs	Three months ended June 30, 2013	Three months ended June 30, 2014
Interest expenses (Note 2)	2,235	2,125
Foreign exchange losses (Note 1)	2,053	11
Employee benefit expenses (Note 3)	1,398	1,424
Other	651	200
Total	6,336	3,760

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

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

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

13. Interim earnings per share

(1) Basis of calculating basic interim earnings per share

a. Profit attributable to ordinary shareholders of the parent company

(Millions of yen)

	Three months ended June 30, 2013	Three months ended June 30, 2014
Profit for the period attributable to owners of the parent company	98,104	106,181
Profit not attributable to ordinary shareholders of the parent company	–	–
Profit for the period used for calculation of basic interim earnings per share	98,104	106,181

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

(Thousands of shares)

	Three months ended June 30, 2013	Three months ended June 30, 2014
Weighted-average number of shares during the period	1,817,490	1,817,549

(2) Basis of calculating diluted interim earnings per share

a. Profit attributable to owners of diluted ordinary shareholders

(Millions of yen)

	Three months ended June 30, 2013	Three months ended June 30, 2014
Profit for the period used for calculation of basic interim earnings per share	98,104	106,181
Adjustment	–	–
Profit for the period used for calculation of diluted interim earnings per share	98,104	106,181

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

(Thousands of shares)

	Three months ended June 30, 2013	Three months ended June 30, 2014
Weighted-average number of ordinary shares during the period	1,817,490	1,817,549
Increased number of ordinary shares under subscription rights to share	969	1,010
Weighted-average number of diluted ordinary shares during the period	1,818,459	1,818,559

14. Financial instruments

(Fair Value of Financial Instruments)

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

(Millions of yen)

	As of March 31, 2014		As of June 30, 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings (Note)	36,259	36,259	35,561	35,561
Bonds (Note)	303,532	309,025	130,374	133,233

(Note) Current portion is included.

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

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

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

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

As of March 31, 2014

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Derivative assets	－	8,600	－	8,600
Equity securities	49,809	－	3,896	53,705
Other	201	－	1,333	1,534
Total	50,011	8,600	5,229	63,840
Derivative liabilities	－	4,856	－	4,856
Total	－	4,856	－	4,856

As of June 30, 2014

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Derivative assets	－	8,959	－	8,959
Equity securities	54,786	－	3,875	58,661
Other	214	－	1,308	1,521
Total	55,000	8,959	5,182	69,141
Derivative liabilities	－	3,952	－	3,952
Total	－	3,952	－	3,952

15. Commitments

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

(Millions of yen)

	As of March 31, 2014	As of June 30, 2014
Acquisition of property, plant and equipment	62,670	60,017

16. Contingencies

As of June 30, 2014, there are no significant changes to the matters described in the consolidated financial statements for the fiscal year ended March 31, 2014.

17. Subsequent events

No items to report

2. Other

No items to report

(TRANSLATION)

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

July 30, 2014

To the Board of Directors of
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC

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

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Koji Ishikawa (Seal)

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Takenao Ohashi (Seal)

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have reviewed the condensed interim consolidated financial statements included in the Accounting Section, namely, the condensed interim consolidated statement of financial position of Japan Tobacco Inc. (the "Company") and its consolidated subsidiaries as of June 30, 2014, and the related condensed interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended, and the related notes.

Management's Responsibility for the Condensed Interim Consolidated Financial Statements

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

Accountant's Responsibility

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

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

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

Accountant's Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements referred to above do not present fairly, in all material respects, the consolidated financial position of the Company and its consolidated subsidiaries as of June 30, 2014, and the consolidated results of their operations and their cash flows for the three-month period then ended in accordance with International Accounting Standard 34 "Interim Financial Reporting."

Interest

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

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