Camel:

Launched in 1913 and a pioneer of the American blend, Camel’s strong heritage and genuine taste continue to drive its success. The brand’s success is supported by innovative propositions and it celebrated 100-year anniversary in 2013.

See page 29 for further details.
Industry Overview

Tobacco

Tobacco industry

Market dynamics
There are many types of tobacco products available in today’s marketplace. Cigarettes remain the most popular choice for consumers, while fine-cut, cigars, pipe tobacco, snuff, chewing tobacco and water-pipe tobacco continue to draw consumers’ interest, with some of these product categories increasing their volumes worldwide. In addition, other product varieties such as electronic cigarettes (e-cigarettes) have recently increased their volume. E-cigarettes use vaporized liquid solutions often containing nicotine, and vapor is inhaled to offer a different experience. Although this market is still small, e-cigarettes are growing fast in Europe and the U.S.

Approximately 5.7 trillion cigarettes are consumed around the world. China is by far the largest market, which accounts for over 40% of global consumption, but it is almost exclusively operated by a state monopoly. Russia, the U.S., Indonesia and Japan are the next four largest markets, according to a survey conducted in 2013.*

In general, the market dynamics are distinctively different between mature and emerging markets. In mature markets, industry volume tends to decline reflecting various factors such as limited economic growth, tax increases, tightening regulations, and demographic changes, among others. In addition, down-trading is prevalent in these markets. Consumers are inclined to seek more value as they feel tobacco products become less affordable in the context of limited growth of disposable income. Recently, these trends have been especially notable in the EU countries, as weak economic conditions accelerate industry contraction and down-trading.

In emerging markets, on the other hand, total consumption tends to increase, driven by population growth and economic development, particularly in Asia, the Middle East and Africa. As their disposable income increases, consumers look for quality and trade up to products in higher price bands.

Overall, when we exclude China, global industry volume has been slightly decreasing. However, more importantly, industry value continues to grow even in the current difficult operating environment, mainly driven by price increases. This is a sign of the resilience of the industry. These trends – decline in volume and increase in value – are expected to continue in the years ahead.

Regulations
The regulatory environment continues to be more restrictive for the tobacco industry. Restrictions on promotions and advertisements are the most common around the world. An increasing number of markets are introducing bans on smoking in public places and promoting larger health warnings on product packaging, in some cases with pictorial health warnings.

Recent regulations are focusing more on the product itself. Specifically, plain packaging has been discussed in the UK, Ireland and New Zealand after being implemented in Australia. Furthermore, regulators are becoming more aggressive by restricting ingredients and emissions, following the guidelines on these attributes proposed by the Framework Convention on Tobacco Control. In Europe, a revised European Tobacco Directive created restrictions on the use of additives such as menthol, and we expect to see this restriction to come into force in the future. These moves to commoditize tobacco products will undermine fair competition among tobacco manufacturers trying to meet increasingly diverse consumer preferences. Worse, they could result in an undesired increase in illicit trade, as commoditized products with less uniqueness are easier to counterfeit and more difficult to detect when smuggled.

Excise taxes were raised in various markets during the past year, and in general, tax increases are passed onto prices. However, repeated tax increases in a short period of time, or steep tax increases, could lead to a decline in industry volume. Often, tax increases coincide with an increase in illicit trade, which could in turn affect our business.

Competition
Excluding China, two thirds of world industry volume is produced by four major global tobacco companies, namely Philip Morris International Inc., British American Tobacco Plc., Japan Tobacco Inc. and Imperial Tobacco Group Plc. The competition within the industry is intense and, as consumers’ needs and preferences continue to diversify, a strong portfolio with established brands is increasingly important to support market share gains. Therefore, major global companies are focusing on brand equity enhancement to strengthen their brand portfolios by introducing innovative products. In addition to the pursuit of organic growth, M&A is an effective way to supplement growth opportunities in this industry.

* Source: Euromonitor, excluding e-cigarettes.
### Top 10 countries by volume

<table>
<thead>
<tr>
<th>Country</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>2,229.2</td>
<td>2,316.7</td>
<td>2,406.2</td>
<td>2,477.9</td>
<td>2,517.8</td>
</tr>
<tr>
<td>Russia</td>
<td>390.0</td>
<td>383.1</td>
<td>375.1</td>
<td>370.8</td>
<td>347.2</td>
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<tr>
<td>U.S.</td>
<td>320.7</td>
<td>309.1</td>
<td>299.1</td>
<td>292.7</td>
<td>285.2</td>
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<tr>
<td>Indonesia</td>
<td>173.8</td>
<td>181.6</td>
<td>191.8</td>
<td>203.1</td>
<td>221.2</td>
</tr>
<tr>
<td>Japan</td>
<td>235.1</td>
<td>217.9</td>
<td>195.9</td>
<td>197.4</td>
<td>195.0</td>
</tr>
<tr>
<td>India</td>
<td>98.7</td>
<td>98.6</td>
<td>102.8</td>
<td>102.1</td>
<td>100.9</td>
</tr>
<tr>
<td>Turkey</td>
<td>107.5</td>
<td>93.4</td>
<td>91.2</td>
<td>95.3</td>
<td>92.2</td>
</tr>
<tr>
<td>South Korea</td>
<td>94.2</td>
<td>90.5</td>
<td>89.9</td>
<td>89.3</td>
<td>88.5</td>
</tr>
<tr>
<td>Philippines</td>
<td>94.8</td>
<td>101.4</td>
<td>97.4</td>
<td>102.5</td>
<td>86.7</td>
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<tr>
<td>Vietnam</td>
<td>76.0</td>
<td>79.7</td>
<td>82.6</td>
<td>83.5</td>
<td>85.3</td>
</tr>
</tbody>
</table>

Source: Euromonitor.

### Top market players

<table>
<thead>
<tr>
<th>Share of market (%)</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philip Morris International Inc.</td>
<td>22.2</td>
<td>24.3</td>
<td>24.6</td>
<td>25.1</td>
<td>25.1</td>
</tr>
<tr>
<td>British American Tobacco Plc</td>
<td>19.5</td>
<td>19.7</td>
<td>20.0</td>
<td>20.2</td>
<td>20.5</td>
</tr>
<tr>
<td>Japan Tobacco Inc.</td>
<td>16.6</td>
<td>16.2</td>
<td>15.5</td>
<td>16.2</td>
<td>16.6</td>
</tr>
<tr>
<td>Imperial Tobacco Group Plc</td>
<td>8.9</td>
<td>8.8</td>
<td>8.7</td>
<td>8.6</td>
<td>8.5</td>
</tr>
</tbody>
</table>

Source: Euromonitor and JT estimate. Excluding China National Tobacco Corp (CNTC).

### Top brands

<table>
<thead>
<tr>
<th>Brand</th>
<th>Company 1</th>
<th>Company 2</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marlboro</td>
<td>Philip Morris International Inc.</td>
<td>Altria Group Inc.</td>
<td>425.7</td>
<td>420.8</td>
<td>414.4</td>
<td>416.9</td>
<td>402.7</td>
</tr>
<tr>
<td>Winston</td>
<td>Japan Tobacco Inc.</td>
<td>Reynolds American Inc.</td>
<td>122.1</td>
<td>122.4</td>
<td>122.4</td>
<td>130.2</td>
<td>136.3</td>
</tr>
<tr>
<td>Pall Mall</td>
<td>British American Tobacco Plc</td>
<td>Reynolds American Inc.</td>
<td>90.4</td>
<td>99.4</td>
<td>101.0</td>
<td>101.6</td>
<td>104.5</td>
</tr>
<tr>
<td>L&amp;M</td>
<td>Philip Morris International Inc</td>
<td>84.8</td>
<td>84.7</td>
<td>87.3</td>
<td>88.1</td>
<td>89.5</td>
<td></td>
</tr>
<tr>
<td>Mevius</td>
<td>Japan Tobacco Inc</td>
<td>103.7</td>
<td>95.2</td>
<td>81.2</td>
<td>84.4</td>
<td>83.7</td>
<td></td>
</tr>
<tr>
<td>Gold Flake</td>
<td>ITC Ltd</td>
<td>British American Tobacco Plc</td>
<td>60.3</td>
<td>59.0</td>
<td>58.8</td>
<td>61.6</td>
<td>62.7</td>
</tr>
<tr>
<td>Kent</td>
<td>British American Tobacco Plc</td>
<td>57.6</td>
<td>57.0</td>
<td>60.2</td>
<td>63.6</td>
<td>61.8</td>
<td></td>
</tr>
<tr>
<td>Gudang Garam</td>
<td>Gudang Garam Tbk PT</td>
<td>48.8</td>
<td>52.3</td>
<td>53.7</td>
<td>57.8</td>
<td>60.5</td>
<td></td>
</tr>
<tr>
<td>Camel</td>
<td>Japan Tobacco Inc.</td>
<td>Reynolds American Inc.</td>
<td>68.7</td>
<td>63.9</td>
<td>60.2</td>
<td>59.6</td>
<td>58.7</td>
</tr>
<tr>
<td>Dunhill</td>
<td>British American Tobacco Plc</td>
<td>45.8</td>
<td>48.0</td>
<td>47.1</td>
<td>47.0</td>
<td>51.5</td>
<td></td>
</tr>
</tbody>
</table>

Source: Euromonitor. Excluding China National Tobacco Corp (CNTC).
Pharmaceutical industry

Market dynamics
The global pharmaceutical market continues to grow, reaching approximately US $960 billion in 2012 according to IMS Health.

In emerging countries, demand for modern medicine is rapidly growing due to multiple factors including growing consciousness of health, increase in population, and development of public healthcare systems, among others. Mature markets also see a value increase, though the pace of growth is moderate. Facing a rapidly aging society and a fiscal deficit, the governments in these markets try to contain healthcare costs through mandated price cuts and wider promotion of generic drugs. In addition, patents of commercially successful drugs have been expiring during recent years.

Despite the limited growth, mature markets hold majority of share in global pharmaceutical markets. North America is the largest market and accounts for 36% of the worldwide market, followed by Europe and Japan, representing 23% and 12%, respectively.

Japan, the main market for our pharmaceutical business, is a typical mature market with a moderate industry growth. In an aging population, this trend is expected to continue at a CAGR of 1.7% to 4.7% from 2012 through 2017, according to IMS Health.

Prescription drugs comprise the majority of the Japanese pharmaceutical market in terms of net sales. The Japanese generic drug market for prescription drugs is still small compared with the generic drug market in the U.S. and Europe, but the generic drug market has been expanding more recently due in part to the government promotion of generic drugs in order to control medical care expenses. In Japan, the government determines the price of pharmaceutical products with revisions being made every two years. In April 2014, the latest round of price revisions led to an industry-wide reduction of drug prices by 5.6% on average excluding consumption tax increase.

In light of these factors and consistent with the global trend towards industry consolidation, Japanese pharmaceutical companies have been actively involved in mergers, acquisitions and other business alliances. In addition to industry consolidation within Japan, cross-border mergers, acquisitions and other business alliances involving Japanese pharmaceutical companies are also expected to increase.

Competition
The pharmaceutical industry is highly competitive worldwide. Our pharmaceutical business focuses on building a R&D-led operational platform. Based on this platform, original compounds are developed and marketed as leading products in major global markets. As such, we face competition with Japanese and multinational pharmaceutical companies. These companies are also focused on their research and development pipelines.

Japanese beverage industry

Market dynamics
Sales volume of the Japanese beverage market was approximately 1,858 million cases for 2013, up 3% year-on-year and at an all-time high level for the second consecutive year. Sales volume was driven by a record-breaking summer heat wave. (Source: Inryo Soken Inc. Data of packaged products including cans, PET bottles and glass bottles). In general, sales volume is significantly affected by weather conditions including temperature, as well as by economic conditions.

Popular beverage categories in Japan include tea-based drinks, coffee, carbonated drinks and mineral water. Looking at 2013 sales volume by category, carbonated soft drinks continued to perform well, while sports drinks and mineral water also performed favorably. As for the Japanese tea category, the market was invigorated by active sales promotions by some of the leading manufacturers, resulting in higher sales volume. On the other hand, canned coffee failed to grow sales volume as over-the-counter coffee at convenience stores became rapidly popular.

Key sales channels in Japan include vending machines, supermarkets, convenience stores and other channels, with share of sales volume standing at 37%, 32%, 21%, and 10% respectively (Source: Inryo Soken Inc. Data of packaged products including cans, cans and PET bottles). In general, supermarkets frequently offer price discounts, while vending machines and convenience stores maintain regular prices. However, the consumer down-trading trend has led to the emergence of vending machines offering discounts and to the growing popularity of private-label products, causing price competition to intensify. Price competition is also driven by wholesalers and retailers.
In April 2014, consumption tax was raised from 5% to 8%. Beverage products are sold partly by vending machines in Japan and prices for vending machines can only be set at rounded numbers of 10 yen. Taking this into account, manufacturers raised prices of some of their products by 10 yen while not raising prices of other products, the intended effect was to duly pass on the 3% tax increase to their product portfolio as a whole.

**Competition**
Many companies, both domestic and international, are selling beverages in Japan, including the JT Group, Coca-Cola Group, Suntory Beverage & Food, Kirin Beverage, ITO EN and Asahi Soft Drinks. The competition is increasingly intensive in various areas including price, brand equity, distribution reach among others.

**Japanese processed food industry**

**Market dynamics**
JT’s processed food business is operated through our subsidiary TableMark Co., Ltd. (TableMark) which plays a central role in our processed food business. TableMark focuses on frozen food such as frozen noodles, frozen rice and bread, ambient processed food represented by packed-cooked rice, seasoning business utilizing our yeast technology, and bakery business.

The size of the Japanese frozen food market in 2013 on a consumption basis including imports was ¥977.1 billion, up 8.7% year-on-year (Source: Japan Frozen Food Association). This was due to an increase in household consumption of frozen food arising from stronger preference for eating-in after the Great East Japan Earthquake. Product development efforts by manufacturers also contributed to the growth, as well as the use of frozen food in restaurants, so demand for them remained solid throughout the year.

For the Japanese processed food industry, we expect to see additional price increases in imported raw materials and prices of raw materials remaining at high levels. The processed food business is also significantly impacted by developments in the wholesale and retail sales channels, particularly by their consolidation. We will continue to monitor the development of these channels, especially in the area of M&A.

In response to the April 2014 consumption tax increase, whereby consumption tax was raised from 5% to 8%, food manufacturers managed the tax hike in a number of ways, for example by raising prices in conjunction with product renewals or reducing cost by amending product speculations.

**Competition**
TableMark is competing against major players like Nichirei, Ajinomoto, Maruha Nichiro Foods and Nissui as well as a multitude of mid-or small-scale producers. We are seeing a polarization of retailers as well as reorganization and oligopolization of the wholesale sector led by sogo-shosha, the general trading companies, resulting in stronger price negotiation power against manufacturers. We are also seeing an increase in private label brands.
Review of Operations

Role of Tobacco Businesses

*The core business and profit growth engine of the JT Group*

**Mid- to long-term target and role:**

- Grow adjusted operating profit at mid to high single-digit rate per annum over the mid- to long-term as the core business and profit and growth engine of the JT Group
  - International: strengthen its role as the group’s profit growth engine
  - Japanese domestic: highly competitive platform of profitability

**Strategy:**

- **Priority on quality top-line growth**
  - Continue to strengthen our brand equity, with focus on our core brands
  - Grow or maintain market share in existing key markets
  - Broaden the geographical base
  - Develop emerging product categories

- **Continuous cost improvement**
Value Chain

R&D
Create value for the business through innovation and quality
- We focus on fundamental research and product technology development, taking advantage of our global research platform, in close collaboration with other functions. In particular, focus areas in our R&D activities are:
  - Develop product and analytical capabilities in line with market needs and our anticipation of regulatory trends.
  - Maintain existing products to comply with regulatory changes.
  - Develop new technologies and improve production processes to maintain competitiveness and increase efficiency.
  - Develop emerging products.
  - Drive product innovation to enhance brand equity from various aspects, including tobacco leaves, blends, filters, printing techniques and packaging.

Procurement
Ensure stable supply of quality tobacco leaf
- Tobacco leaf is the most important material for our products, and we dedicate our efforts to strengthen our capability to ensure a stable supply of quality leaf in the long-term.
  - Increase the proportion of internally sourced leaf from our procurement bases in Africa, Brazil and the U.S.
  - Enhance sustainability of tobacco farming by helping farmers to improve productivity as well as taking initiatives to support their communities.
  - Maintain good relationships with external suppliers to ensure sufficient supply at competitive prices.
- With regard to non-tobacco-materials, we aim to mitigate cost increases due to design enhancements and investment in innovative products by, among others, effectively managing procurement lot-size.

Manufacturing
Support top-line growth by delivering quality products
- Our emphasis on product quality is increasing to meet consumer expectations for innovative offerings. In addition, we consistently pursue an optimal manufacturing footprint which ensures efficient and timely product deliveries to markets.
  - Strengthen our ability for business continuity in times of emergency.
  - Ensure high quality of products and enhance flexibility in the manufacturing process, overcoming complexity in manufacturing due to an increase in number of products.
  - At the same time, seek efficiency by containing cost increases through continuous improvement and reviewing manufacturing footprint for further optimization.

Marketing
Enhance equity of core brands
- Our strategic focus is placed on our core brands and we strive to enhance their equity through effective communications with consumers.
  - Allocate appropriate resources to support GFBs’ equity building.
  - Reinforce non-GFBs, where necessary, to complement our brand portfolio in a market.
  - Implement effective marketing programs, in compliance with applicable laws and regulations as well as our own marketing code.

Sales & Distribution
Expand product availability by leveraging our trade marketing excellence
- There are various sales channels for tobacco products such as supermarkets, convenience stores, street and train station kiosks, small independent retailers and vending machines. Key channels are different depending on market and we develop win-win relationships with them to increase the availability of our products.
  - Strengthen relationship with key accounts, leveraging our trained sales forces.
  - Develop trade marketing initiatives for each market, taking into account the channel development as well as consumer trends and competitors’ actions.
Review of Operations

International Tobacco Business
FY2013: Year ended December 31, 2013

Core Revenue increased driven by price/mix (US$ MM)

<table>
<thead>
<tr>
<th></th>
<th>2013 at constant currency</th>
<th>2012 restated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume</td>
<td>12,362</td>
<td>11,655</td>
</tr>
<tr>
<td>Price/Mix</td>
<td>+1,083</td>
<td>-376</td>
</tr>
<tr>
<td>Adjusted EBITDA</td>
<td>4,614</td>
<td>4,145</td>
</tr>
</tbody>
</table>

• Total shipment volume was down 4.6% due to severe industry contraction in a number of our key markets.
• GFB shipment volume was resilient, only down 0.8%, driven by Winston and share of market gains across most key markets.
• Core revenue grew 6.1% driven by price/mix improvements of US$1.1 billion, mainly in Russia, the UK and Taiwan. On a reported basis, core revenue grew 3.9%.

• Price/mix was the key driver of our earnings growth.
• Investment in brands increased ahead of regulatory changes, with continued focus on broadening the business base and emerging markets.
• Cost of Goods Sold were well contained with overall product cost only increasing marginally.
• Reported profit was impacted by unfavorable foreign exchange rates, growing 7.5%.

* Please refer to the Glossary on page 158 for more information.

JTI represents the international activities of the JT Group’s tobacco business. JTI manufactures and sells more than 90 brands in more than 120 countries. It is the profit growth engine of the Group, driven by its diversified geographic profile and the strength of its brands and people.

“In 2013, JTI continued to deliver strong financial results achieving double-digit earnings growth at constant rates of exchange in an environment that remained challenging.

Despite significant industry contraction globally, our Global Flagship Brands volume was almost flat, demonstrating the strong resilience of our brands. In addition, robust pricing as well as share of market and share of value growth in most key markets generated a strong top-line performance.

Our investment has not been limited to our brands. We have continued to invest in broadening our earnings base, another key strategic priority of JTI. Not only have we grown our geographic presence but we have also expanded our reach to consumers in the fine cut and shisha tobacco categories.

Finally, we have invested further in the area of emerging products. It’s still early stages, but we consider these investments as a first step towards our objective of becoming the global leader in the emerging products category.

For 2014, while many of the existing challenges will remain, I am confident that the expertise, dedication and challenging mindset of our employees worldwide, combined with our strategy, will enable JTI to continue delivering solid top- and bottom-line performance.”
Global Flagship Brands (GFB) Portfolio

Our GFBs form the core of our brand portfolio. We have eight GFBs providing a well-balanced portfolio to address consumer needs globally.

Winston

First introduced in 1954, Winston is one of JTI’s key growth drivers. The second largest cigarette brand worldwide since 2007, Winston is currently sold in more than 110 markets. 2013 was a landmark year for Winston, achieving record performance. Winston’s growth rate boosted shipment volume above 140 billion cigarette equivalent units. This record was achieved through double-digit volume growth in 38 markets. In fine cut, shipment volume momentum continued with an increase of 16.3%.

Winston achieved record market share in 42 markets globally in 2013 including Russia and Turkey, its two largest volume markets. Both families of Winston portfolio architecture – Winston Core and Winston XS – contributed to Winston’s success globally.

The Winston Core family continued to grow steadily driven by mainstream products: Winston King Size, Super Slims and Fine Cut. An upgraded Core family pack design has been successfully rolled-out since Q3 2013.

Winston XS family, mainly consisting of compact formats, continued to boost volumes, strengthening Winston leadership in the King Size Super Slims segment and achieving the n°1 position in the King Size Slims segment globally in 2013.

Camel

Launched in 1913 and originator of the American blend, Camel has stood the test of time. It is sold in more than 100 markets and is one of the top brands in many of JTI’s key markets. Its strong heritage and genuine taste continue to drive its success.

In 2013, Camel celebrated its 100-year anniversary through an integrated marketing program worldwide, with a series of initiatives ranging from unique limited edition packs using new pack structures (e.g. the Oyster pack, pictured), as well as driving innovation further with new launches in the fast-growing-on-demand segment, such as Camel Activate. Innovations such as Activate already represent 19% of Camel’s global volume, and successfully address new consumer trends spanning from cigarettes to fine cut tobacco.
Our strategies:
As in previous years, our strategic priorities are to achieve quality top-line growth and broaden our earnings base. JTI is committed to deploying its key strategies under the guiding principle of continuous improvement.

Our key strategies are:
• Build and nurture outstanding brands.
• Enhance productivity continuously.
• Maintain focus on responsibility and credibility.
• Strengthen human resources as a cornerstone of growth.

Operating performance
• Total shipment volume was down 4.6% to 416.4 billion cigarette equivalent units, due to severe industry contraction and despite our fine cut volume growing 18.4%.
• Our market share performance has maintained its positive momentum. We also grew share of value in all our key markets. This is the result of focused and consistent investment over many years to enhance the equity of our brands, as well as excellence in the execution of trade marketing capabilities.
• Another key success factor is the well-balanced structure of our portfolio capturing both down-traders and up-traders based on local trends.

GFB shipment volume performance
• In 2013, the performance of our Global Flagship Brands was resilient with volume declining 0.8% to 266.6 billion cigarette equivalent units.
• As a result, the weight of our GFBs in our total volume increased a remarkable 2.4ppt to 64.0%.
• Our GFBs also gained market share across the different markets they are sold in, reaching 14.4% on a 12-months rolling average basis. An increase of 4.4ppt versus the prior year.
• These positive results derive directly from the successful implementation of our strategy to invest in brand equity and portfolio expansion, through innovative propositions as well as new categories.

Cluster performance

Share of market (12-month moving average)

<table>
<thead>
<tr>
<th>Markets</th>
<th>2013</th>
<th>Change vs. last year (ppt)</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>20.1%</td>
<td>+2.7</td>
</tr>
<tr>
<td>Italy</td>
<td>21.6%</td>
<td>+0.2</td>
</tr>
<tr>
<td>Russia</td>
<td>38.3%</td>
<td>-0.1</td>
</tr>
<tr>
<td>Spain</td>
<td>21.5%</td>
<td>+0.7</td>
</tr>
<tr>
<td>Taiwan</td>
<td>39.4%</td>
<td>+0.5</td>
</tr>
<tr>
<td>Turkey</td>
<td>26.7%</td>
<td>+0.4</td>
</tr>
<tr>
<td>UK</td>
<td>40.7%</td>
<td>+1.3</td>
</tr>
</tbody>
</table>

Note: Market shares include cigarettes and fine cut. Source: Nielsen, Logista.

Share of value (12-month moving average)

<table>
<thead>
<tr>
<th>Markets</th>
<th>2013</th>
<th>Change vs. last year (ppt)</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>18.8%</td>
<td>+1.6</td>
</tr>
<tr>
<td>Italy</td>
<td>21.1%</td>
<td>+0.2</td>
</tr>
<tr>
<td>Russia</td>
<td>36.7%</td>
<td>+0.5</td>
</tr>
<tr>
<td>Spain</td>
<td>24.0%</td>
<td>+2.7</td>
</tr>
<tr>
<td>Taiwan</td>
<td>44.5%</td>
<td>+1.2</td>
</tr>
<tr>
<td>Turkey</td>
<td>26.7%</td>
<td>+0.5</td>
</tr>
<tr>
<td>UK</td>
<td>41.0%</td>
<td>+1.5</td>
</tr>
</tbody>
</table>

Note: Share of value include cigarettes and fine cut. Source: Nielsen, Logista, IRI.

In France, Spain and Italy, the market declined within the range of 6% to 9%. As a result, our total and GFB shipment volumes were down 2.8% and 5.0%, respectively.

Nevertheless, our business fundamentals and brand equity remain strong as they contributed to the market share growth throughout the cluster.

In Italy, both Winston and Camel have continued to grow share of market and share of value despite declining industry volume. Core revenue and adjusted EBITA deteriorated due to the absence of pricing opportunities in this market and the intense competition in the newly created super value segment. We are confident in our solid position in this market and anticipate a continued improvement in share of market and share of value.
Originally established in 1873, Benson & Hedges has a proud British heritage and the ambition to be a bold, brave, adaptable and innovative brand. B&H is market leader in six markets. B&H enjoys the n°2 position in the UK’s sub-premium segment and in France’s Virginia segment.

Launched in 1964, Silk Cut established its credentials as one of the first low-tar nicotine brands with charcoal filters and less-smoke-smell categories in the past. It is present in 18 countries, mainly in Asia including Japan and Taiwan, where it is a market leader.

The successful rebranding in 2013 was the first step towards our ambition to make Mevius the n°1 global premium brand. Following rebranding, Mevius has started expanding its geographical footprint beyond Asia.

Sobranie is one of the world’s oldest tobacco brands and has been synonymous with luxury cigarettes since 1879. This heritage, the exquisite style and the finest tobaccos have made Sobranie one of the most prestigious brands in the world.

In 2013, Sobranie was the fastest growing GFB. Sobranie Prestige growing 58% year-over-year. Key innovations released in the last 12 months, focused on new formats such as King Size Super Slims and 98 MM MIDI SLIMS, making Sobranie one of the most modern forward-looking Prestige brands.

Launched in 1999 as a mid-price brand in the Russian market, LD has grown and expanded constantly. Now ranked n°2 globally in the Value segment, LD is selling in 37 countries across all clusters.

LD’s success is driven by our focus on ongoing improvement, innovation and ability to adapt. Affordable innovation and modern format offers prove to be relevant for Value smokers and stand for more than 30% of the LD family today.

In 2013, we continued investing in LD’s high quality offering, innovation and successful introduction in the fine cut category.

Mevius, launched as Mild Seven in 1977, aims at Imagineering the future. Just like the brand pioneered low-tar-nicotine with charcoal filter and less-smoke-smell categories in the past.

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Mevius is the first low-tar nicotine brand. Mevius has a proud Japanese heritage and the ambition to be a bold, brave, adaptable and innovative brand. JTI enjoys the n°2 position in the Japanese sub-premium segment.

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Core revenue and adjusted EBITA have been significantly impacted by the overall volume decline and in particular by the situation in Italy. Core revenue was up only 0.4% while adjusted EBITA declined 2.8%, both at constant exchange rates. Excluding Italy, the cluster adjusted EBITA would have grown.

North & Central Europe

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>Year-on-year change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total shipment volume</td>
<td>50.4</td>
<td>+1.0%</td>
</tr>
<tr>
<td>(billion units)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GFB shipment volume</td>
<td>25.6</td>
<td>+5.3%</td>
</tr>
<tr>
<td>(billion units)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

We have recorded a strong overall performance in this cluster in 2013. Total and GFB shipment volumes were up 1.0% and 5.3%, respectively. This positive volume performance was mainly driven by the Czech Republic, Germany, Hungary and Sweden.

We continued to grow share of market and share of value in this cluster, particularly in the Czech Republic, Germany, Poland and the UK.

In the UK, we kept growing share of market and share of value to over 40%. Our consistent commitment to invest in local brands, where it is relevant and beneficial to do so, secured our n°1 brand ranking in the ready-made cigarettes with Sterling and the n°1 brand position in the fine cut category with Amber Leaf. In addition, Amber Leaf remains the n°1 tobacco brand in the UK.

With a robust pricing environment and the positive volume performance, core revenue and adjusted EBITA grew strongly by 7.8% and 5.6%, respectively, at constant exchange rates.

CIS+

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>Year-on-year change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total shipment volume</td>
<td>185.2</td>
<td>-6.2%</td>
</tr>
<tr>
<td>(billion units)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GFB shipment volume</td>
<td>123.8</td>
<td>+0.7%</td>
</tr>
<tr>
<td>(billion units)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Industry contraction in Russia and Ukraine in 2013 resulted in a 6.2% decline in our total shipment volume in this cluster. The strong equity of our brands allowed us to maintain positive GFB volume momentum, delivering a 0.7% growth.

We grew GFB market share in all key markets of this cluster.

In Russia, the industry contracted 7.3% in 2013 while up-trading into the sub-premium and mid-price segments continued. GFB market share grew 1.3ppt to 23.2%, with Winston reaching a record share of market of 14.3%, gaining 1.6ppt. Camel and Sobranie also grew share of market versus previous year. JTI’s share of value also grew 0.5ppt to a record 36.7%.

Core revenue and adjusted EBITA grew 9.6% and 19.9%, respectively, at constant exchange rates. Driven by relatively predictable excise tax regimes, pricing opportunities are still available in this cluster.

Rest-of-the-World

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>Year-on-year change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total shipment volume</td>
<td>119.8</td>
<td>-5.3%</td>
</tr>
<tr>
<td>(billion units)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GFB shipment volume</td>
<td>65.9</td>
<td>-2.5%</td>
</tr>
<tr>
<td>(billion units)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Throughout 2013 there has been shipment volatility and ongoing uncertainty in several Middle East markets and this volatility has impacted the overall volume performance of this cluster. As a result, total and GFB shipment volumes were down 5.3% and 2.5%, respectively. Excluding this Middle East volatility, total and GFB shipment volumes would have grown 2.8% and 3.1%, respectively.

In Taiwan, our strong brand equity drove pricing, share of market and share of value growth. Our share of value increased 1.2ppt to 44.6% driven by Mevius, Mi-Ne and Winston.

Despite the negative volume, the cluster has grown core revenue and adjusted EBITA 4.4% and 13.9%, respectively, driven by pricing benefits in a number of markets including Taiwan, Tanzania and Turkey.

Outlook

JTI will continue delivering on its solid track record of growth.

While we do not see the operating environment improving in 2014, we are highly confident we will continue delivering double-digit earnings growth, at constant exchange rates.

In 2014, we will further invest in markets where we have limited presence, pursue opportunities to expand into new markets, and enhance our emerging products portfolio.
Our partnership with Ploom, Inc. started back in December 2011. Working closely together we have invested in the brand, built a state-of-the-art manufacturing facility and created an exciting portfolio of truly innovative products. Ploom is a unique tobacco vapor concept driven by an innovative design, winner of the prestigious Red Dot® award. We launched in our first four markets in 2013 (Austria, Italy, Korea & Japan) and have expanded to France and the UK in the first half of 2014. Building on the learnings from these initial launch markets, we have begun an exciting journey to lead and develop a new category that aims to rethink tobacco and offer smokers new and innovative solutions in tobacco vapor. In these early days, the passion and creativity we’ve already seen from the global Ploom community positions JTI well, as we prepare for the future of our industry.

In line with our strategy to broaden our base for future growth, over the past years we have carried out several acquisitions and entered into partnership to expand our portfolio.

Ploom

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Fine Cut

JTI has shown an impressive volume performance in the past year in the fine cut category (roll your own & make your own) in Europe. Volume increased 18.4% vs. previous year thanks to the Gryson acquisition but also to continuous organic growth (+8% vs. previous year). The organic growth has been driven by GFBs (Winston, Camel, LD) with +22.6% vs. previous year, as well as our stand-alone brands such as Amber Leaf and Old Holborn. In 2013, JTI was the fastest growing multinational company in the fine-cut category, reaching a market share of 18.3% in Europe, following growth mainly in France, Germany, Belgium, Hungary, Spain, UK and Poland. We will continue to expand our presence in this growing category by further building the optimal brand portfolio, and focusing on innovation and activation.

Shisha

We entered the water-pipe tobacco business earlier this year after completing the acquisition of Nakhla, one of the world’s first and still leading manufacturers of water-pipe tobacco, based in Egypt. Nakhla is also the pioneer and global market leader in flavored water-pipe tobacco. Since then, we have expanded the geographic reach of Nakhla by entering Tunisia and Sudan, rationalized the portfolio and rejuvenated the packaging. In 2013, shisha tobacco volume reached 21.2 thousand tons since the acquisition in March of the same year.
In FY2013, share of market in Japan grew driven by brand enhancement of core brands, mainly MEVIUS. Core revenue and adjusted EBITDA grew compared with the prior year, due to share gain and an increase in the sales volume driven by temporary demand increase ahead of the consumption tax hike.

The industry volume in Japan, however, has been declining over the past years. In this challenging environment, we prioritize quality top-line growth by investing in brand equity enhancement and launching new products to meet consumers’ needs. In FY2013, we launched 10 new products mainly in the growing menthol segment, resulting in market share gain. For further growth, we also aim to create innovative product categories with unique value propositions to supplement our main focus on conventional cigarettes to meet diversified consumers’ needs.

In October 2013, we announced a set of initiatives to further strengthen the competitiveness of the Japanese domestic tobacco business in anticipation that challenging operating condition remains for the mid- to long-term.

We continue to be a significant profit contributor to the JT Group by further quality top-line growth and continuous cost improvement.

Japanese domestic tobacco business is highly competitive platform of profitability. In the year ended March 2014, industry volume was 196.9 billion units in Japan, which is one of the largest markets in the world. We own 9 of the top 10 selling products in this large market. We are the undisputed market leader in Japan with over 60% market share.
Expansion initiatives with a focus on core brands

MEVIUS

- Our leading brand in Japan is MEVIUS, evolved from Mild Seven in February 2013. MEVIUS inherits Mild Seven’s strong consumer base which has commanded the No.1 share in the Japanese domestic market for more than 30 years since 1978.
- ‘MEVIUS Premium Menthol Option’ and ‘MEVIUS Premium Menthol Spread’, which has JT’s unique new dispersion filter, named ‘spread filter’, were launched in May and October 2013 respectively. For FY2013, MEVIUS and JT total share gains were driven by ‘MEVIUS Premium Menthol’ series in the context of continuous growth of menthol segment.
- The MEVIUS family encompasses 31 products (as of May 31, 2014), reflecting the evolution that it has undergone in step with the changing times and brand expansion.

Extension initiatives
- “MEVIUS Mode” series are introduced as MEVIUS’s less smoke smell Line-up, after integrating MEVIUS D-SPEC series and MEVIUS Style Plus series. MEVIUS Mode is blessed with a new stylish name with sophisticated new package design.
- In February 2014, we launched “MEVIUS Control One” in the prefectures of Fukuoka, Nagasaki, and Saga, which featured the ADJUSTABLE filter that can be used to vary tar levels to satisfy diversified consumer needs.

Seven Stars

- Launched in 1969, Seven Stars featured Japan’s first domestically produced charcoal filter in pursuit of better taste.
- Since its launch, Seven Stars has consistently offered unique value in terms of taste, aroma and product design.
- The Seven Stars family comprises a line-up of 11 products (as of May 31, 2014), reflecting the evolution that it has undergone in step with the changing times and brand expansion.

Extension initiatives
- “Seven Stars Menthol 12 Box”, “Seven Stars Menthol 8 Box”, and “Seven Stars Menthol 5 Box”, featuring a blend with rare ripened tobacco leaves which enhance the menthol taste.

Pianissimo

- In August 1995, the Pianissimo family saw the launch of Japan’s first 1mg-tar menthol cigarette product featuring function of less smell and less smoke”.
- The Pianissimo brand, mainly comprising the Super King Size Slim menthol format, continues to achieve growth after integrating two other brands in FY2009.
- The Pianissimo family, a core franchise, comprises a line-up of 9 products (as of May 31, 2014). Pianissimo Aria Menthol is the leading product in the 1mg-tar menthol segment.

Extension initiatives
Business results (market share performance)

- Share growth driven by equity enhancement of core brands, mainly MEVIUS
  - In FY2013, JT market share increased 1.4 percentage points to 61.0%.
  - In the fourth quarter, our core brands, MEVIUS, Seven Stars and Pianissimo, continued to contribute to our market share growth. As a result, JT market share reached 61.5% in January-March period, 2014.

<table>
<thead>
<tr>
<th>Share evolution of JT, core brands, and MEVIUS (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>JT</td>
</tr>
<tr>
<td>MEVIUS</td>
</tr>
<tr>
<td>Core brands</td>
</tr>
</tbody>
</table>

Japanese domestic tobacco business increased its share of market driven by MEVIUS, formally known as Mild Seven. This outstanding performance proves that the unprecedented rebranding was completed successfully. The rebranding plan was announced in August 2012, followed by package design change of Mild Seven in November 2012. Then we saw a full launch of MEVIUS in February 2013. Since then, we implemented initiatives and expanded the brand’s line-up aiming to enhance its equity.

As a result, driven by MEVIUS, JT’s market share grew 2.0 percentage point year-on-year in January-March period 2014.

Our strategies:

We grew our share of market in Japan despite the fact that it already reached over 60%. This performance proves that our strategies are right, and should remain unchanged.

This means that we focus on quality top-line growth by increasing share of market and promoting consumers to shift to higher unit price products. In order to achieve this goal, we will continue to invest in brand equity enhancement and business foundation building with a mid- to long-term vision.

In addition, we also continue to pursue efficiency to further strengthen our profitability.

- Priority on quality top-line growth:
  - Continue to strengthen our brand equity, with focus on our core brands.
  - Grow or maintain market share in existing key markets.
  - Develop emerging product categories
- Continuous cost improvement.

Outlook

We cannot be too optimistic about our growth for FY2013, which was fueled by the share growth and temporary demand increase. In the mid- to long-term, the industry volume in Japan will continue to reduce due to declining adult population and growing consciousness of health. We increased retail prices of almost all brands in response to the consumption tax hike in April 2014, while competition has been intensifying. Thus, we expect that the operating environment will remain challenging.

For FY2014, we aim to maintain the adjusted operating profit level compared to the previous year through brand equity enhancement to retain consumers and continued cost reduction efforts. We will also execute a set of initiatives, announced in October 2013, to further strengthen the competitiveness of the Japanese domestic tobacco business for sustainable growth in the years to come.

Japanese domestic tobacco business is committed to fulfilling its role as a highly competitive platform of profitability. This will be achieved by quality top-line growth as well as further pursuit of a competitive cost base.

Reference: Price amendment of representative cigarette brands in response to the consumption tax increases in April.

<table>
<thead>
<tr>
<th>Prior Price</th>
<th>New Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seven Stars and Peace</td>
<td>440 ➔ 460</td>
</tr>
<tr>
<td>Pianissimo</td>
<td>440 ➔ 450</td>
</tr>
<tr>
<td>MEVIUS</td>
<td>410 ➔ 430</td>
</tr>
<tr>
<td>Caster and Cabin</td>
<td>410 ➔ 420</td>
</tr>
<tr>
<td>Hope</td>
<td>220 ➔ 230</td>
</tr>
</tbody>
</table>
Develop emerging product categories
A unique method to enjoy tobacco, offering full tobacco taste and flavor, “Ploom” launched in the Japanese domestic market.

- To respond to diversified consumers’ needs through providing a unique experience to enjoy tobacco, we launched Ploom in December 2013.
- Adequate consumer instructions from proper use to device maintenance are necessary for a unique offering such as Ploom. Therefore, we launched Ploom through the web-based “Ploom Online Shop”. In January 2014, “café STUDIO with Ploom” was opened, featuring the atmosphere of a city in California, the birth place of Ploom, for promotion and over-the-counter sales.
- We aim to create innovative new product categories with unique value propositions to meet diversified consumers’ needs.

Fulfilling its role as a highly competitive platform of profitability
Japanese domestic tobacco business to further strengthen its competitiveness.

- In October 2013, we announced a set of initiatives to further strengthen the competitiveness of the Japanese domestic tobacco business.
- Even under challenging circumstances, we aim to establish robust business foundations and strengthen its competitiveness to fulfill its role as a significant profit contributor to the JT Group.

<table>
<thead>
<tr>
<th>Quality top-line growth</th>
<th>Transition from the current 25 area branch offices to 15 regional sales headquarters, which will be responsible for regionalized marketing strategies relevant to local characteristics.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitive cost base</td>
<td>To build competitive cost base in response to industry contraction, closures of two cigarette manufacturing factories, two other tobacco-related factories, East-Japan Regional Leaf Tobacco Headquarters’ leaf processing operation and Vending Machinery Division.</td>
</tr>
<tr>
<td>Robust business foundation</td>
<td>Redesign of organizations to enhance their agility and adaptability to changes, giving greater empowerment and autonomy to regional sales headquarters and factories. Voluntary retirement program to rightsize the workforce (the impact is estimated to be approximately 1,600 jobs).</td>
</tr>
</tbody>
</table>
Review of Operations
continued

Pharmaceutical Business
FY2013: Results for the year ended March 31, 2014

Muneaki Fujimoto
President, Pharmaceutical Division

In the pharmaceutical business, we aim to build a unique, world-class pharmaceutical business driven by R&D, and to increase our market presence through original and innovative drugs. We strive to strengthen the profit base through value maximization of each product and R&D promotion for next generation of strategic compounds.

Performance overview:
FY2013 delivered significant achievements.

[Development in Japan]
• Anti-HIV drug “Stribild combination tablets”: Launched.
• For treatment of hyperphosphatemia “Riona Tablets 250mg”: Manufacturing and marketing approval obtained (launched in May 2014).

[Licensed compounds]
• Anti-HIV drug “Stribild”(Single-tablet regimen containing JTK-303): Marketing approval obtained and launched in EU by our license partner, Gilead Sciences, Inc.
• Anti-HIV drug “Vitekta”(JTK-303): Marketing approval obtained in EU by our license partner, Gilead Sciences, Inc.
• “Mekinist” for treatment of melanoma: Marketing approval obtained and launched in the U.S. by our license partner, GlaxoSmithKline.

Strategy:
• Efficient market roll-out of newly launched products and value maximization of each drug including existing products.
• Promote R&D for next generation of strategic compounds, seek optimum timing for out-licensing.

Business results (financial overview):
• The revenue growth was due to increased milestone income related to progress in R&D of original JT compounds that have been out-licensed, and higher royalty revenue. Other contributing factors were sales growth of Remitch Capsules and Truvada Combination Tablets by Torii Pharmaceutical.
• In total, these factors increased revenue by ¥11.3 billion. Adjusted EBITDA improved by ¥7.3 billion to -¥5.4 billion.
Value Chain

R&D
Continue to strengthen R&D capability, a cornerstone of our pharmaceutical business

A particular emphasis is placed on research and development in line with our mission to establish a unique R&D oriented business model which can compete on a global basis. By focusing our resources on specific areas, we efficiently strengthen our R&D capability which enables us to create innovative drugs. In addition, we strive to accelerate market launches of our compounds in pursuit of a profitable business base.

- Focus mainly on the fields of glucose and lipid metabolism; virus research; and immune disorders and inflammation to best leverage our expertise.
- Allocate adequate resources in R&D in light of the increasingly complex, time-consuming and therefore costly development process due to stringent regulations.
- Aiming at discovery of “first-in-class” compounds, enhance pre-clinical research capability and build development strategies tailored to accomplish the objective
- Translate innovation into medicines that are both approvable and commercially viable.

Manufacturing
Ensure a reliable supply of quality products

For pharmaceutical products, quality and safety must be assured, and our manufacturing operations ensure these key responsibilities are fulfilled. We also pursue efficiency in our manufacturing arrangements; products marketed in Japan are mainly produced by Torii Pharmaceutical to maximize intra-group synergies, while outsourcing to contract manufacturers where appropriate.

- Remain focused on quality assurance and safely control.
- Maintain optimal manufacturing arrangements.
- Continuously strive to reduce environmental impacts, as evidenced by the ISO 14001 certificate obtained by our Sakura plant.

Sales & Promotion
Build marketing competence on our MRs

In the pharmaceutical industry, medical representatives (MRs) play a crucial role in successful sales and promotion by providing medical and scientific knowledge with clients. At the same time, they collect valuable information from the medical front which could be reflected in the ongoing or future R&D activities. Torii Pharmaceutical is marketing our products in Japan through 485 highly-trained MRs. Outside Japan, we do not have a sales function. As such, instead of directly marketing our products, we receive royalties based on sales performance from our license partners for the compounds for which we out-license the right to develop and market.

- Provide extensive training programs to MRs and expand their knowledge to earn trust from our clients.
- Strengthen our marketing capabilities by leveraging the marketing support system, which integrates clients’ information including their needs spread across functions.
- Build a sales and marketing strategy to meet the existing and future market needs in the changing business environment.
Review of Operations
continued

Pharmaceutical Business continued

Japan Tobacco Inc. Clinical Development (as of April 24, 2014)

<table>
<thead>
<tr>
<th>In-house development</th>
<th>Code (Generic name)</th>
<th>Potential Indication/Dosage form</th>
<th>Mechanism</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>JTK-303 (elvitegravir)</td>
<td>HIV infection/Oral</td>
<td>HIV Integrase inhibitor</td>
<td>Integrase inhibitor which works by blocking integrase, an enzyme that is involved in the replication of HIV.</td>
</tr>
<tr>
<td></td>
<td>JTT-851</td>
<td>Type 2 diabetes mellitus/Oral</td>
<td>G protein-coupled receptor 40 agonist</td>
<td>Decreases blood glucose by stimulation of glucose-dependent insulin secretion.</td>
</tr>
<tr>
<td></td>
<td>JTZ-951</td>
<td>Anemia associated with chronic kidney disease/Oral</td>
<td>HIF-PHD inhibitor</td>
<td>Increases red blood cells by stimulating production of erythropoietin, an erythropoiesis-stimulating hormone, via inhibition of HIF-PHD.</td>
</tr>
<tr>
<td></td>
<td>JTE-051</td>
<td>Autoimmune/allergic diseases/Oral</td>
<td>Interleukin-2 inducible T cell kinase inhibitor</td>
<td>Suppresses overactive immune response via inhibition of the signal to activate T cells related to immune response.</td>
</tr>
<tr>
<td></td>
<td>JTE-052</td>
<td>Autoimmune/allergic diseases/Oral, Topical</td>
<td>JAK inhibitor</td>
<td>Suppresses overactive immune response via inhibition of Janus kinase (JAK) related to immune signal.</td>
</tr>
<tr>
<td></td>
<td>JTE-151</td>
<td>Autoimmune/allergic diseases/Oral</td>
<td>RORγ antagonist</td>
<td>Suppresses overactive immune response via inhibition of RORγ related to Th 17 activation.</td>
</tr>
<tr>
<td></td>
<td>JTE-350**</td>
<td>Diagnostic product/Positive control solution in the skin prick test</td>
<td>Histamine receptor agonist</td>
<td>Induces wheal and flare as histamine reactions on the epidermis in the skin prick test.</td>
</tr>
<tr>
<td></td>
<td>JTT-251</td>
<td>Type 2 diabetes mellitus/Oral</td>
<td>PDHK inhibitor</td>
<td>Decreases blood glucose by activation of pyruvate dehydrogenase (PDH) related to carbohydrate metabolism.</td>
</tr>
</tbody>
</table>

Clinical trial phase presented above is based on the first dose.
* Part of global study conducted by Gilead Sciences.
** One of the medical products publicly offered for a development company by the Study Group on Unapproved and Off-label Drugs of High Medical Need, set up by the Ministry of Health, Labour and Welfare.

Licensed compounds

<table>
<thead>
<tr>
<th>Compound (JT’s code)</th>
<th>License</th>
<th>Mechanism</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>elvitegravir (JTK-303)</td>
<td>Gilead Sciences</td>
<td>HIV Integrase inhibitor</td>
<td>Integrase inhibitor which works by blocking integrase, an enzyme that is involved in the replication of HIV.</td>
</tr>
<tr>
<td>trametinib</td>
<td>GlaxoSmithKline</td>
<td>MEK inhibitor</td>
<td>Inhibits cellular growth by specifically inhibiting the activity of MAPK/ERK Kinase (MEK1/2).</td>
</tr>
<tr>
<td>Anti-ICOS monoclonal antibody</td>
<td>MedImmune</td>
<td>ICOS antagonist</td>
<td>Suppresses overactive immune response via inhibition of ICOS which regulates activation of T cells.</td>
</tr>
</tbody>
</table>

Note

Elvitegravir: U.S. marketing approval submitted
New Single Tablet Regimen: (elvitegravir/cobicistat/emtricitabine/tenofovir alafenamide)
Phase5
Metastatic melanoma: EU marketing approval submitted
<table>
<thead>
<tr>
<th>Location</th>
<th>Phase 1</th>
<th>Phase 2</th>
<th>Phase 3</th>
<th>Preparing to file</th>
<th>Filed</th>
<th>Origin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standalone-Agent</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>In-house</td>
</tr>
<tr>
<td>Japan</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Elvitegravir; In-house</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Cobicistat, Emtricitabine, Tenofovir Alafenamide; In-license (Gilead Sciences)</td>
</tr>
<tr>
<td>New Single Tablet R</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>In-house</td>
</tr>
<tr>
<td>Global study*</td>
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<td></td>
<td></td>
<td>Japan</td>
</tr>
<tr>
<td>Japan</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>In-license (ALK-Abelló)</td>
</tr>
<tr>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>Co-development with Torii</td>
</tr>
</tbody>
</table>

**Pharmaceutical Business**

JT entered the pharmaceutical business in 1987. Its mission is to build world-class, unique R&D capabilities and reinforce its market presence through innovative drugs. The pharmaceutical business focuses on the development, production and sale of prescription drugs. The business has been expanding steadily, with the establishment of the Central Pharmaceutical Research Institute in 1993, the acquisition of a majority of the outstanding shares in Torii Pharmaceutical in 1998 and the addition of a clinical development function to our U.S. subsidiary, Akros Pharma Inc., in 2000. In order to further strengthen our earnings base, we are enhancing our research and development pipeline, exploring opportunities for strategic in- or out-licensing and strengthening collaboration with license partners.
We would like to deliver our beverages to those that matter to us most. With this aspiration in mind, the beverage business strives to offer products that are safe and tasty to drink. We will continue to further strengthen the brand equity of ‘Roots’, our flagship brand, while working on our vending machine sales network through Japan Beverage Holdings Inc. As we steadily expand our business through these initiatives, we will also strive to strengthen our profitability.

Performance overview:
• Sales of JT products increased, driven by positive performance of ‘Momono Tennen-sui’, delivering another year of record high volume performance.

Strategy:
• Strengthen the business base for future growth in order to make profit contribution to the JT Group – Profit contribution by top-line expansion – Productivity improvement in vending machine operating subsidiaries.

Business results (volume performance):
• Sales volume of JT products increased, driven by the positive performance of ‘Momono Tennen-sui’.

Business results (financial performance):
• Revenue declined year-on-year as increase in sales of JT products was not sufficient to compensate for the decrease in sales from vending machine operations.
• Adjusted EBITDA declined year-on-year, affected by decline in revenue as well as increase in expenses for further high quality vending machine operations, and investment in brand enhancement.
**Core brands**

**Roots Aroma Black**

First offered in 2003, Roots ‘Aroma Black’ has been favored by many consumers for its roasty aromatic flavor and rich taste, as the product has lead the ‘bottle can black coffee’ segment in Japan. Numerous brewing methods have been used in order to extract the roasty and sweet aromatic flavor of ‘Aroma Black’ and in order to enhance this, the product has been renewed. By using ‘AROMA&BODY’ roast\(^1\) as part of the brewing method, we have brought out the roasty and sweet aroma. The packaging has been renewed, using black as the base color – the illustration of the coffee beans and the white curved lines are demonstrating the rich aroma rising from the beans. On the side of the package, an illustration is displayed with a message that says ‘aroma can be enjoyed three times’ as an expression of our attention to aroma.

\(^{1}\) JT’s original brewing method of brewing coffee beans, using high temperature in a short period of time.

**Roots Aroma Revolut**

Roots ‘Aroma Revolut’ was first offered in 2009 as a coffee beverage with an ‘overwhelming roasting aroma’. The product is a coffee beverage with milk and sugar. The name ‘Aroma Revolut’ shows that this is a ‘revolutionary aromatic’ product and takes inspiration from the word ‘Revolution’. Renewed in spring 2014, the new product is using the renewed ‘Aroma Black’ as a base. With 55% less sugar\(^2\), it has a bitter taste and, by using JT’s original dairy ingredient, ‘JT Dairy Concentrate\(^3\)’, it has a smooth, rich taste as a finishing touch.

As with Roots ‘Aroma Black’, the new package of ‘Aroma Revolut’ has the same curved lines demonstrating the rising aroma. Gold is used as the package’s main color and on the side, our attention to ingredients are illustrated so as to communicate the characteristics of the product’s aromatic flavor and taste.

\(^{2}\) Compared to standard coffee drinks (7.5g/100ml), 55% less saccharide.

\(^{3}\) Dairy ingredient using JT’s original patent technology, with smooth and rich character.

**Momono Tennen-sui**

Momono Tennen-sui is a long-selling and a popular product of JT ever since it was first launched in 1996. No artificial sweeteners, preservatives or colorings are used for the product. Instead, a carefully extracted and filtered transparent peach juice\(^4\) and natural water are the main ingredients of Momono Tennen-sui – the result is a refreshing taste and clean enjoyable sweetness.

In spring 2014, the product has been renewed. The popular flavor remains the same while the package has been restated to communicate further its characteristics. The new package retains the bright vivid, pink color and transparency of the previous packages, while quality, taste and flavor of the product are illustrated and expressed. As with last year, freezable PET bottles are used (490ml size only) as we propose a different way of enjoying Momono Tennen-sui. Freeze a bottle in your freezer. Freeze half way through, then shake the bottle firmly and the content will turn into a sorbet. Enjoy the crunchy taste of frozen Momono Tennen-sui.

\(^{4}\) Clear fruit juice extracts by removing insoluble components such as dietary fibers from the fruit.
Review of Operations
continued

Beverage Business continued

Value Chain

<table>
<thead>
<tr>
<th>R&amp;D</th>
<th>Procurement</th>
<th>Production</th>
<th>Marketing</th>
<th>Sales &amp; Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strive to develop innovative products to meet consumers’ needs</td>
<td>Ensure procurement of safe and quality raw materials</td>
<td>Prioritize safety and follow established quality control procedures</td>
<td>Implement effective communication tools tailored for targeted consumers</td>
<td>Increase penetration to retail outlets</td>
</tr>
</tbody>
</table>

Food Safety Control

Ensure safety control at all levels of the value chain

R&D
Strive to develop innovative products to meet consumers’ needs
• Search for new materials, development of new products and renewal of existing brands including ‘Roots’.
• Development of new containers and production technology.

Procurement
Ensure procurement of safe and quality raw materials
• When we select raw materials, we review the quality assurance certificates submitted by our suppliers. Moreover, we inspect and monitor agrochemical residues while conducting regular inspection at processing plants, in compliance with JT Group’s internal standards, the Food Sanitation Act and other relevant laws.

Production
Prioritize safety and follow established quality control procedures
• JT Group is pursuing the adoption of FSSC22000 in our and business partners’ factories.
• Production of beverages is outsourced to domestic partner factories (except for certain bottled drinking water), under strict monitoring of the production process and product quality.
• Strong partnership with our partner factories to retain competitive production capabilities and stable supply.

Marketing
Implement effective communication tools tailored for targeted consumers
• By examining numerous data and research, target consumers, price-range and sales channels are set, while the most suitable and original marketing plan is construed.
• As for sales promotions, mass media is used for advertising – in-store promotions are also conducted.

Sales & Distribution
Increase penetration to retail outlets
• Products are sold in vending machines primarily through our group company Japan Beverage, one of the leading vending machine operators in Japan. Our products are also sold in convenience stores and supermarket chains.
• Promotions in each of these channels are offered in order to enhance our sales volume.

Food Safety Control
Ensure safety control at all levels of the value chain
• We have an independent food safety management division responsible for overall safety control to ensure that consumers can continue to enjoy our products safely.
• Cross functional food safety initiatives within the JT Group are promoted – for example, the beverage business utilizes the function of TableMark’s Tokyo Quality Control Center.

* HTST method: For our flagship brand ‘Roots’, we adopted the high temperature, short-time (HTST) method for the production of canned coffee. JT was the first company to use this method for canned coffee. The method considerably reduces the time needed for heat sterilization, thereby limiting flavor loss and making it possible to replicate the taste of freshly roasted coffee.
**Beverage Business**

The beverage business started its operation in 1988. Our beverage products are sold in Japan. The flagship brand is ‘Roots’ and it is one of the leading brands in the canned coffee category in Japan. Another core brand is ‘Momono Tenn-en-sui’, a well-known long-selling beverage product in Japan. Japan Beverage, the vending machine operator, became our subsidiary in 1998 and collaboration within the group centered on Japan Beverage will be pursued to enhance our sales network.
If we are going to prepare food for those who matter to us most, we wish to do so cordially and with care. This is our desire when running our business at TableMark. From 2010 onwards, TableMark began its operation as a food manufacturer with frozen and ambient processed food, bakery items and seasoning as our business pillars. In particular, we strive to provide high value-added products by focusing on staple food such as frozen noodles, frozen rice, packed cooked rice and frozen baked bread.

**Performance overview:**
- Excluding processed fishery product business, growth of staple food products’ drove revenue and profit increase.

**Strategy:**
- Strive to achieve operating profit margin on part with industry average and aim to make profit contribution to the JT Group
  - Combine our own expertise with consumer needs to enhance product strength with focus on staple food products
  - Minimize the effect of rising raw material cost and weak yen

**Business results (financial performance):**
- Excluding processed fishery product business, revenue increased 2.8% year-on-year, driven by favorable performance of staple food products
- Adjusted EBITDA increased 1.5%, as top-line growth more than compensated the increase in cost due to weaker yen.

* Staple food products: frozen noodles, frozen rice, packed cooked rice and frozen baked bread.
Staple Food Products

Frozen Udon Noodles

Frozen udon noodles are one of TableMark’s key products in which the company has a leading market share in Japan. In particular, frozen ‘Sanuki Udon’ noodles for household use is a well-known product in Japan.

First sold in 1974, the product is a long-seller with current annual production of over 500 million units. We are most grateful to our customers for the success of the product and limited edition packages with 40-year anniversary logos have been offered in spring 2014 to commemorate this event, along with other initiatives.

Packed Cooked Rice

Packed cooked rice has become widely popular in recent years. It is easy to prepare and, with the increase of single-person households and an aging population, coupled with people stocking food post-earthquake, the demand for the product is growing.

TableMark operates a factory located in Uonuma, a location well known for its rice production and water quality. ‘Takitate Gohan’ is one of TableMark’s packed cooked rice products that enables you to enjoy the taste of freshly cooked rice. The line-up includes, among others, products that use ‘Koshihikari’ branded rice from the Niigata-prefecture.

Frozen Baked Bread

The market size of baked bread in Japan is growing and approaching the consumption level of rice* – demand for ready-to-eat and genuine bread products is increasing.

After baking, TableMark’s frozen baked bread is quickly frozen and this process maintains the moisture balance of the bread. By re-heating the product for a short period of time using a microwave or a toaster, you can enjoy the crunchy and fluffy texture of freshly baked bread.

Moreover, with TableMark’s original production technique, the dryness that can come from defrosting the product has been improved.

* In monetary terms.
**R&D**

Strive to develop innovative products to meet consumers’ needs

- Leveraging our own know-how, we aim to develop value-added products to meet diversified consumers’ needs.
- Frozen baked bread products have been developed which allow consumers to enjoy the taste of freshly baked bread at home. TableMark’s original techniques for fermentation, baking and freezing recreate and preserve the taste and texture of fresh bread.

**Procurement**

Ensure procurement of safe and quality raw materials

- Review of quality assurance certificates submitted by our suppliers.
- Inspections and monitoring of agrochemical residues and regular inspection at processing plants, in compliance with JT Group’s internal standards, the Food Sanitation Act and other relevant laws.
- Examination of safety of production sites for raw materials sourced abroad.
- As for agricultural farms, inspections are made not only for soil and water but also in terms of how products are cultivated and how agrochemicals are handled. Breeding farms are also inspected.

**Production**

Prioritize safety and follow established quality control procedures

- JT Group is pursuing the adoption of the HACCP system and ISO 22000 in our and business partners’ factories. Under the ISO 22000 standard, continuous improvements are made following effective rules to control sanitation and other key issues. These rules are based on the HACCP concept, and their effectiveness is tested using scientific evidence.
- All of JT Group’s 30 factories in and outside Japan, as well as our business partners’ factories that produce frozen foods, have achieved the ISO 22000 certification.

**Marketing**

Strive for effective marketing to improve product awareness

- We analyze the market from consumers’ point of view and, by combining the technology owned by TableMark, we strive to provide products with new values to increase our place in the market. We strive for effective marketing in order to improve consumer awareness of our products.

**Sales & Distribution**

Increase penetration to retail outlets

- Strive to enhance profitability through our initiatives to increase our presence in supermarkets and convenience stores, by offering a wider range of products while also seeking better shelf space.
- TableMark products are also sold to restaurants and other public facilities.

**Food Safety Control**

Ensure safety control at all levels of the value chain

- Independent food safety management division is responsible for overall safety control, ensuring that consumers can continue to enjoy our products safely.
- Cross-functional food safety initiatives within the JT Group are promoted.
- External food safety experts provide assessment and advice regarding our initiatives – their knowledge and viewpoints are actively incorporated into our business.
History of Processed Food Business

Our processed food business is operated primarily by TableMark, a 100% subsidiary of JT. The business started in 1998 and has been expanding through organic growth as well as through M&A and strategic partnerships.

In 2008, we acquired Katokichi Co., Ltd. (Katokichi), a major frozen food manufacturing company in Japan. The JT Group’s processed food business was transferred over to Katokichi as part of the integration.

In 2010, Katokichi’s corporate name was changed to TableMark, to pursue synergies and foster a sense of unity within the group. TableMark operates mainly in Japan producing frozen and ambient processed food, mainly staple food products such as frozen noodles, frozen rice, packed cooked rice and frozen baked bread. The company’s business also includes bakery chain outlets, mainly in the Tokyo metropolitan area, as well as seasoning including yeast extracts and oyster sauce. The bakery chain business is operated mainly under ‘Saint Germain’ brands.

Products for the seasoning business include “Vertex”, a natural yeast extract seasoning, which is used widely in various foods such as instant noodles or snacks.

In August 2013, in order to establish a mobile and competitive business management structure, TableMark announced that it had decided to establish a holding company and that it would commence preparations for the transition. The process was completed on April 1, 2014. The new structure is intended to enable the company to strengthen its ability to promote its businesses and contribute further to the Group’s growth.

Objectives of the transition to a holding company structure

Source: TableMark Press Release on August 6, 2013.

TableMark now faces a changing business environment as a result of the aging of Japanese society, diversified consumer needs following shifts in lifestyle in Japan, increased raw material costs due to higher demand for global food supply, and steep fluctuations in foreign exchange. In the face of these changes, further flexible and competitive business operations are required so that TableMark can swiftly respond to the changing business environment and achieve sustainable profit growth.

Since the integration of JT Group’s processed food business and Katokichi Co., Ltd. in July 2008, TableMark has focused its resource on the core businesses. The company strives to deliver steady growth across its business pillars of frozen and ambient processed food, bakery and seasoning businesses, and to establish a solid market presence.

The frozen and ambient processed food business will be able to further concentrate on its business operations through the company split, enhancing its ability to respond to the changing business environment. TableMark, as a pure holding company, will continue to be responsible for Group-wide audit, corporate planning and food safety control, aiming to accelerate the Group’s business growth.
Risk Factors

The JT Group operates diverse businesses, namely tobacco, pharmaceutical, beverage and processed food. In addition, we conduct our business on a global basis, extending to Europe, CIS countries, Africa, the Middle East and others. Due to this diversity and these changing environments, we are exposed to various risks.

Considering such circumstances, we have put in place a risk management framework. Under the framework, relevant divisions are assigned to carefully monitor the development of events that may adversely impact the JT Group and prevent their materialization where possible. When these risks are materialized, we promptly respond in order to minimize their unfavorable impacts. In reviewing risks, the magnitude of potential impact and likelihood of occurrence are most prudently assessed among other factors. Material risks, which could have a significant impact on our sustainable profit growth and business continuity, are reported to the Executive Committee. Countermeasures are also proposed and implemented once approved by the Committee.

The following section describes certain risks which potentially have a material impact on our business operations and financial results, but is not intended to be an exhaustive list of the risks we face. In addition, it is possible that risks that are currently considered immaterial or even unknown could turn out to be material in the future, as the business environment changes.

This section should be read together with the forward looking and cautionary statements contained in this annual report.

1. Disruptive tax increases
Tobacco products are subject to excise or similar taxes in addition to value-added tax. Excise taxes are increasing in most markets where we operate as governments seek to secure their revenue or promote public health. In general, value-added tax is also increasing. As a general principle, we fully pass on any tax increase to consumers by adjusting our sales prices. In addition, to the extent possible, we increase our prices more than the tax increase, considering the financial impact of an expected volume decline. A tax increase within a reasonable range is manageable through such a price increase as well as our efforts to support top-line and pursue efficiency. Most governments are aware that a substantial tax increase or repeated tax increases can reduce their revenue and they take a rational approach. However, in the past we have experienced such tax increases in some markets, which have disrupted our business.

Risk description and potential impact
A disruptive tax increase on tobacco products could result in a large legitimate industry volume decline due to lower consumption and, in many cases, increased illicit trade. In addition, down-trading to lower priced products could be initiated or accelerated. Our shipment volume, revenue and profit could decrease due to these negative reactions by consumers.

Measures to address the risk
• Promote the understanding of relevant authorities that a disruptive tax increase does not necessarily serve their purpose.
• Optimize our product offerings to capture the potential changes in consumer preference.
• Enhance our geographical portfolio to limit the negative impact of a disruptive tax increase in a specific market.
• Further improve efficiency to protect earnings.
• If a disruptive tax increase takes place, find an optimal price for each product which minimizes the unfavorable influence in the market.
2. Pressure from illicit trade

Illicit trade is a major concern not only for the tobacco industry, but for wider society. For the tobacco industry, it undermines the legitimate tobacco business. For society, illicit trade reduces excise revenue for the government, often fuels organized crime, and may increase health concerns due to poor manufacturing standards and improper product handling. The tobacco industry has been fighting against the illicit trade, which takes the forms of contraband, counterfeit and illicit whites. Illegally traded products in a market tend to increase after a steep tax increase. Regulatory actions seeking to commoditize packages and products could also trigger the acceleration of illicit trade because such commoditization could make counterfeit manufacturing easier and detection of illicit products more difficult.

We take a zero tolerance approach towards all these criminal activities with an emphasis on eliminating contraband products.

Risk description and potential impact
An increase in illicit trades could reduce the legitimate industry volume, leading to a decline in our shipment volume, revenue and profit. In addition, the industry bears the cost to combat illicit trades, giving pressure to its earnings. Furthermore, it is possible that low quality counterfeits and improperly handled smuggled products damage the credibility of the genuine brands, as well as the reputation of their owner.

Measures to address the risk
• Engage with the governments, regulatory bodies and law enforcement agencies to eradicate the illicit trade.
• Ensure we buy from and sell to only reputable business partners following our rigorous compliance initiatives.
• Raise awareness among individual consumers of the negative consequences of purchasing illegally traded products.

Working together with authorities:
In 2007, JT International Holding B.V. and JT International S.A., JT Group subsidiaries, entered a cooperation agreement with the European Commission, the executive branch of the European Union (EU), and 26 EU Member States as part of efforts to combat the illicit trade. In 2009, the United Kingdom joined the agreement.

Under the terms of the agreement, the JT Group contributes US $50 million annually in the first five years from its execution and US $15 million annually in the subsequent 10 years. This financial contribution is to be used to support anti-smuggling and anti-counterfeiting initiatives led by the EU or EU Member States.

In 2010, JTI-Macdonald Corp., a JT Group Canadian subsidiary, also signed a similar agreement with the Government and Provinces of Canada.

3. Tightening tobacco regulations

The tobacco industry is highly regulated in various aspects, and regulations could influence our business performance and financial results.

Among the regulations on products, for example, we may incur additional costs in order to comply with requirements for ingredient and packaging. Furthermore, the regulatory attempt to commoditize tobacco products could lead to an increase in the illicit trade and negatively influence our legitimate business. Business activities of tobacco companies are also restricted. With more prohibitive regulations on communication with consumers, our ability to effectively market products becomes further limited, and our top-line performance may be adversely impacted.

As a responsible organization, the JT Group abides by the laws and regulations wherever we operate. That said, we believe that laws and regulations should differ country by country, reflecting its legal, social and cultural background. We encourage governments, regulators and stakeholders to take a reasonable and balanced approach towards tobacco regulation.
Risk Factors

continued

Risk description and potential impact
Further tightening of tobacco regulations on marketing activities could undermine our strategy for top-line growth as we lose opportunities to enhance brand equity. Moreover, certain regulations may impose on us additional compliance costs. These may negatively influence our volume, revenue and profit.

Measures to address the risk
• Identify ongoing regulatory initiatives as early as possible by promptly collecting accurate information.
• Engage with the governments, regulators and stakeholders, as necessary, to develop reasonable and balanced regulations that meet their objectives.

For further details, please refer to ‘Regulation and Other Relevant Laws’ contained in this annual report on page 152.

4. Country risks
Our tobacco business has consistently expanded our earnings base to secure long-term growth by making acquisitions, entering new markets and increasing share in markets where we had limited presence. Such a geographical expansion increases our exposure to country risks. In a market where we operate, we may face economic, political or social turmoil which may negatively affect our operations and financial results.

Risk description and potential impact
Political instability, economic downturn, social unrest or other unfavorable developments in a certain market could disrupt our business, leading to a lower volume, revenue and profit in the market.

Measures to address the risk
• Avoid overdependence on a small number of markets as sources of profits by expanding the pool of highly profitable markets.

5. Instability in the procurement of key materials
Across the businesses, the JT Group procures raw and processed materials for product manufacturing. In particular, we strive to procure key materials in the required quantity and at reasonable costs. Our key materials include agricultural products; most notably, tobacco leaf for the tobacco business, grains for the processed food business, and natural flavors for the beverage business. Availability of agricultural products is often affected by natural phenomena including climate. In addition, there is a growing concern that agricultural production costs may increase, as a result of the high demand in energy resource and other inputs due to a global population increase as well as economic growth in emerging countries.

Risk description and potential impact
Insufficient supply of key materials could lead to inability to manufacture our products, subsequently resulting in the loss of revenue and profit. Furthermore, the increase in procurement costs driven by higher production costs for agricultural products would directly pressure our earnings.

Measures to address the risk
• Reinforce ability to procure key materials through building a strong relationship with suppliers. In the case of tobacco leaf, further promote internal sourcing.
• Promote efficient use of materials by continuously reviewing the manufacturing process and product specifications where possible.

6. Unfavorable development in litigation
JT and some of its subsidiaries are defendants in lawsuits filed by plaintiffs seeking damages for harm allegedly caused by smoking. As of March 31 2014, 20 smoking and health-related cases were pending in which one or more members of the JT Group were named as defendant or for which JT may have certain indemnity obligations pursuant to the agreement for JT’s acquisition of RJR Nabisco Inc.’s overseas (non-U.S.) tobacco operations. We believe that we have valid grounds to defend the claims in such lawsuits; however, we cannot predict the outcome of any pending or future litigation.

Risk description and potential impact
A decision unfavorable to us could materially affect our financial performance due to the payment of monetary compensation. Critical media coverage of such lawsuits may reduce social tolerance of and strengthen regulations on smoking. Such media coverage may also prompt the filing of a number of similar lawsuits against JT or its subsidiaries, resulting in increased litigation costs.

Measures to address the risk
• Continue to build well-organized teams coordinating with external legal counsel to defend ourselves against these lawsuits.
• Continue legitimate and appropriate business operations.

For further details, see section regarding ‘Litigation’ on page 154.

7. Natural disasters
Our operations may be disturbed by natural disasters such as earthquakes, typhoons, floods, volcano eruptions and others.
Japan is one of the most important markets for the JT Group’s businesses and subject in particular to various natural disasters. The Great East Japan Earthquake was devastating. The impacts on the JT Group included casualties among our employees, physical damage to our factories, and shortage of supply for certain material for tobacco products. Our tobacco business was forced to temporarily suspend product shipment and limit shipment volume for an extended period.

We have developed a Business Continuity Plan to minimize the impact of such disasters, with a particular emphasis on the optimization of the global supply chain.

Risk description and potential impact
Natural disasters could cause damage to the JT Group as well as our suppliers, trades and consumers, leading to disruption of our business and negatively impacting financial results.

Measures to address the risk
• Continuously review the Business Continuity Plan and revise it as necessary.
• Carry out emergency drills to increase employees’ preparedness against disasters.
• Insure key assets such as buildings, machinery, equipment and inventory to recover financial losses as appropriate.

8. Currency fluctuations
As the JT Group is operating globally, we are exposed to the risks associated with currency fluctuations.

The reporting currency of the JT Group consolidated financial statements is Japanese yen, while the financial statements of our international subsidiaries are reported in other currencies such as Russian ruble, euro, British pound, Taiwanese dollar, U.S. dollar, and Swiss franc. Therefore, exchange rate fluctuations of these currencies against Japanese yen influence the Group’s reported financial results. As for the financial reporting of the international tobacco business, JT International Holding B.V. consolidates the financial results of the international tobacco subsidiaries and reports its consolidated financial statements in U.S. dollars. We often communicate the financial performance of our international tobacco business in U.S. dollars, which is affected by exchange rate fluctuations against the U.S. dollar. In principle, we do not hedge these risks which arise from the translation of financial statements. However, we hedge against risks which arise when equity denominated in each functional currency of the JT Group is translated into Japanese yen to be consolidated by using foreign currency-denominated interest-bearing debts and part of these are designated as net investment hedges.

In addition, many group companies make transactions in currencies other than their reporting currencies for day-to-day operations. Such transactions also involve the risk of exchange rate fluctuations. We mitigate these transaction risks through hedging activities; however, it is not possible to completely eliminate them.

Furthermore, if we liquidate or sell our group subsidiary which we acquired in a currency other than Japanese yen or impair a substantial value of such a subsidiary, the gain or loss from the transaction includes the currency fluctuation impact. Specifically, the impact comes from the difference in the exchange rates of the relevant currency against Japanese yen at the time of the acquisition and at the time of such transaction.

Risk description and potential impact
Fluctuations of exchange rates against Japanese yen affect the JT Group’s reported financial results. Reported financial results of our international tobacco business in U.S. dollars are similarly influenced by the fluctuations of exchange rates against the U.S. dollar. In addition, we are exposed to the exchange rate fluctuation risks when a group company makes a transaction in a currency other than its reporting currency.

Measures to address the risk
• Mitigate the risk through hedging activities such as derivative contracts or debts in a key currency for cash inflow.
Below is a brief summary of the JT Group’s Sustainability Report for FY2013. To learn more about the JT Group’s approach and commitment to sustainability as well as specific programs, please visit our website http://www.jt.com/csr/report/index.html

1. JT Group and Sustainability
Our approach to sustainability is governed by our management principle known as the “4S” model. Under the model we balance the interests of consumers, shareholders, employees and wider society, and fulfill our responsibilities towards them, aiming to exceed their expectations. Using the “4S” model, we strive for sustainable growth over the mid- to long-term by continually delivering added value to our consumers. We believe that pursuing this model enhances corporate value and helps us to meet and exceed stakeholders’ interest in the most balanced way possible. We take pride in the strong relationships we have built with the four stakeholder groups within the “4S” model and through our engagement we are able to reflect stakeholder views in our business activities.

2. How we do business
Our Codes of Conduct underpin how we do business across the JT Group. They outline our individual and collective responsibility to key stakeholder groups and to wider society. All operations are required to comply with the high standards of business integrity, laid down in the Codes. These include preventing bribery and corruption, avoiding discrimination, respecting human rights, environmental protection, data privacy and fair competition. We establish systems and checks to ensure compliance and all employees are required to abide by their respective Code. Employees are trained on the requirements of the Code and are provided with mechanisms to report concerns about potential breaches or violations.

3. Our People
A large part of how we do business relates to how we attract, retain, and treat our employees, and how we keep them safe at work. Our approach to human resources is grounded in our “4S” model. We provide all JT Group employees with growth opportunities, adopt transparent rules and standards, treat all employees fairly, respect diversity, and seek a variety of talent. Our employees are a critical contributor to our success and by following this approach, we aim to provide workplaces where they can thrive and develop.
4. Responsible Supply Chain

Our supply chain provides the products, services and raw materials for our tobacco, pharmaceutical and beverage and processed food businesses. We have tens of thousands of suppliers around the world, many of which are small-scale farmers providing the raw materials we need for our products. We expect all of our suppliers and business partners to uphold high standards of integrity. Our Responsible Procurement Policy, our Supplier Standards, and our Codes of Conduct detail our approach to selecting suppliers and establishing supplier standards.

Tobacco Supply Chain: Strategy:

Securing a long-term supply of quality tobacco leaf is the foundation of our tobacco supply chain strategy. It allows us to continue creating value for both the JT Group and the tobacco farming communities we work with. Our vision for international tobacco procurement (tobacco leaf procured internationally, i.e. outside Japan, is used by the whole group) is to 'lead in sustainable leaf supply' and is underpinned by four key strategic goals which are: Preservation of tobacco farming; Social and environmental leadership; Operational excellence; and Access through partnership.

Long-term farmer profits: Long-term farmer profits are an essential part of our strategy to secure a lasting supply of high quality tobacco leaf. Many factors affect the profitability of our farmers. Although some are outside our control, such as weather patterns and demographic change, we focus our attention on those that we can influence including cost of production, yield, quality and price. As a result we have established four key pillars of to improve farmer profits in our international procurement of tobacco, which are: Managing direct relationships with farmers; Supporting production cost savings; Modeling sustainable farmers returns; and Innovation and better farming practice.

Agricultural Labor Practices and child labor:

We source tobacco from several developing countries where communities are highly dependent on agriculture. Alongside improving growing standards, we work with our farmer communities to address a range of important issues. These include improving the rights and safety of tobacco workers through our Agricultural Labor Practices, improving living conditions and livelihoods through our Grower Community Programs (GCP) and eliminating child labor, for instance through education with our ARISE program.

Sustainable wood: In many regions where we operate, wood is vital for effective tobacco curing, both as a fuel and for building curing barns. A sustainable supply of wood is therefore key to ensuring a long-term supply of leaf tobacco. Deforestation has often been widespread due to pressure from agriculture and urbanization, weak regulation and poor woodland management. To tackle this situation, we work with tobacco growers to educate them on the environmental and economic value of wood. We help to replace the wood used for curing through tree planting initiatives and developing new barn construction techniques, supplemented by our reforestation program.
5. Environment

Environmental protection is a critical part of our responsibility to society. We work hard to identify, understand and reduce our environmental impacts, going beyond legal compliance. We do this not only because it is the right thing to do, but also because it delivers business and cost benefits. Our commitment to environmental protection is reflected in the JT Group Environment Charter and Environmental Policy. Our commitment is wide-ranging and focuses on our whole value chain, from the procurement of raw materials, to production, distribution and sales. To deliver improvements across the business, we have set targets in four key areas – prevention of global warming by reducing greenhouse gas (GHG) emissions; protection of water resources along with sustainable water use, protecting biodiversity; and prevention of waste and promoting recycling along with effective resource use.

Our newly developed Long-term Environmental Plan outlines initiatives that will deliver these goals by 2020.

Protecting biodiversity
6. Product Responsibility and Consumer Impacts
Across the JT Group, our overarching management principle – the “4S” model – and our Mission and Codes of Conduct require that we meet our consumers’ needs with the highest quality products at the same time as behaving responsibly while conducting our business. The diverse nature of the JT Group, which includes tobacco, pharmaceutical, beverage and processed food businesses, raises a wide variety of product responsibility issues. In our tobacco businesses, key product responsibility issues include marketing our products responsibly and combating illegal trade in tobacco. In our pharmaceutical business an ethical approach to research and development, and responsible marketing and the reliable supply of products are key issues. In our beverage and processed food businesses, our main focus is on food safety and providing transparent product information to consumers.

7. The Bigger Picture
Contributing to the communities in which we operate across the JT Group is part of our responsibility as a corporate citizen. We are guided by the JT Group Corporate Citizenship Activity Policy, which focuses on community needs in four areas: social welfare, including poverty reduction, assisting disadvantaged elderly people, adult education and support for those with disabilities; arts and culture; environmental protection; and disaster relief. We provide support in a number of ways, including through financial contributions and corporate philanthropy, employee volunteering, and an independent charity, the JTI Foundation (www.jtifoundation.org). In 2013, we invested a total of ¥7,780 million in corporate citizenship and community involvement activities (2012: ¥6,197 million). This includes financial donations to organizations such as the Eliminating Child Labor in Tobacco Growing (ECLT) Foundation and a diverse range of community involvement activities within our tobacco supply chain.
Overview
In our belief, enhancement of corporate governance is one of the critical management initiatives in order to achieve sustainable profit growth in this uncertain business environment. We have enhanced our corporate governance aiming at quality and prompt decision-making, efficient business execution and rigorous supervisory and advisory function. We will continue to improve this framework to further strengthen our corporate governance.

Initiatives to enhance corporate governance

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Our corporate governance system

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Corporate Governance

Decision-Making, Business Execution, Supervision

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Our corporate governance system

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Corporate Governance
General Meeting of Shareholders
A general meeting of shareholders resolves the matters stipulated by law and our Articles of Incorporation. Under the Companies Act, certain matters are required to be resolved at a shareholder meeting including, most notably, the appointment and dismissal of the directors, audit & supervisory board members and external accounting auditors, dividend amount, loss compensation, as well as change in the Articles of Incorporation. Our Articles of Incorporation do not stipulate any additional matter to be resolved at our shareholders’ meeting other than matters legally required. The Annual General Shareholders’ Meeting is held in June, and a special meeting of shareholders shall be called by the Board of Directors, as necessary. The President chairs the shareholders’ meetings.

Within the extent as permitted by law, requirements for resolutions at our shareholders’ meeting were lowered by amending our Articles of Incorporation. A resolution at a general meeting of shareholders can be adopted by a majority of the voting rights present or represented at the meeting. A resolution for the appointment of the Company’s director and audit & supervisory board members additionally require a quorum, which is one-third of the total number of voting rights. A special resolution as stipulated under Section 2, Article 309 of the Companies Act, such as amendment to the Articles of Incorporation, requires the quorum of one-third of the total number of voting rights and the approval of at least two-thirds of the voting rights present or represented at the meeting. Certain matters resolved at our shareholders’ meetings need further approval by the Minister of Finance in Japan.

The Japan Tobacco Inc. Act
JT was established pursuant to the Japan Tobacco, Inc. Act (“the JT Act”) for the purpose of managing businesses related to the manufacturing, sale and imports of tobacco products. The JT Act provides that the Government of Japan must continue to hold over one-third of all of the issued shares except for the class shares, which have no voting right against all matters that can be resolved at our shareholders’ meeting. The JT Act also states that the issuance of new shares and stock acquisition rights requires the approval of the Minister of Finance. In the case of a share-for-share exchange, the same approval is required for issuance of new shares, stock acquisition rights and bonds with stock acquisition rights. Under the JT Act, subject to the approval by the Minister of Finance, JT is allowed to engage in businesses other than manufacturing, sales and imports of tobacco products or tobacco-related business, provided that our engagement in such businesses serves the purpose of the Company. JT is also required to obtain approval from the Minister of Finance for certain matters, including the appointment or dismissal of directors, executive officers and audit & supervisory board members as well as amendment to our Articles of Incorporation, distribution of surplus (excluding loss compensation), merger, corporate split, or dissolution. In addition, within three months after the end of each fiscal year, we are required to issue a statement of financial position, a statement of income, and a business report to the Minister of Finance.

The supplementary provisions of the Reconstruction Financing Act*, which came into effect on December 2, 2011 states that the Government shall study by the year ending March 31, 2023 the possibility of full disposal of government-owned JT shares considering the Government’s involvement in the tobacco-related industries based on the Tobacco Business Act.

The Board of Directors
The Board of Directors assumes responsibility in making decisions for important issues including the group strategy as well as supervising all the activities of the group. Currently, we have eight directors including two independent outside directors.

A board meeting, in principle, is held every month and a special board meeting may be called, as necessary. The Board of Directors decides those matters required to be resolved by the Board of Directors under the Companies Act, such as important business plans, disposal or acquisition of important assets, significant amount of borrowings, conclusion of important agreements. For the purpose of supervising the Company’s activities, the Board of Directors requires directors to deliver a report on the progress of operations at least on a quarterly basis. In year ended March 2014, we had 15 board meetings to discuss important issues including the management plan.

Capacity to supervise the Company’s activities has been further strengthened since outside directors joined the board in 2012. The two outside directors also invigorate the board meeting by actively engaging in the discussions from broad perspectives based on their experience and expertise.

The directors marked with * are also the executive officers.

Yasutake Tango
Chairman of the Board

Date of birth: March 21, 1951
Term of office: 1 year and 9 months since June 2014
Number of shares held: 0

April 1974
Entered Ministry of Finance

October 2006
Director-General of the Financial Bureau

July 2007
Deputy Vice Minister

July 2008
Director-General of the Budget Bureau

July 2009
Administrative Vice Minister

July 2010
Retired from the office of Administrative Vice Minister

December 2010
Corporate Auditor, The Yomiuri Shimbun Holdings

December 2012
Special Advisor to the Cabinet

June 2014
Chairman of the Board (Current Position)
Yasushi Shingai
Representative Director and Executive Deputy President

Date of birth: January 11, 1956
Term of office: 1 year and 9 months since June 2014
Number of shares held: 22,400

April 1980
Joined the Company (Japan Tobacco and Salt Public Corporation)

July 2001
Vice President of Financial Planning Division

June 2004
Senior Vice President, and Head of Finance Group, Vice President of Financial Planning Division

July 2004
Senior Vice President, and Chief Financial Officer

June 2006
Member of the Board, Senior Vice President, and Chief Financial Officer

June 2006
Member of the Board, Executive Vice President, JT International S.A.

June 2011
Representative Director and Executive Deputy President (Current Position)

Noriaki Okubo
Representative Director and Executive Deputy President

Date of birth: May 22, 1959
Term of office: 1 year and 9 months since June 2014
Number of shares held: 9,600

April 1983
Joined the Company (Japan Tobacco and Salt Public Corporation)

June 2000
Vice President of Business Development Dept., Pharmaceutical Division

June 2002
Vice President of Business Planning Dept., Pharmaceutical Division

June 2004
Member of the Board, Senior Vice President, and President, Pharmaceutical Business

June 2006
Member of the Board, Executive Vice President, and President, Pharmaceutical Business

June 2009
Member of the Board, Senior Executive Vice President, and President, Pharmaceutical Business

May 2010
Member of the Board, Senior Executive Vice President, and President, Pharmaceutical Business, Vice President of Business Planning Dept., Pharmaceutical Division

January 2011
Member of the Board, Senior Executive Vice President, and President, Pharmaceutical Business

June 2012
Representative Director and Executive Deputy President (Current Position)
## Corporate Governance

### Decision Making, Business Execution, Supervision

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<th>Term of office</th>
<th>Number of shares held</th>
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<tbody>
<tr>
<td>Akira Saeki</td>
<td>Representative Director and Executive Deputy President</td>
<td>August 25, 1960</td>
<td>1 year and 9 months since June 2014</td>
<td>13,800</td>
</tr>
<tr>
<td>Hideki Miyazaki</td>
<td>Member of the Board and Executive Deputy President</td>
<td>January 22, 1958</td>
<td>1 year and 9 months since June 2014</td>
<td>10,600</td>
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<tr>
<td>Akira Saeki</td>
<td>Joined the Company (Japan Tobacco Inc.)</td>
<td>April 1985</td>
<td></td>
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<tr>
<td></td>
<td>Vice President of Corporate Strategy Division</td>
<td>June 2005</td>
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<tr>
<td></td>
<td>Senior Vice President, Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters</td>
<td>June 2007</td>
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<tr>
<td></td>
<td>May 2008</td>
<td>Senior Vice President, Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters, Head of China Division, Tobacco Business</td>
<td></td>
</tr>
<tr>
<td></td>
<td>June 2008</td>
<td>Senior Vice President, Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters, Chief Corporate, Scientific &amp; Regulatory Affairs Officer, Tobacco Business, Head of China Division, Tobacco Business</td>
<td></td>
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<tr>
<td></td>
<td>July 2008</td>
<td>Senior Vice President, Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters, Chief Corporate, Scientific &amp; Regulatory Affairs Officer, Tobacco Business</td>
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<td>July 2009</td>
<td>Senior Vice President, Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters, Chief Corporate, Scientific &amp; Regulatory Affairs Officer, Tobacco Business</td>
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<td></td>
<td>June 2010</td>
<td>Executive Vice President and Chief Financial Officer, Vice President, Treasury Division</td>
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<td>Hideki Miyazaki</td>
<td>Joined Nomura Securities Co., Ltd.</td>
<td>April 1980</td>
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<td></td>
<td>July 2005</td>
<td>Deputy Chief Financial Officer</td>
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<td></td>
<td>January 2006</td>
<td>Senior Vice President, and Chief Financial Officer, Vice President, Tax Division</td>
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<td></td>
<td>October 2009</td>
<td>Senior Vice President, and Chief Financial Officer</td>
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<td></td>
<td>May 2010</td>
<td>Senior Vice President, and Chief Financial Officer, Vice President, Treasury Division</td>
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<td></td>
<td>June 2010</td>
<td>Executive Vice President and Chief Financial Officer, Vice President, Treasury Division</td>
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<tr>
<td></td>
<td>July 2010</td>
<td>Executive Vice President and Chief Financial Officer, Vice President, Treasury Division and Vice President, Procurement Planning Division</td>
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<td></td>
<td>August 2010</td>
<td>Executive Vice President and Chief Financial Officer</td>
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<td></td>
<td>June 2012</td>
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The Audit & Supervisory Board

Entrusted by shareholders and ensured of its autonomy, the Audit & Supervisory Board conducts accounting audits as well as operating audits. Currently, we have four audit & supervisory board members including two independent outside audit & supervisory board members. Collectively, they have experience in management, legal, finance and accounting among other areas. Audit & supervisory board members have various statutory rights in order to accomplish their roles and responsibilities, including making requests to deliver reports to the directors, executive officers and employees, issuing an injunction to prevent illegal activities by directors, and representing the Company in case of litigation between any director and the Company. In addition, the Audit & Supervisory Board has a right to dismiss the auditing firm which conducts accounting audit. The Audit & supervisory board members’ report containing the results of both the accounting and operating audits is submitted to the Annual General Shareholders’ Meeting.

If directors and executive officers find any issue that may cause a substantial damage to the Company, they are obliged to report it to the Audit & Supervisory Board, along with other relevant matters that could affect the Company. Audit & supervisory board members are authorized to attend the meetings of the Board of Directors and other important meetings. Our directors and executive officers respond in a prompt and appropriate manner, when requested by audit & supervisory board members to deliver documents for their inspection, to arrange field audits and to submit reports. The Operational Review and Business Assurance Division, which conducts internal audits, as well as the Compliance Office, exchanges necessary information and works together with audit & supervisory board members.

Futoshi Nakamura

Audit & Supervisory Board Members

Date of birth: November 23, 1957
Term of office: 2 years and 9 months since June 2012
Number of shares held: 4,800

April 1981
Joined the Company (Japan Tobacco and Salt Public Corporation)

July 2004
Head of Procurement Planning Division

July 2005
Senior Manager of Operational Review and Business Assurance Division

September 2005
Senior Manager of Operational Review and Business Assurance Division JT International Holding B.V. Vice President

July 2009
Senior Manager of Accounting Division

July 2010
Head of Operational Review and Business Assurance Division

June 2012
Standing Audit & Supervisory Board Members, the Company (Current Position)
Tomotaka Kojima  
Audit & Supervisory Board Members  

Date of birth: December 19, 1953  
Term of office: 1 year and 9 months since June 2013  
Number of shares held: 0  

April 1976  
Joined Ministry of Finance  

July 2000  
Director of the Fukuoka Local Finance Branch Bureau  

July 2002  
Deputy Head of Finance Group of the Company  

July 2004  
Deputy Director General of Employee Welfare Bureau, Secretariat of National Personnel Authority  

April 2007  
Deputy Director General for Administrative Policy Matters, National Personnel Authority  

January 2008  
Director General of Equity and Investigation Bureau, Secretariat of National Personnel Authority  

August 2009  
Executive Director, National Hospital Organization  

March 2010  
Retired from Executive Director, National Hospital Organization  

October 2010  
Adviser, Japan Association of Corporate Directors  

November 2010  
Secretary General, Japan Association of Corporate Directors  

June 2013  
Standing Audit & Supervisory Board Members, the Company (Current Position)  

Koichi Ueda  
Audit & Supervisory Board Members (Outside Audit & Supervisory Board Members)  

Date of birth: December 17, 1943  
Term of office: 3 years and 9 months since June 2011  
Number of shares held: 2,300  

April 1967  
Judicial Apprentice  

April 1969  
Appointed as Public Prosecutor  

June 2006  
Superintending Public Prosecutor, the Tokyo High Public Prosecutors Office  

December 2006  
Took mandatory retirement  

January 2007  
Registered as an attorney at law  

April 2007  
Specifically Appointed Professor of Meiji University Law School (Current Position)  

January 2009  
Representative Director, The Resolution and Collection Corporation  

March 2009  
President and Representative Director, The Resolution and Collection Corporation  

June 2009  
Audit & Supervisory Board Members, the Company (Current Position)  

September 2013  
Member of the Board of Governors, Japan Racing Association (Current Position)  

Yoshinori Imai  
Audit & Supervisory Board Members (Outside Audit & Supervisory Board Members)  

Date of birth: December 3, 1944  
Term of office: 3 years and 9 months since June 2011  
Number of shares held: 700  

April 1968  
Joined Japan Broadcasting Corporation  

June 1995  
Bureau Chief of General Bureau for Europe  

May 2000  
Director General, Planning & Broadcasting Department  

June 2003  
Executive Editor and Program Host  

January 2008  
Executive Vice President  

January 2011  
Retired from Executive Vice President  

April 2011  
Visiting Professor, Ritsumeikan University (Current Position)  

June 2011  
Audit & Supervisory Board Members, the Company (Current Position)
Independence of Outside Directors and Outside Audit & Supervisory Board Members

JT reports to the securities exchanges on which it is listed that the two outside directors and two outside audit & supervisory board members are designated as independent executives. We have a criteria list to assess the independence of an executive. Based on the criteria, the independence of the four executives has been confirmed. Motoyuki Oka, Main Kohda, Koichi Ueda and Yoshinori Imai, who are outside directors and outside audit & supervisory board members, serve as members of the Compensation Advisory Panel.

Criteria list for independence of an executive

A person who fits any of the following descriptions is not designated as an independent executive.

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

Support for Outside Directors and Outside Audit & Supervisory Board Members

We provide supports to outside directors and outside audit & supervisory board members. The Corporate Strategy Division or Secretary Division explains the agendas for board meetings in advance, submits requested documents and delivers necessary information to outside directors for them to contribute to the quality of board discussion. As an independent body entrusted by shareholders, the Audit & Supervisory Board is expected to monitor the performance of the directors and executive officers, with an aim to underpin the Company’s healthy and sustainable growth as well as increase its credibility. For outside audit & supervisory board members to perform their expected roles, we are supporting them by making necessary information available and allocating adequate human resources to the Auditor Office which assists audit & supervisory board members.

Executive Officer System

JT employs the Executive Officer System to ensure effective and efficient management by promptly responding to the changing environment, and thus aims to increase its company value. Executive officers are appointed by the Board of Directors. At the same time, the board assigns certain responsibilities and delegates relevant authorities to the executive officers in accordance with the Rules Defining the Extent of Responsibility and Authority.
The Executive Committee has been established to consult with the President who is our Chief Executive Officer. Comprising the President, the Chairman, Deputy Presidents, as well as executive officers and other participants designated by the President, this Committee is, in principle, held on a weekly basis. The agendas for the Executive Committee include the issues to be discussed at the board meetings as well as the matters delegated to the Committee by the Board of Directors. Important management issues are also discussed at the Executive Committee, including management policies and fundamental strategies of the group. Considering its significance, a full-time audit & supervisory board member attends the Committee to monitor the discussion.

Please refer to page 156 for the list of executive officers.
Overview

JT devotes its efforts to ensure appropriate business operation by reinforcing internal control such as compliance, internal audit and risk management among other matters. The developments of these internal control focuses are reported regularly to the Board of Directors. In addition, we have the Auditor Office, a department dedicated to support the Audit & Supervisory Board, for our audit & supervisory board members to effectively perform their duties. Collaboration among the group companies is encouraged to strengthen the framework for compliance (which includes the internal consultation and reporting), reliable financial reporting, internal audit and risk management.

Internal control framework

Compliance

A Code of Conduct has been created based on our internal guidelines approved by the Board of Directors. Under the Code of Conduct, all directors and employees are expected to fully comply with applicable laws, our Articles of Incorporation, social norms and other compliance standards. In addition, the Board of Directors has established a fair and effective compliance framework as described below.

• Set up the JT Group Compliance Committee, which reviews and discusses compliance related matters, then directly reports to the Board of Directors
• Assign responsibility for compliance to a director (who also serves as an executive officer)
• Assign responsibility for compliance to an executive officer without directorship
• Assess and approve the Compliance Policy as well as the Compliance Implementation Plan
• Review the implemented compliance initiatives.

The JT Group has both internal and external hotlines through which employees may consult or report any misconduct they suspect to be taking place. The Compliance Office is responsible for investigating consulted or reported cases and implementing group-wide measures to prevent the recurrence of misconduct after discussing it with the divisions concerned. Material cases are reviewed by the JT Group Compliance Committee, and further reported to the Board of Directors as necessary.

The JT Group Compliance Committee is headed by the Chairman, and external members comprise the majority. The JT Group Compliance Committee met three times in the year ended March 31, 2014, and discussed initiatives to strengthen compliance throughout the group among other matters.
Reliable financial reporting
In order to ensure the reliability of its financial reporting, JT has introduced a relevant internal control system in accordance with the Financial Instruments and Exchange Act and other standards. In addition, a dedicated division has been created which reviews the internal control system and reports the result of the assessment. Reliability of our financial reporting is confirmed by the external accounting auditor who makes an assessment of our internal control system based on the Internal Control Report prepared by us.

Risk management

Financial risk management
JT has put in place the internal guidelines for financial risk management. The executive officer in charge updates the status of financial risks together with the countermeasures against these risks at the Executive Committee on a quarterly basis. The director in charge reports the status of financial borrowings and credit exposures to the Board of Directors on a quarterly basis to ensure that the board is aware of any risk in these areas.

Crisis management and disaster control
In order to deal with possible crises or disasters, JT has produced a manual for crisis management and disaster control so that we can make a proper initial response. In the event of a crisis or a disaster, a project team led by the President is immediately assembled. In the project team, the Corporate Strategy Division assumes the key role to support the President. Under the leadership of the President, we respond promptly and properly, ensuring close cooperation across the organization. The director in charge reports crisis or disaster incidents to the Board of Directors on a quarterly basis.

Management of other risks
In accordance with the Rules Defining the Extent of Responsibility and Authority, management of other risks is delegated to relevant divisions, which identify and monitor the risks in their areas of responsibility. Significant risks are reported to the Executive Committee, together with the request for approval to implement countermeasures against them, where necessary.

Please refer to page 50 for our risk factors.

Internal audit system
JT has an Operational Review and Business Assurance Division, which is thoroughly independent of other JT Group divisions and organizations engaging in operations. Under such a capacity, it conducts internal audits and directly reports to the President. The Operational Review and Business Assurance Division has unlimited access to all activities, records and employees group-wide to accomplish its roles and responsibilities. The head of the division is required to report to the President the results of internal audits along with their analysis and assessment, and also reports to the Board of Directors. The head of the division has the right to contact the management of JT and the group companies regularly and as frequently as needed.
Overview
Remuneration for our directors is determined by resolution at the Board of Directors, taking into account discussion at the Compensation Advisory Panel. Remuneration for our audit & supervisory board members is determined through the deliberations of the Audit & Supervisory Board. The aggregate remuneration of directors and audit & supervisory board members cannot exceed the respective ceilings approved at a general meeting of shareholders. In determining remuneration, we refer to research management remuneration conducted by a third party, and benchmark Japanese manufacturing companies operating globally with a scale or profit comparable with ours.

The Compensation Advisory Panel
The Compensation Advisory Panel has been established as an advisory body to the Board of Directors with an aim to increase the objectiveness and transparency of our executive remuneration. The Compensation Advisory Panel comprises the Chairman, two outside directors and two outside audit & supervisory board members. Upon request, the Panel reviews and provides advice on the policy, framework and calculation method for remuneration of our directors and executive officers. It also monitors whether our executive remuneration level is reasonable. During the past fiscal year, the Compensation Advisory Panel met twice to discuss the level of remuneration among other matters.

Based on the recommendation by the Compensation Advisory Panel, the key policy for our executive remuneration is as follows:
• Set the remuneration at an adequate level to retain personnel with superior capabilities
• Link the remuneration to company performance so as to motivate executives to achieve their performance targets
• Link the remuneration to company value in the mid-to long-term
• Ensure transparency by implementing an objective and quantitative framework.

Structure of executive remuneration
In accordance with the above policy, remuneration for our executive comprises (1) “base salary” paid monthly, (2) “executive bonus” linked to our business performance in the relevant year, and (3) “stock option grants”, the value of which is linked to our mid-to long-term company value. In 2007, JT introduced a stock option program as an incentive linked to the mid- to long-term company value. The Companies Act requires a special resolution at a shareholders’ meeting if stock options are granted under particularly advantageous terms or at particularly advantageous prices. This is not the case with our stock option program, as our stock options are compensation for the executives who perform their duties, and the options are granted in exchange for certain considerations.

Remuneration for the directors and audit & supervisory board members are structured as follows:

Remuneration for the directors who also serve as executive officers comprises “base salary”, “executive bonus” and “stock option grants”. “Executive bonus” is included, as they are responsible for the achievement of assigned annual targets through their day-to-day management.

As for the president or each executive deputy president, the combined amount of “executive bonus” at a 100% grant basis and “stock option grants” is targeted at slightly less than 80% of respective annual base salary. The same scheme is introduced to set “executive bonus” and “stock option grants” for other directors, while the combined amount is targeting approximately 70% of respective annual base salary. Excluding outside directors, remuneration for the directors not serving as executive officers comprises “base salary” and “stock option grants”, as they focus on decision-making on the group strategies in addition to supervision of business and corporate activities. Remuneration for outside directors consists solely of “base salary” and does not include performance linked compensation from the perspective of sustaining their independence.

Remuneration for the audit & supervisory board members is also composed of “base salary” alone, in light of their key responsibility to conduct audits.
The maximum amount of the annual aggregate remuneration excluding “stock option grants” for the directors and audit & supervisory board members was approved at our 22nd Annual General Shareholders’ Meeting held in June 2007. The maximum remuneration for all the directors combined is ¥870 million and ¥190 million for all the audit & supervisory board members combined. In addition, the ceiling for annual “stock option grants” for the directors was approved at the same shareholders’ meeting. The ceiling is 800 options in number and ¥200 million in value. The number of the stock options granted to the directors and the executive officers who are not directors is decided each year by the Board of Directors.

The remuneration payments to the directors and audit & supervisory board members for the year ended March 2014 are as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Total remuneration and other payments (million yen)</th>
<th>Total amount of remuneration and other payments by type (million yen)</th>
<th>Number to be paid (people)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors (excluding Outside Directors)</td>
<td>538</td>
<td>319</td>
<td>8</td>
</tr>
<tr>
<td>Audit &amp; Supervisory Board member (excluding Outside Audit &amp; Supervisory Board members)</td>
<td>63</td>
<td>63</td>
<td>2</td>
</tr>
<tr>
<td>Outside Directors and Outside Audit &amp; Supervisory Board members</td>
<td>63</td>
<td>63</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>664</td>
<td>445</td>
<td>15</td>
</tr>
</tbody>
</table>

1 Amounts to be paid.
2 Total amounts granted for the year ended March 2014.

The remuneration payments to the directors and the audit & supervisory board members whose total remuneration exceeds ¥100 million for the year ended March 2014 are as follows.

<table>
<thead>
<tr>
<th>Name</th>
<th>Category</th>
<th>Company</th>
<th>Amount of consolidated remuneration and other payments by type (million yen)</th>
<th>Total (million yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mitsuomi Koizumi</td>
<td>Representative Director</td>
<td>JT</td>
<td>74 34 25</td>
<td>134</td>
</tr>
</tbody>
</table>

The stock options granted for the year ended March 2013 are as follows:

<table>
<thead>
<tr>
<th>Resolution date</th>
<th>Positions and number of people grants</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Directors (excluding outside Directors): seven persons</td>
</tr>
<tr>
<td></td>
<td>Executive officers (excluding persons serving as Directors): 19 persons</td>
</tr>
<tr>
<td></td>
<td>Number of shares</td>
</tr>
<tr>
<td></td>
<td>42,000 shares to Directors (excluding outside Directors)</td>
</tr>
<tr>
<td></td>
<td>58,000 shares to Executive officers (excluding persons serving as Directors)</td>
</tr>
<tr>
<td></td>
<td>Total 100,000 shares (200 shares per stock acquisition right)</td>
</tr>
</tbody>
</table>