Three dimensional structure of elvitegravir (JTK-303), JT's original compound

Our pharmaceutical business aims to build a unique, world-class pharmaceutical portfolio driven by R&D, and to increase our market presence through original and innovative drugs.

See page page 38 for more details.

Consolidated Financial Statements

Consolidated Statement of Financial Position

Japan Tobacco Inc. and Consolidated Subsidiaries

Millions of yen

Assets	FY2012 (As of March 31, 2013) Restated*	**FY2013 (As of March 31, 2014)**
Current assets		
Cash and cash equivalents (Note 7)	¥ 142,713	**¥ 253,219**
Trade and other receivables (Note 8)	387,837	**440,210**
Inventories (Note 9)	473,042	**550,987**
Other financial assets (Note 10)	29,103	**17,333**
Other current assets (Note 11)	177,858	**220,691**
Subtotal	1,210,552	**1,482,440**
Non-current assets held-for-sale (Note 12)	2,594	**1,952**
Total current assets	1,213,146	**1,484,391**
Non-current assets		
Property, plant and equipment (Notes 13, 19)	672,316	**779,987**
Goodwill (Note 14)	1,316,476	**1,584,432**
Intangible assets (Note 14)	348,813	**385,101**
Investment property (Note 16)	58,995	**61,421**
Retirement benefit assets (Note 22)	14,825	**16,530**
Investments accounted for using the equity method	22,940	**106,107**
Other financial assets (Note 10)	71,781	**92,596**
Deferred tax assets (Note 17)	133,276	**100,880**
Total non-current assets	2,639,421	**3,127,053**
Total assets	¥3,852,567	**¥4,611,444**

*Please refer to Note "3. Significant Accounting Policies."

Liabilities and equity	FY2012 (As of March 31, 2013) Restated*	**FY2013 (As of March 31, 2014)**
		Millions of yen
Liabilities		
Current liabilities		
Trade and other payables (Note 18)	¥ 312,741	**¥ 354,704**
Bonds and borrowings (Note 19)	44,301	**195,562**
Income tax payables	85,714	**77,158**
Other financial liabilities (Note 19)	8,550	**9,491**
Provisions (Note 20)	5,256	**7,362**
Other current liabilities (Note 21)	656,305	**606,161**
Subtotal	1,112,867	**1,250,438**
Liabilities directly associated with non-current assets held-for-sale (Note 12)	101	**75**
Total current liabilities	1,112,968	**1,250,512**
Non-current liabilities		
Bonds and borrowings (Note 19)	270,399	**166,165**
Other financial liabilities (Note 19)	18,844	**17,731**
Retirement benefit liabilities (Note 22)	342,604	**340,462**
Provisions (Note 20)	4,786	**5,241**
Other non-current liabilities (Note 21)	113,226	**126,539**
Deferred tax liabilities (Note 17)	97,309	**108,703**
Total non-current liabilities	847,168	**764,842**
Total liabilities	1,960,137	**2,015,354**
Equity		
Share capital (Note 23)	100,000	**100,000**
Capital surplus (Note 23)	736,411	**736,400**
Treasury shares (Note 23)	(344,573)	**(344,463)**
Other components of equity (Note 23)	(155,420)	**251,107**
Retained earnings	1,470,125	**1,762,566**
Equity attributable to owners of the parent company	1,806,543	**2,505,610**
Non-controlling interests	85,887	**90,481**
Total equity	1,892,431	**2,596,091**
Total liabilities and equity	¥3,852,567	**¥4,611,444**

*Please refer to Note "3. Significant Accounting Policies."

Consolidated Statement of Income

Japan Tobacco Inc. and Consolidated Subsidiaries

	FY2012 (Year ended March 31, 2013) Restated*	FY2013 (Year ended March 31, 2014)
		Millions of yen
Revenue (Notes 6, 25)	¥2,120,196	**¥2,399,841**
Cost of sales (Notes 14, 22)	(899,437)	**(979,975)**
Gross profit	1,220,759	**1,419,866**
Other operating income (Note 26)	42,165	**55,634**
Share of profit in investments accounted for using the equity method	2,775	**1,702**
Selling, general and administrative expenses (Notes 12, 13, 14, 16, 22, 27, 32)	(733,486)	**(828,942)**
Operating profit (Note 6)	532,213	**648,260**
Financial income (Notes 28, 33)	5,493	**8,351**
Financial costs (Notes 22, 28, 33)	(28,351)	**(20,408)**
Profit before income taxes	509,355	**636,203**
Income taxes (Note 17)	(157,907)	**(200,912)**
Profit for the year	¥ 351,448	**¥ 435,291**
Attributable to:		
Owners of the parent company	¥ 343,596	**¥ 427,987**
Non-controlling interests	7,852	**7,304**
Profit for the year	¥ 351,448	**¥ 435,291**
Earnings per share		
Basic (Yen) (Note 30)	¥ 181.07	**¥ 235.48**
Diluted (Yen) (Note 30)	180.98	**235.35**

Reconciliation from "Operating profit" to "Adjusted EBITDA"

	FY2012 (Year ended March 31, 2013) Restated*	FY2013 (Year ended March 31, 2014)
		Millions of yen
Operating profit	¥532,213	**¥648,260**
Depreciation and amortization	116,462	**132,921**
Adjustment items (income)	(34,234)	**(44,016)**
Adjustment items (costs)	7,536	**14,580**
Adjusted EBITDA (Note 6)	¥621,977	**¥751,745**

*Please refer to Note "3. Significant Accounting Policies."

Consolidated Statement of Comprehensive Income

Japan Tobacco Inc. and Consolidated Subsidiaries

	FY2012 (Year ended March 31, 2013) Restated*	FY2013 (Year ended March 31, 2014)
		Millions of yen
Profit for the year	¥351,448	**¥435,291**
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income (Notes 29, 33)	4,799	**4,725**
Remeasurements of defined benefit plans (Notes 22, 29)	(28,122)	**8,824**
Total of items that will not be reclassified to profit or loss	(23,322)	**13,549**
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations (Note 29)	216,161	**400,941**
Net gain (loss) on derivatives designated as cash flow hedges (Note 29)	121	**481**
Total of items that may be reclassified subsequently to profit or loss	216,282	**401,421**
Other comprehensive income (loss), net of taxes	192,959	**414,970**
Comprehensive income (loss) for the year	¥544,407	**¥850,261**
Attributable to:		
Owners of the parent company	¥536,119	**¥842,867**
Non-controlling interests	8,288	**7,394**
Comprehensive income (loss) for the year	¥544,407	**¥850,261**

*Please refer to Note "3. Significant Accounting Policies."

Consolidated Statement of Changes in Equity

Japan Tobacco Inc. and Consolidated Subsidiaries

Millions of yen

	Equity attributable to owners of the parent company						
				Other components of equity			
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations*	Net gain (loss) on derivatives designated as cash flow hedges	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income
As of April 1, 2012	¥100,000	¥736,410	¥ (94,574)	¥1,028	¥(387,228)	¥(309)	¥10,146
Profit for the year	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	215,887	121	4,691
Comprehensive income (loss) for the year	—	—	—	—	215,887	121	4,691
Acquisition of treasury shares (Note 23)	—	—	(250,000)	—	—	—	—
Disposal of treasury shares (Note 23)	—	1	1	(2)	—	—	—
Share-based payments (Note 32)	—	—	—	247	—	—	—
Dividends (Note 24)	—	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—	(2)
Other increase (decrease)	—	—	—	—	—	—	—
Total transactions with the owners	—	1	(249,999)	245	—	—	(2)
As of March 31, 2013	100,000	736,411	(344,573)	1,274	(171,341)	(187)	14,835
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other comprehensive income (loss)	**—**	**—**	**—**	**—**	**401,331**	**481**	**4,663**
Comprehensive income (loss) for the year	**—**	**—**	**—**	**—**	**401,331**	**481**	**4,663**
Acquisition of treasury shares (Note 23)	**—**	**—**	**(0)**	**—**	**—**	**—**	**—**
Disposal of treasury shares (Note 23)	**—**	**(11)**	**110**	**(81)**	**—**	**—**	**—**
Share-based payments (Note 32)	**—**	**—**	**—**	**251**	**—**	**—**	**—**
Dividends (Note 24)	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Changes in the ownership interest in a subsidiary without a loss of control	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Transfer from other components of equity to retained earnings	**—**	**—**	**—**	**—**	**—**	**—**	**(118)**
Other increase (decrease)	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total transactions with the owners	**—**	**(11)**	**110**	**169**	**—**	**—**	**(118)**
As of March 31, 2014	**¥100,000**	**¥736,400**	**¥(344,463)**	**¥1,443**	**¥ 229,990**	**¥ 293**	**¥19,380**

Millions of yen

	Equity attributable to owners of the parent company					
	Other components of equity					
	Remeasurements of defined benefit plans*	Total*	Retained earnings*	Total*	Non-controlling interests*	Total equity*
As of April 1, 2012	¥ —	¥(376,363)	¥1,268,944	¥1,634,418	¥80,576	¥1,714,994
Profit for the year	—	—	343,596	343,596	7,852	351,448
Other comprehensive income (loss)	(28,177)	192,523	—	192,523	436	192,959
Comprehensive income (loss) for the year	(28,177)	192,523	343,596	536,119	8,288	544,407
Acquisition of treasury shares (Note 23)	—	—	—	(250,000)	—	(250,000)
Disposal of treasury shares (Note 23)	—	(2)	—	0	—	0
Share-based payments (Note 32)	—	247	—	247	—	247
Dividends (Note 24)	—	—	(114,258)	(114,258)	(4,061)	(118,319)
Changes in the ownership interest in a subsidiary without a loss of control	—	—	17	17	(522)	(505)
Transfer from other components of equity to retained earnings	28,177	28,175	(28,175)	—	—	—
Other increase (decrease)	—	—	—	—	1,606	1,606
Total transactions with the owners	28,177	28,420	(142,415)	(363,993)	(2,977)	(366,970)
As of March 31, 2013	**—**	(155,420)	1,470,125	1,806, 543	85,887	1,892,431
Profit for the year	**—**	**—**	**427,987**	**427,987**	**7,304**	**435,291**
Other comprehensive income (loss)	**8,405**	**414,880**	**—**	**414,880**	**90**	**414,970**
Comprehensive income (loss) for the year	**8,405**	**414,880**	**427,987**	**842,867**	**7,394**	**850,261**
Acquisition of treasury shares (Note 23)	**—**	**—**	**—**	**(0)**	**—**	**(0)**
Disposal of treasury shares (Note 23)	**—**	**(81)**	**(18)**	**0**	**—**	**0**
Share-based payments (Note 32)	**—**	**251**	**—**	**251**	**—**	**251**
Dividends (Note 24)	**—**	**—**	**(152,669)**	**(152,669)**	**(3,179)**	**(155,849)**
Changes in the ownership interest in a subsidiary without a loss of control	**—**	**—**	**(1,011)**	**(1,011)**	**(2,509)**	**(3,520)**
Transfer from other components of equity to retained earnings	**(8,405)**	**(8,523)**	**8,523**	**—**	**—**	**—**
Other increase (decrease)	**—**	**—**	**9,629**	**9,629**	**2,888**	**12,517**
Total transactions with the owners	**(8,405)**	**(8,353)**	**(135,546)**	**(143,800)**	**(2,801)**	**(146,601)**
As of March 31, 2014	**¥ —**	**¥ 251,107**	**¥1,762,566**	**¥2,505,610**	**¥90,481**	**¥2,596,091**

*Prior year figures were retrospectively adjusted to reflect changes in accounting policies. (Please refer to Note "3. Significant Accounting Policies.")

Consolidated Statement of Cash Flows

Japan Tobacco Inc. and Consolidated Subsidiaries

	FY2012 (Year ended March 31, 2013) Restated*	**FY2013 (Year ended March 31, 2014)**
		Millions of yen
Cash flows from operating activities		
Profit before income taxes	¥ 509,355	**¥ 636,203**
Depreciation and amortization	116,462	**132,921**
Impairment losses	3,213	**2,446**
Impairment losses of investments in associates	—	**9,717**
Interest and dividend income	(5,137)	**(7,933)**
Interest expense	10,134	**8,612**
Share of profit in investments accounted for using the equity method	(2,775)	**(1,702)**
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	(29,218)	**(38,800)**
(Increase) decrease in trade and other receivables	(24,118)	**(13,631)**
(Increase) decrease in inventories	10,791	**(15,530)**
Increase (decrease) in trade and other payables	1,576	**11,289**
Increase (decrease) in retirement benefit liabilities	(16,152)	**(17,661)**
(Increase) decrease in prepaid tobacco excise taxes	(31,377)	**(14,274)**
Increase (decrease) in tobacco excise tax payables	12,802	**(103,515)**
Increase (decrease) in consumption tax payables	(3,093)	**(5,148)**
Other	17,341	**(2,247)**
Subtotal	569,804	**580,748**
Interest and dividends received	6,764	**9,514**
Interest paid	(8,703)	**(8,469)**
Income taxes paid	(101,258)	**(185,298)**
Net cash flows from operating activities	466,608	**396,496**
Cash flows from investing activities		
Purchase of securities	(19,161)	**(8,880)**
Proceeds from sale and redemption of securities	3,426	**23,716**
Purchase of property, plant and equipment	(114,240)	**(132,256)**
Proceeds from sale of investment property	33,425	**56,159**
Purchase of intangible assets	(18,611)	**(18,263)**
Payments into time deposits	(26,647)	**(798)**
Proceeds from withdrawal of time deposits	45,665	**4,744**
Purchase of investments in subsidiaries	(54,128)	**—**
Purchase of investments in associates	(978)	**(74,801)**
Other	3,321	**(13,095)**
Net cash flows from investing activities	(147,928)	**(163,473)**
Cash flows from financing activities		
Dividends paid to owners of the parent company (Note 24)	(114,236)	**(152,570)**
Dividends paid to non-controlling interests	(4,009)	**(3,195)**
Capital contribution from non-controlling interests	216	**59**
Increase (decrease) in short-term borrowings and commercial paper	(23,012)	**(8,936)**
Proceeds from long-term borrowings	518	**70**
Repayments of long-term borrowings	(81,165)	**(20,558)**
Proceeds from issuance of bonds	—	**49,395**
Redemption of bonds	(92,466)	**—**
Repayments of finance lease obligations	(4,814)	**(4,992)**
Acquisition of treasury shares	(250,000)	**(0)**
Payments for acquisition of interests in subsidiaries from non-controlling interests	(505)	**(4,462)**
Other	0	**0**
Net cash flows from financing activities	(569,473)	**(145,189)**
Net increase (decrease) in cash and cash equivalents	(250,793)	**87,834**
Cash and cash equivalents at the beginning of the year	404,740	**142,713**
Effect of exchange rate changes on cash and cash equivalents	(11,235)	**22,672**
Cash and cash equivalents at the end of the year (Note 7)	¥ 142,713	**¥ 253,219**

*Please refer to Note "3. Significant Accounting Policies."

Notes to Consolidated Financial Statements

Japan Tobacco Inc. and Consolidated Subsidiaries / As of March 31, 2013 and 2014

1. Reporting Entity

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

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

The Group's consolidated financial statements for the year ended March 31, 2014, were approved on June 24, 2014 by Mitsuomi Koizumi, President and Chief Executive Officer.

2. Basis of Preparation

(1) Compliance with IFRS

The Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter referred to as "IFRS").

(2) Basis of Measurement

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

(3) Functional Currency and Presentation Currency

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

(4) Early Adoption of New Accounting Standards

The Group has early adopted IFRS 9 "Financial Instruments" (revised in October 2010) (hereinafter referred to as "IFRS 9") from April 1, 2011.

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

The Group has early adopted IAS 36 "Impairment of Assets" (revised in May 2013) (hereinafter referred to as "IAS 36") from the year ended March 31, 2014. IAS 36 clarifies the disclosure requirements for recoverable amounts of non-financial assets under IFRS 13 "Fair Value Measurement" (hereinafter referred to as "IFRS 13").

(5) Changes in Method of Presentation

(Consolidated statement of cash flows)

In the previous fiscal year, ended March 31, 2013, "Purchase of investments in associates" was included in "Other" in "Cash flows from investing activities." However, in this fiscal year, ended March 31, 2014, it is presented separately as "Purchase of investments in associates" in "Cash flows from investing activities" due to its materiality. In order to reflect this change in presentation method, the consolidated financial statements for the previous fiscal year have been reclassified.

Accordingly, ¥978 million that was previously included in "Other" in "Cash flows from investing activities" in the previous fiscal year has been reclassified and is presented as "Purchase of investments in associates."

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

The fiscal year end date of JT International Holding B.V. and its subsidiaries (hereinafter collectively referred to as the "JTIH Group"), which operate the Group's international tobacco business, is December 31, hence the Group consolidates financial results of the JTIH Group for the period from January 1, 2013 to December 31, 2013 into the Group's consolidated financial results for the year ended March 31, 2014.

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

However, the Company and its subsidiaries with fiscal year ends other than December 31 will change and unify fiscal year ends to December 31 starting from the year of 2014, as a result of our groupwide effort to enhance and to improve the efficiency of the closing and management systems. As a consequence, this accounting period difference will no longer exist.

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

3. Significant Accounting Policies

(1) Basis of Consolidation

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

A. Subsidiaries

A subsidiary is an entity that is controlled by the Group and the Group has control over the entity if it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The acquisition date of a subsidiary is the date on which the Group obtains control of the subsidiary, and the subsidiary is included in the consolidation from the date of acquisition until the date on which the Group loses control.

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

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

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

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

B. Associates

An associate is an entity over which the Group has significant influence. The Group has significant influence over the entity if it has the power to participate in the financial and operating policy decisions of the investee but it does not have control or joint control over the investee. Investments in associates are accounted for using the equity method from the date on which the Group has the significant influence until the date on which it ceases to have the significant influence.

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

C. Joint Arrangements

A joint arrangement is a contractual arrangement of which two or more parties have joint control. Depending upon the rights and obligations of the parties to the arrangement, the Group classifies a joint arrangement into a joint operation whereby the Group has rights to the assets and obligations for the liabilities relating to the arrangement, and a joint venture whereby the Group has rights to the net assets of the arrangement only. The Group recognizes the assets, liabilities, revenues and expenses relating to its interest in a joint operation while a joint venture is accounted for using the equity method.

(2) Business Combination

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

(3) Foreign Currency Translation

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

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

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

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

(4) Financial Instruments

A. Financial Assets

(i) Initial Recognition and Measurement

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

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

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

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

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

(ii) Subsequent Measurement

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

(a) Financial Assets Measured at Amortized Cost

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

(b) Other Financial Assets

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

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

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

(iii) Derecognition

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

B. Impairment of Financial Assets

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

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

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

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

C. Financial Liabilities

(i) Initial Recognition and Measurement

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

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

(ii) Subsequent Measurement

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

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

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

(b) Financial Liabilities Measured at Amortized Cost

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

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

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

(iii) Derecognition

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

D. Offsetting of Financial Instruments

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

E. Derivatives and Hedge Accounting

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

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

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

(i) Fair Value Hedge

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

(ii) Cash Flow Hedge

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

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

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

(iii) Hedge of Net Investment in Foreign Operations

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

F. Fair Value of Financial Instruments

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

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

(5) Cash and Cash Equivalents

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

(6) Inventories

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

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

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

(7) Property, Plant and Equipment

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

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

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

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

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

(8) Goodwill and Intangible Assets

A. Goodwill

Goodwill is stated at acquisition cost less accumulated impairment losses.

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

B. Intangible Assets

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

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

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

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

- Trademarks: 20 years
- Software: 5 years

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

(9) Leases

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

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

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

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

(10) Investment Property

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

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

(11) Impairment of Non-financial Assets

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

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

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

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

(13) Post-employment Benefits

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

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

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

Remeasurements of defined benefit plans are recognized in full as other comprehensive income in the period when they are incurred and transferred to retained earnings immediately. Past service costs are recognized as profit or loss in the period when incurred.

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

(14) Share-based Payments

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

(15) Provisions

The Group has present obligations (legal or constructive) resulting from past events and recognizes provisions when it is probable that the obligations are required to be settled and the amount of the obligations can be estimated reliably.

Where the effect of the time value of money is material, the amount of provisions is measured at the present value of the expenditures expected to be required to settle the obligations. In calculating the present value, the Group uses the pretax discount rate reflecting current market assessments of the time value of money and the risks specific to the liability.

In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets," the Group recognizes a provision for restructuring when it has a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main scheme to those affected by it. Restructuring provisions include only the direct expenditures arising from the restructuring, which meet both of the following criteria:

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

(16) Revenue

A. Sale of Goods

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

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

B. Interest Income

Interest income is recognized using the effective interest rate method.

C. Dividend Income

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

D. Royalties

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

(17) Government Grants

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

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

(18) Borrowing Costs

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

(19) Income Taxes

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

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

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

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

- the initial recognition of goodwill
- the initial recognition of assets or liabilities in transactions that are not business combinations and at the time of transaction, affect neither accounting profit nor taxable profit or tax loss
- deductible temporary differences arising from investments in subsidiaries and associates, and interests in joint venture to the extent that it is probable that the timing of the reversal of the temporary difference in the foreseeable future and it is not probable that future taxable profits will be available against which they can be utilized
- taxable temporary differences arising from investments in subsidiaries and associates, and interests in joint venture to the extent that the timing of the reversal of the temporary difference is controlled and that it is probable the temporary difference will not reverse in the foreseeable future.

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

(20) Treasury Shares

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

(21) Earnings per Share

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

(22) Dividends

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

(23) Contingencies

A. Contingent Liabilities

The Group discloses contingent liabilities in the notes to consolidated financial statements if it has possible obligations at the fiscal year end, whose existence cannot be confirmed at that date, or if the obligations do not meet the recognition criteria of a provision described in "20. Provisions."

B. Contingent Assets

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

(24) Adjusted Financial Measures

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

The adjustment items are determined by management's judgment, taking into consideration the nature and frequency of the income and costs such that they provide effective comparative information on the Group performance and that they reflect the way of managing our business appropriately. Adjusted financial measures are presented in the consolidated statement of income, "6. Operating Segments" and "30. Earnings per Share."

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

(Changes in Accounting Policies)

The Group has adopted the following new accounting standard and amended standards from the fiscal year ended March 31, 2014.

IFRS		Description of new standards and amendments
IFRS 7	Financial Instruments: Disclosures	Disclosure related to offsetting of financial assets and liabilities
IFRS 10	Consolidated Financial Statements	Amendments for definition of control, elements of control and basis of existence of control to be applied, regardless of the nature of the investee
IFRS 11	Joint Arrangements	Regarding arrangements of which two or more parties have joint control, provide the classification of a joint arrangement based on legal form, contractual arrangement on assets or liabilities and other facts and conditions, not based on only legal form of the arrangement Provide accounting treatment for each classification
IFRS 12	Disclosure of Interests in Other Entities	Expansion of the scope of the disclosure of ownership of interests in other entities, including unconsolidated structured entities
IFRS 13	Fair Value Measurement	Guidance on fair value measurement to be applied by all standards and unification of the definition of fair value which was previously provided separately in each standard
IAS 1	Presentation of Financial Statements	Revisions to the presentation of items in other comprehensive income
IAS 19	Employee Benefits	Revisions to recognition and presentation of actuarial gains and losses, past service cost, interest cost and others, and revision to disclosure of retirement benefits
IAS 28	Investments in Associates and Joint Ventures	Amendments based on IFRS 10, IFRS 11 and IFRS 12
IAS 36	Impairment of Assets	Amendments to recoverable amount disclosures for non-financial assets

The effect of the above standards on the consolidated financial statements is immaterial.

Regarding IAS 19 mentioned above, the comparative information was retrospectively adjusted in accordance with the transitional provisions.

4. Significant Accounting Estimates and Judgments

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

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

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

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

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

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

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

The method for calculating the recoverable amount is described in "13. Property, Plant and Equipment," "14. Goodwill and Intangible Assets" and "16. Investment Property." With regard to goodwill, the sensitivity analysis is described in "14. Goodwill and Intangible Assets."

B. Post-employment Benefits

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

The present value of defined benefit obligations on each of these plans and the related service costs are calculated based on actuarial assumptions. These actuarial assumptions require estimates and judgments on variables, such as discount rates and inflation rate.

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

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

These actuarial assumptions and related sensitivity analysis are described in "22. Employee Benefits."

C. Provisions

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

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

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

The nature and amount of recognized provisions are described in "20. Provisions."

D. Income Taxes

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

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

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

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

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

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

The content and amount related to income taxes are described in "17. Income Taxes."

E. Contingencies

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

The content of contingencies is described in "37. Contingencies."

5. New Accounting Standards Not Yet Adopted by the Group

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

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

IFRS		Mandatory adoption (From the year beginning)	To be adopted by the Group	Description of new standards and amendments
IFRS 2	Share-based Payment	July 1, 2014	Fiscal year ending December 2015	Amendments for the definition of vesting conditions
IFRS 3	Business Combinations	July 1, 2014	Fiscal year ending December 2015	Amendments for accounting treatment for contingent consideration in a business combination
		July 1, 2014	Fiscal year ending December 2015	Clarifying scope exceptions for joint arrangements under IFRS 3
IFRS 8	Operating Segments	July 1, 2014	Fiscal year ending December 2015	Adding disclosure requirements for aggregation of operating segments and clarifying rules relating to segment assets
IFRS 9	Financial Instruments	To be determined	To be determined	Amendments for hedge accounting
IFRS 11	Joint Arrangements	January 1, 2016	Fiscal year ending December 2016	Modifications of accounting for the acquisition of an interest in a joint operation in circumstances in which the activity of the joint operation constitutes a business as defined in IFRS 3
IFRS 13	Fair Value Measurement	July 1, 2014	Fiscal year ending December 2015	Clarifying a scope exception for measuring the fair value of a portfolio
IFRS 14	Regulatory Deferral Accounts	January 1, 2016	Fiscal year ending December 2016	Issuance of requirements for accounting treatment for regulatory deferral accounts for rate-regulated activities
IFRS 15	Revenue from Contracts with Customers	January 1, 2017	Fiscal year ending December 2017	Amendments for accounting treatment for recognizing revenue
IAS 16	Property, Plant and Equipment	July 1, 2014	Fiscal year ending December 2015	Amendments for accounting treatment for revaluation model
IAS 19	Employee Benefits	July 1, 2014	Fiscal year ending December 2015	Clarifying accounting treatment for contributions from employees or third parties as required in the terms of defined benefit plans
IAS 24	Related Party Disclosures	July 1, 2014	Fiscal year ending December 2015	Clarifying that a management entity that provides key management personnel services to a reporting entity is deemed to be identified as a related party
IAS 32	Financial Instruments: Presentation	January 1, 2014	Fiscal year ending December 2014	Clarifying conditions on offset disclosure and adding guidelines
IAS 38	Intangible Assets	July 1, 2014	Fiscal year ending December 2015	Amendments to accounting treatment for revaluation model
IAS 39	Financial Instruments: Recognition and Measurement	January 1, 2014	Fiscal year ending December 2014	Requirements for continuation of hedge accounting in certain circumstances in which there is a change in counterparty to a hedging instrument
IAS 40	Investment Property	July 1, 2014	Fiscal year ending December 2015	Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property
IFRIC 21	Levies	January 1, 2014	Fiscal year ending December 2014	Clarifying the accounting for levies
IFRS 10 IFRS 12 IAS 27	Investment Entities	January 1, 2014	Fiscal year ending December 2014	Accounting treatment for the investments held by investment entities (measure their investments at fair value through profit or loss instead of consolidating them)
IAS 16 IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	January 1, 2016	Fiscal year ending December 2016	Clarifying that a revenue-based method is not considered to be an acceptable method of depreciation and amortisation in principle

6. Operating Segments

(1) Outline of Reportable Segments

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

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

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

(2) Revenues and Performances for Reportable Segments

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

FY2012: Year ended March 31, 2013

Millions of yen

	FY2012								
	Reportable Segments								
	Domestic Tobacco	International Tobacco (Note 2)	Pharmaceuticals	Beverage	Processed Food	Total	Other (Note 3)	Elimination	Consolidated
Revenue									
External revenue (Note 4)	¥687,138	¥1,010,655	¥ 53,158	¥185,478	¥168,747	¥2,105,177	¥15,019	¥ —	¥2,120,196
Intersegment revenue	28,402	31,029	—	108	647	60,186	9,398	(69,583)	—
Total revenue	¥715,541	¥1,041,683	¥ 53,158	¥185,586	¥169,394	¥2,165,362	¥24,417	¥(69,583)	¥2,120,196
Segment profit (loss)									
Adjusted EBITDA (Note 1)	¥281,309	¥ 343,189	¥(12,726)	¥ 12,414	¥ 7,357	¥ 631,544	¥ (8,971)	¥ (595)	¥ 621,977
Other items									
Depreciation and amortization	¥ 41,074	¥ 51,101	¥ 3,440	¥ 10,072	¥ 7,141	¥ 112,828	¥ 3,947	¥ (313)	¥ 116,462
Impairment losses on other than financial assets	14	322	—	—	1,248	1,584	1,629	—	3,213
Reversal of impairment losses on other than financial assets	—	—	—	—	—	—	—	—	—
Share of profit (loss) in investments accounted for using the equity method	48	2,685	—	—	(11)	2,722	54	—	2,775
Capital expenditures	71,238	37,504	5,761	12,029	4,596	131,128	6,527	(206)	137,450

FY2013: Year ended March 31, 2014

Millions of yen

	Domestic Tobacco	International Tobacco (Note 2)	Pharmaceuticals	Beverage	Processed Food	Total	Other (Note 3)	Elimination	Consolidated
	FY2013								
	Reportable Segments								
Revenue									
External revenue (Note 4)	**¥710,299**	**¥1,270,020**	**¥64,448**	**¥184,506**	**¥156,920**	**¥2,386,194**	**¥ 13,648**	**¥ —**	**¥2,399,841**
Intersegment revenue	**23,770**	**36,902**	**—**	**100**	**760**	**61,532**	**10,014**	**(71,546)**	**—**
Total revenue	**¥734,069**	**¥1,306,922**	**¥64,448**	**¥184,607**	**¥157,680**	**¥2,447,725**	**¥ 23,662**	**¥(71,546)**	**¥2,399,841**
Segment profit (loss)									
Adjusted EBITDA (Note 1)	**¥302,099**	**¥ 451,639**	**¥ (5,384)**	**¥ 8,664**	**¥ 7,466**	**¥ 764,484**	**¥(12,490)**	**¥ (248)**	**¥ 751,745**
Other items									
Depreciation and amortization	**¥ 44,411**	**¥ 63,745**	**¥ 3,624**	**¥ 10,761**	**¥ 6,903**	**¥ 129,444**	**¥ 3,787**	**¥ (310)**	**¥ 132,921**
Impairment losses on other than financial assets	**427**	**1,746**	**—**	**—**	**29**	**2,202**	**244**	**—**	**2,446**
Reversal of impairment losses on other than financial assets	**—**	**157**	**—**	**—**	**—**	**157**	**—**	**—**	**157**
Share of profit (loss) in investments accounted for using the equity method	**47**	**1,613**	**—**	**—**	**(2)**	**1,657**	**44**	**—**	**1,702**
Capital expenditures	**49,101**	**78,527**	**3,859**	**14,643**	**4,900**	**151,029**	**5,129**	**—**	**156,158**

Reconciliation from "Adjusted EBITDA" to "Profit before income taxes"

FY2012: Year ended March 31, 2013

Millions of yen

	Domestic Tobacco	International Tobacco (Note 2)	Pharmaceuticals	Beverage	Processed Food	Total	Other (Note 3)	Elimination	Consolidated
	FY2012								
	Reportable Segments								
Adjusted EBITDA (Note 1)	¥281,309	¥343,189	¥(12,726)	¥ 12,414	¥ 7,357	¥ 631,544	¥ (8,971)	¥(595)	¥ 621,977
Depreciation and amortization	(41,074)	(51,101)	(3,440)	(10,072)	(7,141)	(112,828)	(3,947)	313	(116,462)
Adjustment items (income) (Note 5)	1,200	395	—	—	—	1,595	32,639	—	34,234
Adjustment items (costs) (Note 5)	(154)	(3,057)	—	—	(6,039)	(9,250)	1,714	—	(7,536)
Operating profit (loss)	¥241,280	¥289,427	¥(16,166)	¥ 2,342	¥(5,822)	¥ 511,061	¥21,434	¥(282)	¥ 532,213
Financial income									5,493
Financial costs									(28,351)
Profit before income taxes									¥ 509,355

FY2013: Year ended March 31, 2014

Millions of yen

	FY2013								
	Reportable Segments								
	Domestic Tobacco	International Tobacco (Note 2)	Pharmaceuticals	Beverage	Processed Food	Total	Other (Note 3)	Elimination	Consolidated
Adjusted EBITDA (Note 1)	¥302,099	¥451,639	¥(5,384)	¥ 8,664	¥ 7,466	¥ 764,484	¥(12,490)	¥(248)	¥ 751,745
Depreciation and amortization	(44,411)	(63,745)	(3,624)	(10,761)	(6,903)	(129,444)	(3,787)	310	(132,921)
Adjustment items (income) (Note 5)	1,122	—	—	—	244	1,366	42,650	—	44,016
Adjustment items (costs) (Note 5)	(712)	(11,477)	—	—	(1,002)	(13,191)	(1,389)	—	(14,580)
Operating profit (loss)	¥258,098	¥376,416	¥(9,008)	¥ (2,097)	¥ (195)	¥ 623,215	¥ 24,984	¥ 61	¥ 648,260
Financial income									8,351
Financial costs									(20,408)
Profit before income taxes									¥ 636,203

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

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

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

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

Millions of yen

	FY2012 (Year ended March 31, 2013)	FY2013 (Year ended March 31, 2014)
Domestic tobacco	¥654,000	¥ 676,171
International tobacco	943,094	1,200,694

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

"Adjustment items (costs)" include restructuring costs of the closing down of a factory, impairment losses of investments in associates, the effect of revision to laws and regulations related to the mutual pension benefits plan, and cooperation fee for terminating leaf tobacco farming.

The breakdown of restructuring income is described in "26. Other Operating Income." Restructuring costs included in "Cost of sales" were ¥2,445 million for the year ended March 31, 2013. Restructuring costs included in "Selling, general and administrative expenses" were ¥9,366 million and ¥4,862 million for the years ended March 31, 2013 and 2014, respectively. The breakdown of restructuring costs in "Selling, general and administrative expenses" is described in "27. Selling, General and Administrative Expenses."

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

Millions of yen

	FY2012 (Year ended March 31, 2013)	FY2013 (Year ended March 31, 2014)
Restructuring costs	¥11,811	¥ 4,862
Impairment losses of investments in associates	—	9,717
Effect of revision to laws and regulations related to the mutual pension benefits plan	(4,279)	—
Cooperation fee for terminating leaf tobacco farming	4	—
Adjustment items (costs)	¥ 7,536	¥14,580

(Note) Restructuring costs for the year ended March 31, 2013 include costs of rationalization measures in the "International Tobacco Business" and the dissolution of the processed fishery products business in the "Processed Food Business."

(3) Geographic Information

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

Non-current Assets

Millions of yen

	FY2012 (As of March 31, 2013)	FY2013 (As of March 31, 2014)
Japan	¥ 577,208	¥ 587,768
Overseas	1,819,391	2,223,173
Consolidated	¥2,396,599	¥2,810,941

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

External Revenue

	FY2012 (Year ended March 31, 2013)	FY2013 (Year ended March 31, 2014)
		Millions of yen
Japan	¥1,089,661	**¥1,100,874**
Overseas	1,030,535	**1,298,967**
Consolidated	¥2,120,196	**¥2,399,841**

(Note) Revenue is segmented by the sales destination.

(4) Major Customers Information

The "International Tobacco Business" of the Group sells products to the Megapolis Group that engages in distribution and wholesale business in Russia and other countries. The external revenues from the Megapolis Group were ¥268,566 million (12.7% of consolidated revenue) for the year ended March 31, 2013 and ¥357,980 million (14.9% of consolidated revenue) for the year ended March 31, 2014.

7. Cash and Cash Equivalents

The breakdown of "Cash and cash equivalents" as of each fiscal year end is as follows:

	FY2012 (As of March 31, 2013)	FY2013 (As of March 31, 2014)
		Millions of yen
Cash and deposits	¥121,753	**¥238,959**
Short-term investments	20,960	**14,260**
Total	¥142,713	**¥253,219**

Cash and cash equivalents are classified as financial assets measured at amortized cost.

"Cash and cash equivalents" include ¥14,929 million (IRR 5,561 billion) as of March 31, 2013 and ¥42,139 million (IRR 12,055 billion) as of March 31, 2014 held by the Group's Iranian subsidiary, JTI Pars PJS Co. Due to international sanctions and other factors imposed on Iran, the subsidiary's ability to remit funds outside of Iran is restricted.

8. Trade and Other Receivables

The breakdown of "Trade and other receivables" as of each fiscal year end is as follows:

	FY2012 (As of March 31, 2013)	FY2013 (As of March 31, 2014)
		Millions of yen
Note and account receivables	¥367,951	**¥430,211**
Other	21,470	**12,326**
Allowance for doubtful accounts	(1,584)	**(2,327)**
Total	¥387,837	**¥440,210**

Trade and other receivables are presented net of allowance for doubtful accounts in the consolidated statement of financial position.

Trade and other receivables are classified as financial assets measured at amortized cost.

9. Inventories

The breakdown of "Inventories" as of each fiscal year end is as follows:

	FY2012 (As of March 31, 2013)	FY2013 (As of March 31, 2014)
		Millions of yen
Merchandise and finished goods (Note 1)	¥133,144	**¥160,248**
Leaf tobacco (Note 2)	292,043	**334,318**
Other	47,855	**56,420**
Total	¥473,042	**¥550,987**

(Note 1) For imported tobacco products (merchandise) that are sold by TS Network Co., Ltd., a subsidiary of the Company, commissions solely from wholesale are included in revenue. The amount of imported tobacco products (merchandise) that the company holds at the end of each fiscal year is included in inventories and presented as "Merchandise and finished goods."

(Note 2) Leaf tobacco includes those products that will be used after 12 months from the end of each fiscal year, but they are included in inventories since they are held within the normal operating cycle.

10. Other Financial Assets

(1) The breakdown of "Other financial assets" as of each fiscal year end is as follows:

	FY2012 (As of March 31, 2013)	FY2013 (As of March 31, 2014)
		Millions of yen
Derivative assets	¥ 4,077	**¥ 8,600**
Equity securities	46,699	**53,705**
Debt securities	15,676	**7,177**
Time deposits	5,347	**1,538**
Other	38,181	**47,202**
Allowance for doubtful accounts	(9,096)	**(8,293)**
Total	¥100,884	**¥109,929**
Current assets	¥ 29,103	**¥ 17,333**
Non-current assets	71,781	**92,596**
Total	¥100,884	**¥109,929**

Other financial assets are presented net of allowance for doubtful accounts in the consolidated statement of financial position.

Derivative assets are classified as financial assets measured at fair value through profit or loss excluding those hedge accounting is applied to, equity securities are classified as financial assets measured at fair value through other comprehensive income, and time deposits and debt securities are classified as financial assets measured at amortized cost.

(2) Names of major securities held as financial assets measured at fair value through other comprehensive income and their fair values as of each fiscal year end are as follows:

Company name	FY2012 (As of March 31, 2013)	FY2013 (As of March 31, 2014)
		Millions of yen
KT&G Corporation	¥18,609	**¥22,163**
Seven & i Holdings Co., Ltd.	2,664	**3,373**
Mizuho Financial Group, Inc.	2,545	**2,609**
DOUTOR•NICHIRES Holdings Co., Ltd.	1,846	**2,426**
Mitsubishi UFJ Financial Group, Inc.	2,010	**2,043**
Sumitomo Mitsui Financial Group, Inc.	1,336	**1,560**

Equity securities are held mainly for strengthening relationships with investees. Therefore, they are designated as financial assets measured at fair value through other comprehensive income.

In order to pursue the efficiency of assets held and to use them effectively, sales of financial assets measured at fair value through other comprehensive income have been carried out (derecognition).

The fair value at the time of sale and cumulative gain or loss that is recognized in equity through other comprehensive income for each fiscal year is as follows:

		Millions of yen
	FY2012 (Year ended March 31, 2013)	**FY2013 (Year ended March 31, 2014)**
Fair Value	¥38	**¥286**
Cumulative gain or loss recognized in equity as other comprehensive income (Note)	(2)	**(118)**

(Note) The cumulative gain or loss recognized in equity as other comprehensive income is transferred to retained earnings when an equity instrument is sold or the decline in its fair value compared to its acquisition cost is significant.

11. Other Current Assets

The breakdown of "Other current assets" as of each fiscal year end is as follows:

		Millions of yen
	FY2012 (As of March 31, 2013)	**FY2013 (As of March 31, 2014)**
Prepaid tobacco excise taxes	¥130,348	**¥176,277**
Prepaid expenses	9,546	**11,315**
Consumption tax receivables	10,580	**12,527**
Other	27,384	**20,572**
Total	¥177,858	**¥220,691**

12. Non-current Assets Held-for-Sale

The breakdown of "Non-current assets held-for-sale" and "Liabilities directly associated with non-current assets held-for-sale" as of each fiscal year end is as follows:

Breakdown of Major Assets and Liabilities

		Millions of yen
	FY2012 (As of March 31, 2013)	**FY2013 (As of March 31, 2014)**
Non-current assets held-for-sale		
Property, plant and equipment	¥ 112	**¥ 221**
Investment property	2,482	**1,730**
Total	¥2,594	**¥1,952**
Liabilities directly associated with non-current assets held-for-sale		
Guarantee deposits	¥ —	**¥ 68**
Long-term guarantee deposits	101	**6**
Total	¥ 101	**¥ 75**

"Non-current assets held-for-sale" as of March 31, 2013 are mainly rental properties and idle properties which are currently actively marketed for sale. Long-term guarantee deposits related to the rental properties are included in "Liabilities directly associated with non-current assets held-for-sale."

"Non-current assets held-for-sale" as of March 31, 2014 are mainly rental properties and idle properties which are currently actively marketed for sale. Guarantee deposits and long-term guarantee deposits related to the rental properties are included in "Liabilities directly associated with non-current assets held-for-sale."

With regard to such assets and assets sold, impairment losses of ¥400 million are recognized in "Selling, general and administrative expenses" in the consolidated statement of income for the year ended March 31, 2014.

13. Property, Plant and Equipment

(1) Schedule of Property, Plant and Equipment

The schedules of the carrying amount, acquisition cost, and accumulated depreciation and accumulated impairment losses of "Property, plant and equipment" are as follows:

Millions of yen

Carrying Amount	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of April 1, 2012	¥293,449	¥239,199	¥ 55,768	¥ 31,120	¥619,536
Individual acquisition	17,583	45,367	26,432	22,766	112,148
Capitalization of borrowing costs (Note)	—	—	—	72	72
Acquisition through business combinations	1,386	1,945	61	—	3,391
Transfer to investment property	(2,452)	(6)	(23)	—	(2,482)
Transfer to non-current assets held-for-sale	(384)	(0)	(6)	—	(389)
Depreciation	(14,759)	(44,587)	(20,178)	—	(79,524)
Impairment losses	(570)	(202)	(88)	—	(860)
Sale or disposal	(282)	(4,762)	(462)	(115)	(5,621)
Exchange differences on translation of foreign operations	9,129	14,570	1,928	1,677	27,303
Other	4,233	19,684	1,822	(26,998)	(1,259)
As of March 31, 2013	307,332	271,207	65,256	28,522	672,316
Individual acquisition	**14,255**	**50,973**	**21,750**	**50,371**	**137,349**
Capitalization of borrowing costs (Note)	**—**	**—**	**—**	**287**	**287**
Transfer to investment property	**(1,623)**	**(4)**	**(5)**	**—**	**(1,633)**
Depreciation	**(15,892)**	**(50,521)**	**(22,387)**	**—**	**(88,801)**
Impairment losses	**(27)**	**(922)**	**(2)**	**(282)**	**(1,233)**
Reversal of impairment losses	**—**	**157**	**—**	**—**	**157**
Sale or disposal	**(1,612)**	**(3,914)**	**(363)**	**(111)**	**(6,000)**
Exchange differences on translation of foreign operations	**16,204**	**28,189**	**3,438**	**6,201**	**54,031**
Other	**12,672**	**16,764**	**1,024**	**(16,947)**	**13,514**
As of March 31, 2014	**¥331,308**	**¥311,929**	**¥ 68,710**	**¥ 68,041**	**¥779,987**

(Note) The capitalization rates calculating the borrowing costs for capitalization were 3.5% for the year ended March 31, 2013 and 4.3 % for the year ended March 31, 2014, respectively.

Millions of yen

Acquisition Cost	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of April 1, 2012	¥593,988	¥670,645	¥155,232	¥31,120	¥1,450,985
As of March 31, 2013	615,682	720,165	171,351	28,522	1,535,719
As of March 31, 2014	**654,008**	**811,079**	**187,959**	**68,041**	**1,721,087**

Millions of yen

Accumulated Depreciation and Accumulated Impairment Losses	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of April 1, 2012	¥300,539	¥431,446	¥ 99,464	¥ —	¥ 831,449
As of March 31, 2013	308,350	448,958	106,095	—	863,403
As of March 31, 2014	**322,700**	**499,150**	**119,250**	**—**	**941,099**

The carrying amount of property, plant and equipment as of each fiscal year end includes the carrying amount of the following leased assets:

Millions of yen

	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
As of April 1, 2012	¥ 279	¥2,875	¥6,749	¥ 9,902
As of March 31, 2013	1,378	3,364	6,798	11,540
As of March 31, 2014	**1,335**	**5,015**	**6,763**	**13,113**

(2) Impairment Losses

The grouping of property, plant and equipment for impairment test is the smallest cash-generating unit that independently generates cash inflow.

The Group recognized impairment losses of ¥860 million for the year ended March 31, 2013 and ¥1,233 million for the year ended March 31, 2014 in "Selling, general and administrative expenses" in the consolidated statement of income.

Impairment losses recognized in the year ended March 31, 2013, represent the losses incurred to reduce the carrying amounts to the recoverable amounts of the buildings, structures, machinery and vehicles due to closure of businesses or individual selection for demolition.

The recoverable amounts of these assets are calculated mainly by their value in use, which is set at "zero."

Impairment losses recognized in the year ended March 31, 2014 represent the losses incurred to reduce the carrying amounts to the recoverable amounts of the buildings, structures, machinery and vehicles due to individual selection for demolition.

The recoverable amounts of these assets are calculated mainly by their values in use, which are set at "zero."

14. Goodwill and Intangible Assets

(1) Schedule of Goodwill and Intangible Assets

The schedules of carrying amount, acquisition cost, and accumulated amortization and accumulated impairment losses of "Goodwill" and "Intangible assets" are as follows:

Millions of yen

Carrying Amount	Goodwill	Trademarks	Software	Other	Total
As of April 1, 2012	¥1,110,046	¥257,349	¥ 17,760	¥31,339	¥1,416,494
Individual acquisition	3	325	14,149	10,228	24,704
Acquisition through business combinations	46,509	13,240	1	1	59,750
Amortization (Note)	—	(20,767)	(7,721)	(5,815)	(34,303)
Impairment losses	—	—	(61)	(3)	(64)
Sale or disposal	—	—	(359)	(214)	(573)
Exchange differences on translation of foreign operations	159,918	37,255	394	310	197,877
Other	—	221	7,707	(6,524)	1,404
As of March 31, 2013	1,316,476	287,622	31,869	29,321	1,665,289
Individual acquisition	**24**	**388**	**6,573**	**11,287**	**18,271**
Amortization (Note)	**—**	**(25,378)**	**(11,093)**	**(5,336)**	**(41,807)**
Impairment losses	**—**	**—**	**(2)**	**(713)**	**(715)**
Sale or disposal	**—**	**(1)**	**(137)**	**(66)**	**(203)**
Exchange differences on translation of foreign operations	**266,105**	**60,164**	**693**	**783**	**327,745**
Other	**1,828**	**(1,562)**	**6,462**	**(5,775)**	**953**
As of March 31, 2014	**¥1,584,432**	**¥321,234**	**¥ 34,366**	**¥29,501**	**¥1,969,532**

(Note) The amortization of intangible assets is included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of income.

Millions of yen

Acquisition Cost	Goodwill	Trademarks	Software	Other	Total
As of April 1, 2012	¥1,110,046	¥663,875	¥ 97,314	¥86,792	¥1,958,027
As of March 31, 2013	1,316,476	733,745	111,640	87,671	2,249,531
As of March 31, 2014	**1,584,432**	**824,669**	**123,940**	**92,853**	**2,625,893**

Millions of yen

Accumulated Amortization and Accumulated Impairment Losses	Goodwill	Trademarks	Software	Other	Total
As of April 1, 2012	¥ —	¥406,526	¥79,553	¥55,453	¥541,533
As of March 31, 2013	—	446,122	79,770	58,350	584,242
As of March 31, 2014	**—**	**503,435**	**89,574**	**63,352**	**656,361**

The carrying amount of intangible assets as of each fiscal year end includes the carrying amount of the following leased assets:

	Millions of yen
	Software
As of April 1, 2012	¥11
As of March 31, 2013	5
As of March 31, 2014	**3**

(2) Material Goodwill and Intangible Assets

Goodwill and intangible assets recognized in the consolidated statement of financial position are mainly composed of goodwill and trademarks in the JTIH Group. The carrying amounts of goodwill as of March 31, 2013 and 2014 were ¥1,273,971 million and ¥1,541,904 million, respectively. The carrying amounts of trademarks as of March 31, 2013 and 2014 were ¥284,861 million and ¥318,671 million, respectively.

The majority of the goodwill and trademarks was recognized as a result of acquisitions of RJR Nabisco's non-U.S. tobacco operations in 1999 and Gallaher in 2007.

The trademarks are amortized using the straight-line method and the remaining amortization period is mainly 13 years.

(3) Impairment Test for Goodwill

For the year ended March 31, 2014, the carrying amount of the majority of goodwill is allocated to the international tobacco cash-generating unit of ¥1,541,904 million (¥1,273,971 million for the year ended March 31, 2013) and the processed food cash-generating unit of ¥25,368 million (¥25,368 million for the year ended March 31, 2013). Details of the result of impairment tests are as follows:

A. International Tobacco Cash-Generating Unit

The recoverable amount is calculated by the value in use based on the three-year business plan that was prepared by reflecting past experiences and external information and that was approved by management. After the three-year business plan, the Group sets a growth rate that decreases gradually from 6.0% in the fourth year (FY2012: 5.4%) to 4.4% in the ninth year (FY2012: 4.2%), and the same growth rate as the ninth year from the tenth year as a continued growth rate for inflation.

The discount rate before taxes is 10.7% (FY2012: 11.9%). The value in use sufficiently exceeds the carrying amount of the cash-generating unit. Therefore, even in cases where the discount rate and growth rate used in calculating the value in use fluctuate within reasonable ranges, the Group assumes that the value in use will not become less than the carrying amount.

B. Processed Food Cash-Generating Unit

The recoverable amount is calculated by the value in use based on the three-year business plan that was prepared by reflecting past experiences and external information and that was approved by management. After the three-year business plan, the Group sets a growth rate that decreases gradually from 3.1% in the fourth year (FY2012: 3.2%) to 2.1% in the ninth year (FY2012: 1.1%), and the same growth rate as the ninth year issued from the tenth year as continued growth rate for inflation. The discount rate before taxes is 3.6% (FY2012: 4.7%). The value in use exceeds the carrying amount. If the discount rate increases by 2.9%, impairment losses would be recognized. In case that growth rate fluctuates within a reasonable range, the Group assumes that the value in use will not become less than the carrying amount.

15. Lease Transactions

The Group leases vehicles, vending machines and other assets as a lessee. Some of the lease contracts have renewal options or escalation clauses. There are no restrictions on additional debt and further leasing imposed by the lease arrangements.

(1) Present Value of Finance Lease Obligations

The total of future minimum lease payments for leased assets recognized based on the finance lease contracts, their present value and future financial costs as of each fiscal year end are as follows:

Millions of yen

	FY2012 (As of March 31, 2013)	**FY2013 (As of March 31, 2014)**
Not later than 1 year		
Total of future minimum lease payments	¥ 4,590	**¥ 4,831**
Future financial costs	289	**392**
Present value	4,301	**4,439**
Later than 1 year and not later than five years		
Total of future minimum lease payments	8,010	**9,666**
Future financial costs	586	**620**
Present value	7,424	**9,045**
Later than 5 years		
Total of future minimum lease payments	879	**708**
Future financial costs	62	**38**
Present value	817	**670**
Total		
Total of future minimum lease payments	13,480	**15,204**
Future financial costs	937	**1,050**
Present value	12,543	**14,154**

(2) Future Minimum Lease Payments under Non-cancellable Operating Leases

The total of future minimum lease payments under non-cancellable operating leases as of each fiscal year end is as follows:

Millions of yen

	FY2012 (As of March 31, 2013)	**FY2013 (As of March 31, 2014)**
Not later than 1 year	¥ 6,624	**¥ 8,521**
Later than 1 year and not later than 5 years	12,948	**13,804**
Later than 5 years	5,383	**7,908**
Total	¥24,955	**¥30,233**

(3) Total of Minimum Lease Payments and Contingent Rents

The total of minimum lease payments and contingent rents of operating lease contracts recognized as an expense for each fiscal year is as follows:

Millions of yen

	FY2012 (Year ended March 31, 2013)	**FY2013 (Year ended March 31, 2014)**
Total of minimum lease payments	¥9,132	**¥11,266**
Contingent rents	1,056	**1,028**

16. Investment Property

(1) Schedule of Investment Property

The schedule of the carrying amount of "Investment property" for each fiscal year is as follows:

Millions of yen

	FY2012 (Year ended March 31, 2013)	**FY2013 (Year ended March 31, 2014)**
Balance at the beginning of the year	¥ 67,387	**¥ 58,995**
Expenditure after acquisition	525	**244**
Transfer from property, plant and equipment	2,482	**1,633**
Transfer to non-current assets held-for-sale	(5,491)	**(4,114)**
Transfer to property, plant and equipment	(493)	**(6,339)**
Depreciation	(2,634)	**(2,313)**
Impairment losses	(2,289)	**(98)**
Sale or disposal	(506)	**(1,513)**
Exchange differences on translation of foreign operations	8	**18**
Other	8	**14,908**
Balance at the end of the year	¥ 58,995	**¥ 61,421**
Acquisition cost at the beginning of the year	¥144,976	**¥127,493**
Accumulated depreciation and accumulated impairment losses at the beginning of the year	77,589	**68,498**
Acquisition cost at the end of the year	127,493	**108,831**
Accumulated depreciation and accumulated impairment losses at the end of the year	68,498	**47,410**

(2) Fair Value

The fair value of investment property is determined based on a valuation conducted by an external real estate appraiser. The valuation is made in accordance with the appraisal of the country where the investment property is located and based on market evidence of transaction prices for similar assets.

The fair value hierarchy of investment property is categorized from Level 1 to Level 3 as follows:

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

The fair value of investment property based on the fair value hierarchy as of each fiscal year end is as follows:

Millions of yen

	FY2012 (As of March 31, 2013)			
	Level 1	Level 2	Level 3	Total
Investment property	¥—	¥142,307	¥3,041	¥145,348

Millions of yen

	FY2013 (As of March 31, 2014)			
	Level 1	Level 2	Level 3	Total
Investment property	**¥—**	**¥112,070**	**¥2,387**	**¥114,457**

The carrying amount of investment property as of each fiscal year end is as follows:

Millions of yen

	FY2012 (As of March 31, 2013)	**FY2013 (As of March 31, 2014)**
Investment property	¥58,995	**¥61,421**

(3) Income and Expenses from Investment Property

The rental income from investment property and direct operating expenses for each fiscal year are as follows:

Millions of yen

	FY2012 (Year ended March 31, 2013)	**FY2013 (Year ended March 31, 2014)**
Rental income	¥9,704	**¥7,915**
Direct operating expenses	6,674	**6,106**

(4) Impairment Losses

The grouping of investment properties for impairment test is based on the smallest cash-generating unit that independently generates cash inflow. Impairment test for idle properties is carried out individually.

The Group recognized impairment losses of ¥2,289 million for the year ended March 31, 2013, and ¥98 million for the year ended March 31, 2014 in “Selling, general and administrative expenses” in the consolidated statement of income.

Impairment losses recognized for the year ended March 31, 2013 represent the difference between the recoverable amount and the carrying amount of land and buildings as idle properties which were individually selected for demolition.

The recoverable amount is calculated based on value in use basis which is zero for buildings due to the decision of demolition, and the recoverable amount of other properties is calculated by the fair value less costs of disposal.

Impairment losses recognized for the year ended March 31, 2014 represent the difference between the recoverable amount and the carrying amount of land and buildings as idle properties which were individually selected for demolition.

The recoverable amount is calculated based on value in use basis, which is zero for buildings due to the decision of demolition, and the recoverable amount of other properties is calculated by the fair value less costs of disposal.

17. Income Taxes

(1) Deferred Tax Assets and Deferred Tax Liabilities

The breakdown and schedule of “Deferred tax assets” and “Deferred tax liabilities” by major causes of their occurrence for each fiscal year are as follows:

FY2012: Year ended March 31, 2013

Millions of yen

Deferred Tax Assets	As of April 1, 2012	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of March 31, 2013
Fixed assets (Note 2)	¥ 42,500	¥ (2,036)	¥ —	¥ 2,612	¥ 43,075
Retirement benefits	93,782	(5,857)	9,211	2,227	99,362
Carryforward of unused tax losses	59,731	2,564	—	3,277	65,572
Other	72,737	1,438	(107)	3,295	77,363
Subtotal	268,749	(3,891)	9,105	11,410	285,372
Valuation allowance	(61,679)	(8,104)	(148)	(1,899)	(71,829)
Total	¥ 207,071	¥(11,995)	¥ 8,957	¥ 9,510	¥ 213,543

Millions of yen

Deferred Tax Liabilities	As of April 1, 2012	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of March 31, 2013
Fixed assets (Note 2)	¥(107,789)	¥ (736)	¥ —	¥(10,413)	¥(118,937)
Retirement benefits	(3,917)	1,511	184	(1,218)	(3,440)
Other	(45,728)	(1,254)	(2,472)	(5,744)	(55,198)
Total	¥(157,434)	¥ (479)	¥(2,289)	¥(17,375)	¥(177,576)

FY2013: Year ended March 31, 2014

Deferred Tax Assets	As of April 1, 2013	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of March 31, 2014
					Millions of yen
Fixed assets (Note 2)	¥ 43,075	¥ (6,138)	¥ —	¥ 5,826	¥ 42,763
Retirement benefits	99,362	(7,435)	(3,953)	6,127	94,101
Carryforward of unused tax losses	65,572	(11,451)	—	5,248	59,369
Other	77,363	(2,898)	1,891	7,946	84,302
Subtotal	285,372	(27,922)	(2,062)	25,146	280,535
Valuation allowance	(71,829)	11,231	97	(4,409)	(64,911)
Total	¥213,543	¥(16,691)	¥(1,965)	¥20,737	¥215,624

Deferred Tax Liabilities	As of April 1, 2013	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of March 31, 2014
					Millions of yen
Fixed assets (Note 2)	¥(118,937)	¥ 2,954	¥ —	¥(15,030)	¥(131,013)
Retirement benefits	(3,440)	3,192	(410)	(2,745)	(3,403)
Other	(55,198)	(18,137)	(4,249)	(11,447)	(89,032)
Total	¥(177,576)	¥(11,991)	¥(4,659)	¥(29,222)	¥(223,448)

(Note 1) "Other" includes exchange differences on translation of foreign operations.
(Note 2) "Fixed assets" include property, plant and equipment, goodwill, intangible assets and investment property.

The deferred tax assets are recognized by taking taxable temporary differences, future taxable profits plan and tax planning into account. The carryforward of unused tax losses, for which the deferred tax assets are not recognized, was ¥51,621 million (including ¥37,128 million, for which the carryforward expires after five years) as of March 31, 2013, and ¥46,162 million (including ¥30,707 million, for which the carryforward expires after five years) as of March 31, 2014. Tax credits, for which the deferred tax assets are not recognized, were ¥3,601 million (including ¥2,907 million, for which the carryforward expires after five years) as of March 31, 2013, and ¥729 million (including ¥46 million, for which the carryforward expires after five years) as of March 31, 2014.

(2) Income Taxes

The breakdown of "Income taxes" for each fiscal year is as follows:

	FY2012 (Year ended March 31, 2013)	FY2013 (Year ended March 31, 2014)
		Millions of yen
Current income taxes	¥145,434	¥172,230
Deferred income taxes	12,473	28,682
Total income taxes	¥157,907	¥200,912

Deferred income taxes decreased by ¥2,070 million and ¥1,667 million for the years ended March 31, 2013 and 2014, respectively, due to the effect of changes in tax rates in Japan and other countries.

(3) Reconciliation of the Effective Tax Rate

The breakdown of major items that caused differences between the effective statutory tax rate and the average actual tax rate for each fiscal year is as follows:

The Company is subject mainly to corporate tax, inhabitant tax, and enterprise tax, and the effective statutory tax rate calculated based on these taxes was 37.78%. Foreign subsidiaries are subject to income tax at their locations.

	FY2012 (Year ended March 31, 2013)	**FY2013 (Year ended March 31, 2014)**
		%
Effective statutory tax rate	37.78	**37.78**
Different tax rates applied to foreign subsidiaries	(9.60)	**(10.98)**
Non-deductible expenses	1.57	**3.71**
Undistributed earnings of subsidiaries	0.46	**3.20**
Valuation allowance	1.91	**(1.68)**
Other	(1.11)	**(0.46)**
Average actual tax rate	31.00	**31.58**

18. Trade and Other Payables

The breakdown of "Trade and other payables" as of each fiscal year end is as follows:

	FY2012 (As of March 31, 2013)	**FY2013 (As of March 31, 2014)**
		Millions of yen
Note and account payables	¥173,458	**¥190,408**
Other payables	71,325	**73,340**
Other	67,959	**90,955**
Total	¥312,741	**¥354,704**

Trade and other payables are classified as financial liabilities measured at amortized cost.

19. Bonds and Borrowings (including Other Financial Liabilities)

(1) Breakdown of Financial Liabilities

The breakdown of "Bonds and borrowings" and "Other financial liabilities" as of each fiscal year end is as follows:

	Millions of yen		%	
	FY2012 (As of March 31, 2013)	**FY2013 (As of March 31, 2014)**	Average interest rate (Note 1)	Due
Derivative liabilities	¥ 3,816	**¥ 4,856**	—	—
Short-term borrowings	23,847	**21,936**	4.65	—
Current portion of long-term borrowings	20,454	**1,225**	1.93	—
Current portion of bonds (Note 2)	—	**172,401**	—	—
Long-term borrowings	33,163	**35,034**	0.50	2015–2028
Bonds (Note 2)	237,236	**131,131**	—	—
Other	23,577	**22,366**	—	—
Total	¥342,094	**¥388,949**		
Current liabilities	¥ 52,851	**¥205,053**		
Non-current liabilities	289,243	**183,895**		
Total	¥342,094	**¥388,949**		

(Note 1) The average interest rate is calculated using the interest rate and outstanding balance as of March 31, 2014.

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Derivative liabilities are classified as financial liabilities measured at fair value through profit or loss excluding those hedge accounting is applied to, and bonds and borrowings are classified as financial liabilities measured at amortized cost.

There are no financial covenants that have a significant impact on the Group on bonds and borrowings.

(Note 2) The summary of the issuing conditions of the bonds is as follows:

			Millions of yen		%		
Company	Name of bond	Date of issuance	FY2012 (As of March 31, 2013)	**FY2013 (As of March 31, 2014)**	Interest rate	Collateral	Date of maturity
Japan Tobacco Inc.	5th Domestic straight bond	June 3, 2009	¥ 99,953	**¥ 99,993 (99,993)**	1.13	Yes	June 3, 2014
Japan Tobacco Inc.	6th Domestic straight bond	December 9, 2010	40,000	**40,000**	0.53	Yes	December 9, 2015
Japan Tobacco Inc.	7th Domestic straight bond	December 9, 2010	20,000	**20,000**	0.84	Yes	December 8, 2017
Japan Tobacco Inc.	8th Domestic straight bond	December 9, 2010	20,000	**20,000**	1.30	Yes	December 9, 2020
Japan Tobacco Inc.	Straight bond in USD	July 23, 2013	—	**51,131 [USD 500 mil.]**	2.10	Yes	July 23, 2018
JTI (UK) Finance Plc	Straight bond in EUR	October 2, 2006	57,283 [EUR 500 mil.]	**72,408 (72,408) [EUR 500 mil.]**	4.50	Non	April 2, 2014
Total			¥237,236 (—)	**¥ 303,532 (172,401)**			

(Note 1) The figure in parentheses ( ) represents the amount of the current portion of the bond.
(Note 2) The figure in parentheses [ ] represents the amount of foreign currency-denominated bond.

(2) Assets Pledged as Collateral for Liabilities

A. Pursuant to the provisions of Article 6 of Japan Tobacco Inc. Act, the Company's properties are pledged as general collateral for bonds issued by the Company. Bondholders are entitled to claim satisfaction in preference to unsecured creditors of the Company properties (with the exception of national and local taxes and certain other statutory obligations).

B. Assets pledged as collateral by some subsidiaries and their corresponding debts as of each fiscal year end are as follows:

Assets Pledged as Collateral

		Millions of yen
	FY2012 (As of March 31, 2013)	**FY2013 (As of March 31, 2014)**
Land, buildings, and structures	¥6,149	**¥5,838**
Other	24	**114**
Total	¥6,173	**¥5,952**

Corresponding Debts

		Millions of yen
	FY2012 (As of March 31, 2013)	**FY2013 (As of March 31, 2014)**
Short-term borrowings	¥ 20	**¥ –**
Current portion of long-term borrowings	275	**1,072**
Long-term borrowings	1,072	**–**
Other	—	**156**
Total	¥1,367	**¥1,227**

20. Provisions

The breakdown and schedule of "Provisions" for each fiscal year are as follows:

FY2012: Year ended March 31, 2013

Millions of yen

	Asset retirement provisions	Restructuring provisions	Provisions for sales rebates	Other provisions	Total
As of April 1, 2012	¥1,660	¥ 618	¥ 3,938	¥3,919	¥10,135
Provisions	114	3,951	4,073	292	8,431
Interest cost associated with passage of time	31	—	—	—	31
Provisions used	(49)	(3,945)	(3,811)	(255)	(8,061)
Provisions reversed	(62)	(226)	(126)	(583)	(997)
Exchange differences on translation of foreign operations	—	53	—	451	503
As of March 31, 2013	¥1,695	¥ 450	¥ 4,073	¥3,824	¥10,043
Current liabilities	¥ 3	¥ 446	¥ 4,073	¥ 734	¥ 5,256
Non-current liabilities	1,692	5	—	3,090	4,786
Total	¥1,695	¥ 450	¥ 4,073	¥3,824	¥10,043

FY2013: Year ended March 31, 2014

Millions of yen

	Asset retirement provisions	Restructuring provisions	Provisions for sales rebates	Other provisions	Total
As of April 1, 2013	**¥1,695**	**¥ 450**	**¥ 4,073**	**¥3,824**	**¥10,043**
Provisions	**72**	**1,910**	**4,288**	**557**	**6,827**
Interest cost associated with passage of time	**19**	**—**	**—**	**—**	**19**
Provisions used	**(92)**	**(309)**	**(3,958)**	**(185)**	**(4,544)**
Provisions reversed	**—**	**(202)**	**(116)**	**(360)**	**(678)**
Exchange differences on translation of foreign operations	**—**	**206**	**—**	**730**	**936**
As of March 31, 2014	**¥1,695**	**¥2,055**	**¥ 4,288**	**¥4,566**	**¥12,603**
Current liabilities	**¥ 5**	**¥2,055**	**¥ 4,288**	**¥1,014**	**¥ 7,362**
Non-current liabilities	**1,690**	**—**	**—**	**3,552**	**5,241**
Total	**¥1,695**	**¥2,055**	**¥ 4,288**	**¥4,566**	**¥12,603**

A. Asset Retirement Provisions

In order to settle the obligation of restoring and of removing hazardous substances from plant facilities and premises that the Group uses, the probable amount to be paid in the future is recognized based on past performances. These expenses are expected to be paid after one year or more; however, they may be affected by future business plans.

B. Restructuring Provisions

These provisions are mainly related to business integration and measures for the rationalization of international tobacco business. The timing of the payment may be affected by future business plans.

C. Provisions for Sales Rebates

These provisions are for contracts which reward the customers with discounts when the sales volume or sales amount in a given period exceeds specified volume or amount. They are expected to be paid within one year.

21. Other Liabilities

The breakdown of “Other current liabilities” and “Other non-current liabilities” as of each fiscal year end is as follows:

Millions of yen

	FY2012 (As of March 31, 2013)	**FY2013 (As of March 31, 2014)**
Tobacco excise tax payables (Note)	¥285,765	**¥291,372**
Tobacco special excise tax payables (Note)	14,473	**9,995**
Tobacco local excise tax payables (Note)	182,375	**121,474**
Consumption tax payables	85,388	**91,733**
Bonus to employees	45,461	**52,618**
Employee’s unused paid vacations liabilities	19,815	**21,521**
Other	136,255	**143,987**
Total	¥769,531	**¥732,700**
Current liabilities	¥656,305	**¥606,161**
Non-current liabilities	113,226	**126,539**
Total	¥769,531	**¥732,700**

(Note) Tobacco excise tax payables, tobacco special excise tax payables and tobacco local excise tax payables include those unpaid on March 31, 2013 due to bank holiday.

22. Employee Benefits

(1) Post-employment Benefits

The Group sponsors funded or unfunded defined benefit plans and defined contribution plans as employee retirement benefit plans. The benefits of defined benefit plans are predetermined based on conditions, such as points employees have gained in compensation for each year of service, the payment rate, years of service, and average salaries in their final years of service before retirement.

The Company is obligated to bear pension costs for a mutual assistance association incurred with respect to services in or before June 1956 (prior to enforcement of the Act on the Mutual Aid Association of Public Corporation Employees). Such obligations are recognized as liabilities at their present value using the actuarial valuation method and are included in retirement benefit liabilities.

Special termination benefits may be provided to employees on their early retirements under certain circumstances.

The funded defined benefit plans are administrated by the Group or the fund that is legally separated from the Group in accordance with statutory requirements. The Group, or the board of pension fund and the trustee of the plan, are required by law to act in the best interests of the plan participants, and are responsible for managing the plan assets in accordance with the designated investment strategy.

The Group’s main defined benefit plans expose the Group to actuarial risks, such as investment risk, interest rate risk, inflation risk, and longevity risk.

(i) Investment risk

The present value of the defined benefit obligations is calculated using a discount rate set with reference to a yield on high quality corporate bond or government bond. If the return on the plan assets is below this yield, there is a possibility that the plan is underfunded.

(ii) Interest rate risk

A decrease in a yield on high quality corporate bonds or government bonds will increase the present value of the defined benefit obligations. However, this will be partially offset by an increase in the fair value of the debt instruments (plan assets).

(iii) Inflation risk

The level of benefit for certain defined benefit plans of the Group is linked to inflation. Accordingly, a rise in inflation will increase the present value of the defined benefit obligations.

(iv) Longevity risk

Some defined benefit plans of the Group provide a lifetime annuity, and the Group is obligated to provide pension benefits to the plan participants for the rest of their lives after their retirements. The present value of the defined benefit obligations is calculated by reference to the best estimate of the mortality of plan participants during or after employment. An increase in average life expectancy of the plan participants will increase the defined benefit obligations.

A. Schedule of Defined Benefit Obligations

The schedule of the defined benefit obligations is as follows:

Millions of yen

	Japan (Note 3)	Overseas	Total
As of April 1, 2012	¥327,684	¥274,603	¥602,287
Current service cost	12,185	5,207	17,392
Past service cost and gains and losses on settlement	(4,346)	(505)	(4,851)
Interest expense	3,919	12,901	16,820
Contributions by plan participants	—	875	875
Special termination benefits	—	799	799
Remeasurement gains and losses:			
Actuarial gains and losses arising from changes in demographic assumptions	1,821	421	2,242
Actuarial gains and losses arising from changes in financial assumptions	7,129	34,524	41,653
Actuarial gains and losses arising from experience adjustments	14,332	7,345	21,677
Benefits paid	(27,461)	(15,906)	(43,366)
Exchange differences on translation of foreign operations	—	44,425	44,425
Other	49	204	252
As of March 31, 2013 (Notes 1, 2)	335,312	364,893	700,205
Current service cost	**12,377**	**7,755**	**20,132**
Past service cost and gains and losses on settlement	**—**	**2,627**	**2,627**
Interest expense	**3,046**	**14,972**	**18,018**
Contributions by plan participants	**—**	**972**	**972**
Special termination benefits	**—**	**37**	**37**
Remeasurement gains and losses:			
Actuarial gains and losses arising from changes in demographic assumptions	**4**	**4,211**	**4,215**
Actuarial gains and losses arising from changes in financial assumptions	**(679)**	**1,173**	**494**
Actuarial gains and losses arising from experience adjustments	**(86)**	**3,029**	**2,943**
Benefits paid	**(30,703)**	**(17,871)**	**(48,574)**
Exchange differences on translation of foreign operations	**—**	**88,196**	**88,196**
Other	**308**	**237**	**545**
As of March 31, 2014 (Notes 1, 2)	**¥319,579**	**¥470,230**	**¥789,809**

(Note 1) The Group's weighted-average duration of the defined benefit obligations is 7.6 years for Japan and 14.5 years for overseas (FY2012: 8.1 years for Japan and 14.3 years for overseas).

(Note 2) The Group's breakdown of the defined benefit obligation by plan participant is as follows:

Millions of yen

	FY2012 (As of March 31, 2013)			**FY2013 (As of March 31, 2014)**		
	Japan	Overseas	Total	Japan	Overseas	Total
Active members	¥202,096	¥142,128	¥344,224	**¥200,292**	**¥187,191**	**¥387,483**
Deferred members	16,491	35,156	51,647	**14,791**	**49,900**	**64,691**
Pensioners	116,725	187,609	304,334	**104,497**	**233,139**	**337,635**
Total	¥335,312	¥364,893	¥700,205	**¥319,579**	**¥470,230**	**¥789,809**

(Note 3) The schedule of mutual pension benefits obligations included in the category of Japan is as follows:

Millions of yen

	FY2012 (Year ended March 31, 2013)	**FY2013 (Year ended March 31, 2014)**
Balance at the beginning of the year	¥89,794	**¥76,814**
Past service cost and gains and losses on settlement (Note)	(4,279)	**—**
Interest expense	718	**461**
Remeasurement gains and losses	(529)	**(1,070)**
Benefits paid	(8,891)	**(8,380)**
Balance at the end of the year	¥76,814	**¥67,825**

(Note) With the promulgation of "The Act for Partial Revision of the Employees' Pension Insurance Act, etc. for unifying employees' pension insurance systems," (Act No. 63 of 2012), pension costs for the mutual assistance association the Company is obligated to bear are expected to decrease, and accordingly, retirement benefit liabilities are expected to decrease. As a result, past service costs were recognized for the year ended March 31, 2013.

B. Schedule of Plan Assets

The schedule of the plan assets is as follows:

			Millions of yen
	Japan	Overseas	Total
As of April 1, 2012	¥ 92,168	¥209,914	¥302,082
Interest income	1,296	9,745	11,041
Remeasurement gains and losses:			
Return on plan assets (excluding amounts included in interest income)	18,983	9,189	28,172
Contributions by the employer (Notes 1, 2)	3,115	9,204	12,319
Contributions by plan participants	—	875	875
Benefits paid	(8,029)	(10,845)	(18,874)
Exchange differences on translation of foreign operations	—	34,897	34,897
Other	56	1,857	1,914
As of March 31, 2013	107,590	264,835	372,425
Interest income	**1,065**	**11,116**	**12,181**
Remeasurement gains and losses:			
Return on plan assets (excluding amounts included in interest income)	**4,363**	**16,391**	**20,754**
Contributions by the employer (Notes 1, 2)	**4,453**	**11,890**	**16,342**
Contributions by plan participants	**—**	**972**	**972**
Benefits paid	**(8,293)**	**(13,378)**	**(21,671)**
Exchange differences on translation of foreign operations	**—**	**64,357**	**64,357**
Other	**306**	**210**	**516**
As of March 31, 2014	**¥109,484**	**¥356,392**	**¥465,876**

(Note 1) Pursuant to laws and regulations, the Group and the pension fund review the financial condition of the pension plan regularly and recalculate contributions for allocating future benefit and keeping the balance of the pension financing when the plan is underfunded.

(Note 2) The Group plans to pay contributions of ¥12,727 million in the year ending December 31, 2014.

C. Reconciliation of Defined Benefit Obligations and Plan Assets

The reconciliation of the defined benefit obligations and plan assets to the net defined benefit liabilities (assets) recognized in the consolidated statement of financial position as of each fiscal year end is as follows:

FY2012: As of March 31, 2013

			Millions of yen
			FY2012
	Japan	Overseas	Total
Present value of the funded defined benefit obligations	¥ 120,505	¥ 275,133	¥ 395,638
Fair value of the plan assets	(107,590)	(264,835)	(372,425)
Subtotal	12,915	10,297	23,213
Present value of the unfunded defined benefit obligations	214,807	89,760	304,567
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	¥ 227,722	¥ 100,058	¥ 327,780
Retirement benefit liabilities	¥ 227,726	¥ 114,878	¥ 342,604
Retirement benefit assets	(4)	(14,821)	(14,825)
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	¥ 227,722	¥ 100,058	¥ 327,780

FY2013: As of March 31, 2014

	Millions of yen		
	FY2013		
	Japan	Overseas	Total
Present value of the funded defined benefit obligations	**¥ 115,400**	**¥ 358,842**	**¥ 474,242**
Fair value of the plan assets	**(109,484)**	**(356,392)**	**(465,876)**
Subtotal	**5,916**	**2,450**	**8,365**
Present value of the unfunded defined benefit obligations	**204,179**	**111,388**	**315,568**
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	**¥ 210,095**	**¥ 113,838**	**¥ 323,933**
Retirement benefit liabilities	**¥ 210,096**	**¥ 130,366**	**¥ 340,462**
Retirement benefit assets	**(1)**	**(16,529)**	**(16,530)**
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	**¥ 210,095**	**¥ 113,838**	**¥ 323,933**

D. Major Breakdown of Plan Assets

The breakdown of plan assets by major category as of each fiscal year end is as follows:

Japan

						Millions of yen
	FY2012 (As of March 31, 2013)			**FY2013 (As of March 31, 2014)**		
	Market price in an active market			Market price in an active market		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Cash and cash equivalents	¥17,594	¥ —	¥ 17,594	**¥ 8,524**	**¥ —**	**¥ 8,524**
Equity instruments	17,666	—	17,666	**18,238**	**—**	**18,238**
Japan	7,619	—	7,619	**8,369**	**—**	**8,369**
Overseas	10,047	—	10,047	**9,869**	**—**	**9,869**
Debt instruments	22,850	—	22,850	**20,483**	**—**	**20,483**
Japan	17,357	—	17,357	**18,248**	**—**	**18,248**
Overseas	5,493	—	5,493	**2,235**	**—**	**2,235**
Real estate	—	—	—	**60**	**—**	**60**
General account of life insurance companies (Note 2)	—	48,008	48,008	**—**	**61,330**	**61,330**
Other	—	1,473	1,473	**46**	**803**	**850**
Total	¥58,109	¥49,480	¥107,590	**¥47,351**	**¥62,133**	**¥109,484**

Overseas

						Millions of yen
	FY2012 (As of March 31, 2013)			**FY2013 (As of March 31, 2014)**		
	Market price in an active market			Market price in an active market		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Cash and cash equivalents	¥ 15,092	¥ —	¥ 15,092	**¥ 19,313**	**¥ —**	**¥ 19,313**
Equity instruments	108,820	—	108,820	**139,446**	**—**	**139,446**
United Kingdom	48,818	—	48,818	**50,670**	**—**	**50,670**
North America	28,308	—	28,308	**42,537**	**—**	**42,537**
Other	31,694	—	31,694	**46,238**	**—**	**46,238**
Debt instruments	118,376	3,947	122,324	**167,683**	**4,623**	**172,305**
United Kingdom	69,798	—	69,798	**108,883**	**—**	**108,883**
North America	24,974	—	24,974	**28,553**	**—**	**28,553**
Other	23,604	3,947	27,552	**30,246**	**4,623**	**34,869**
Real estate	3,142	1,095	4,236	**5,479**	**1,199**	**6,679**
Other	14,298	65	14,363	**4,763**	**13,886**	**18,649**
Total	¥259,728	¥5,108	¥264,835	**¥336,684**	**¥19,708**	**¥356,392**

Total

	FY2012 (As of March 31, 2013)			FY2013 (As of March 31, 2014)		
	Market price in an active market			Market price in an active market		
Millions of yen	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Cash and cash equivalents	¥ 32,686	¥ —	¥ 32,686	**¥ 27,837**	**¥ —**	**¥ 27,837**
Equity instruments	126,486	—	126,486	**157,684**	**—**	**157,684**
Debt instruments	141,226	3,947	145,173	**188,166**	**4,623**	**192,788**
Real estate	3,142	1,095	4,236	**5,539**	**1,199**	**6,738**
General account of life insurance companies (Note 2)	—	48,008	48,008	**—**	**61,330**	**61,330**
Other	14,298	1,538	15,836	**4,810**	**14,689**	**19,499**
Total	¥317,837	¥54,588	¥372,425	**¥384,035**	**¥81,841**	**¥465,876**

(Note 1) The fair value of the plan assets is provided for each of quoted and unquoted market price in an active market as defined in IFRS 13 "Fair Value Measurement."
(Note 2) A certain interest rate and principal for the general account of life insurance are guaranteed by life insurance companies.

The investment strategy for the Group's major plans is as follows:

(Japan)

The Company's pension fund is managed in accordance with the internal policy for securing stable profits in the middle- and long-term in order to ensure the redemption of the plan liability. Concretely, setting target rate of return and composition ratio of plan assets by asset category within the risk tolerance that is annually assessed, the Company invests plan assets consistently with the composition ratio. When reviewing the composition ratio, the Company considers introducing an asset investment which has a high correlation with the liability.

In the case where an unexpected situation occurs in the market environment, it is temporarily allowed to make an adjustment on the weight of risk assets complying with the policy.

(Overseas)

The investment strategy for the foreign subsidiaries' funded pension plans is decided properly by the trustee of the plan or the management of overseas subsidiaries according to local legislations. The Company's objective for the foreign subsidiaries' funded pension plans is to manage risks arising from its defined benefit obligation, and meanwhile to achieve a return on assets in excess of the movement in the value of the defined benefit obligation.

The majority of the plan assets have been allocated to liability matching bonds and the remaining parts of the plan assets are mainly invested in equities targeting long-term return.

E. Matters Related to Actuarial Assumptions

The major items of actuarial assumptions as of each fiscal year end are as follows:

%	FY2012 (As of March 31, 2013)		FY2013 (As of March 31, 2014)	
	Japan	Overseas	Japan	Overseas
Discount rate	1.0	3.7	**0.9**	**3.9**
Inflation rate	—	2.3	**—**	**2.6**

FY2012: As of March 31, 2013

Years	Japan		Overseas	
	Males	Females	Males	Females
Average life expectancy at retirement (Note 1)				
Current pensioners	23.4 (Note 2)	29.3 (Note 2)	20.9 (Note 3)	23.5 (Note 3)
Future pensioners			22.0 (Note 4)	24.7 (Note 4)

FY2013: As of March 31, 2014

Years	Japan		Overseas	
	Males	Females	Males	Females
Average life expectancy at retirement (Note 1)				
Current pensioners	**23.4** (Note 2)	**29.3** (Note 2)	**21.2** (Note 3)	**23.8** (Note 3)
Future pensioners			**22.5** (Note 4)	**25.1** (Note 4)

(Note 1) The average life expectancies underlying the values of the defined benefit obligation on major plans. Assumptions regarding future mortality rate are based on published statics and mortality tables.

(Note 2) Life expectancy for a pensioner currently aged 60. Regardless of the plan participant's current age, the Group performs actuarial calculations based on the assumption that life expectancy remains the same.
(Note 3) Life expectancy for a pensioner currently aged 65
(Note 4) Life expectancy at the age of 65 for an active member currently aged 50
(Note 5) The valuation of defined benefit obligations reflects a judgment on uncertain future events. The sensitivities of defined benefit obligations due to changes in major assumptions as of each fiscal year end are as follows. Each of these sensitivities assumes that other variables remain fixed; however, in fact, they do not always change independently. Negative figures show a decrease in pension plan obligations, while positive figures show an increase.

Millions of yen

		FY2012 (As of March 31, 2013)		**FY2013 (As of March 31, 2014)**	
	Change in assumptions	Japan	Overseas	Japan	Overseas
Discount rate	Increase by 0.5%	¥(12,595)	¥(24,104)	**¥(11,555)**	**¥(32,618)**
	Decrease by 0.5%	13,523	26,982	**12,394**	**36,585**
Inflation rate	Increase by 0.5%	—	18,077	**—**	**23,784**
	Decrease by 0.5%	—	(17,721)	**—**	**(21,928)**
Mortality rate	Extended 1 year	7,707	9,460	**7,094**	**15,870**
	Shortened 1 year	(7,598)	(9,544)	**(6,970)**	**(14,384)**

F. Breakdown of Defined Benefit Cost

The breakdown of defined benefit cost for each fiscal year is as follows:

FY2012: As of March 31, 2013

Millions of yen

			FY2012
	Japan	Overseas	Total
Current service cost	¥ 12,185	¥ 5,207	¥ 17,392
Past service cost and gains and losses on settlement	(4,346)	(505)	(4,851)
Interest expense (income)	2,623	3,156	5,779
Special termination benefits	—	799	799
Defined benefit cost through profit or loss	10,462	8,658	19,120
Actuarial gains and losses arising from changes in demographic assumptions	1,821	421	2,242
Actuarial gains and losses arising from changes in financial assumptions	7,129	34,524	41,653
Actuarial gains and losses arising from experience adjustments	14,332	7,345	21,677
Return on plan assets (excluding amounts included in interest income)	(18,983)	(9,189)	(28,172)
Defined benefit cost through other comprehensive income	4,299	33,101	37,400
Total of defined benefit cost	¥ 14,761	¥41,758	¥ 56,519

FY2013: As of March 31, 2014

Millions of yen

			FY2013
	Japan	Overseas	Total
Current service cost	**¥12,377**	**¥ 7,755**	**¥ 20,132**
Past service cost and gains and losses on settlement	**—**	**2,627**	**2,627**
Interest expense (income)	**1,981**	**3,856**	**5,836**
Special termination benefits	**—**	**37**	**37**
Defined benefit cost through profit or loss	**14,358**	**14,275**	**28,632**
Actuarial gains and losses arising from changes in demographic assumptions	**4**	**4,211**	**4,215**
Actuarial gains and losses arising from changes in financial assumptions	**(679)**	**1,173**	**494**
Actuarial gains and losses arising from experience adjustments	**(86)**	**3,029**	**2,943**
Return on plan assets (excluding amounts included in interest income)	**(4,363)**	**(16,391)**	**(20,754)**
Defined benefit cost through other comprehensive income	**(5,125)**	**(7,978)**	**(13,103)**
Total of defined benefit cost	**¥ 9,233**	**¥ 6,297**	**¥ 15,530**

(Note 1) The net amount of interest expense and interest income is included in "Financial costs." Other expenses are included in "Cost of sales" and "Selling, general and administrative expenses."
(Note 2) Contributions to the defined contribution plans were ¥4,959 million for the year ended March 31, 2013 and ¥6,224 million for the year ended March 31, 2014 and were not included in the table above.

(2) Other Employee Benefit Expenses

The employee benefit expenses other than post-employment benefits that are included in the consolidated statement of income for each fiscal year are as follows:

		Millions of yen
	FY2012 (Year ended March 31, 2013)	**FY2013 (Year ended March 31, 2014)**
Remuneration and salary	¥215,369	**¥247,730**
Bonus to employees	69,161	**70,066**
Legal welfare expenses	39,982	**45,994**
Welfare expenses	22,662	**26,696**
Termination benefits	2,737	**(242)**

23. Equity and Other Equity Items

(1) Share Capital and Capital Surplus

A. Authorized Shares

The number of authorized shares as of March 31, 2013 and 2014 is 8,000,000 thousand ordinary shares.

B. Fully Paid Issued Shares

The schedule of the number of issued shares and share capital is as follows:

	Thousands of shares		Millions of yen
	Number of ordinary issued shares	Share capital	Capital surplus
As of April 1, 2012	10,000	¥100,000	¥736,410
Increase (decrease) (Note 2)	1,990,000	—	1
As of March 31, 2013	2,000,000	100,000	736,411
Increase (decrease)	**—**	**—**	**(11)**
As of March 31, 2014	**2,000,000**	**¥100,000**	**¥736,400**

(Note 1) The shares issued by the Company are non-par value ordinary shares that have no restriction on any content of rights.

(Note 2) The number of ordinary shares issued increased by 1,990,000 thousand shares for the year ended March 31, 2013 due to the 200-for-one share split conducted, with basis date of June 30, 2012 and effective date of July 1, 2012.

(2) Treasury Shares

The schedule of the number of treasury shares and its amount as of each fiscal year end is as follows:

	Thousands of shares	Millions of yen
	Number of shares	Amount
As of April 1, 2012	479	¥ 94,574
Increase (decrease) (Notes 2, 3)	182,032	249,999
As of March 31, 2013	182,510	344,573
Increase (decrease) (Note 2)	**(58)**	**(110)**
As of March 31, 2014	**182,452**	**¥344,463**

(Note 1) The Company adopts share option plans and utilizes treasury shares for delivery of shares due to its exercise. Contract conditions and amount are described in "32. Share-Based Payments."

(Note 2) The number of treasury shares purchased based on the resolution made by the Board of Directors was 86,806 thousand shares and the total purchase cost was ¥250,000 million for the year ended March 31, 2013. Purchase of shares less than one unit is 0 thousand shares for the year ended March 31, 2014. The number of shares delivered upon exercise of share option is 1 thousand shares for the year ended March 31, 2013 and 58 thousand shares for the year ended March 31, 2014.

(Note 3) The number of treasury shares increased by 95,227 thousand shares for the year ended March 31, 2013 due to the 200-for-one share split that was conducted, with basis date of June 30, 2012 and effective date of July 1, 2012.

(3) Other Components of Equity

A. Subscription rights to shares

The Company adopts share option plans and issues subscription rights to shares based on the Companies Act. Contract conditions and amount are described in "32. Share-based Payments."

B. Exchange differences on translation of foreign operations

This is a foreign currency translation difference that occurs when consolidating financial statements of foreign subsidiaries are prepared in foreign currencies.

C. Net gain (loss) on derivatives designated as cash flow hedges

The Company uses derivatives for hedging to avoid the risk of fluctuation in future cash flows. This is the effective portion of changes in the fair value of derivative transactions designated as cash flow hedges.

D. Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income

This is the valuation difference in the fair value of financial assets measured at fair value through other comprehensive income.

E. Remeasurements of defined benefit plans

Remeasurements of defined benefit plans comprise actuarial gains and losses, the return on plan assets excluding amounts included in interest income, and any change in the effect of the asset ceiling excluding amounts included in interest income. In addition, actuarial gains and losses are the effects of differences between the actuarial assumptions at the beginning of the year and what has actually occurred, and the effects of changes in actuarial assumptions. Remeasurements are recognized as other comprehensive income when occurred and are transferred immediately from other components of equity to retained earnings.

24. Dividends

Dividends paid for each fiscal year are as follows:

FY2012: Year ended March 31, 2013

					FY2012
		Millions of yen	Yen		
	Class of shares	Total dividends	Dividends per share	Basis date	Effective date
(Resolution)					
Annual Shareholders Meeting (June 22, 2012)	Ordinary shares	¥57,129	¥6,000	March 31, 2012	June 25, 2012
Board of Directors (October 30, 2012)	Ordinary shares	57,129	30	September 30, 2012	November 30, 2012

Dividends per share for which the basis date falls before June 30, 2012, do not reflect the effect of the 200-for-one share split conducted, with basis date of June 30, 2012 and effective date of July 1, 2012.

Assuming the share split coming into effect at the beginning of the year ended March 31, 2013 (April 1, 2012), dividends per share resolved at the Annual Shareholders' Meeting on June 22, 2012, would have been ¥30.

FY2013: Year ended March 31, 2014

					FY2013
		Millions of yen	Yen		
	Class of shares	Total dividends	Dividends per share	Basis date	Effective date
(Resolution)					
Annual Shareholders Meeting (June 21, 2013)	**Ordinary shares**	**¥69,065**	**¥38**	**March 31, 2013**	**June 24, 2013**
Board of Directors (October 31, 2013)	**Ordinary shares**	**83,605**	**46**	**September 30, 2013**	**November 29, 2013**

Dividends, for which the effective date falls in the following fiscal year, are as follows:

FY2012: Year ended March 31, 2013

					FY2012
		Millions of yen	Yen		
	Class of shares	Total dividends	Dividends per share	Basis date	Effective date
(Resolution)					
Annual Shareholders Meeting (June 21, 2013)	Ordinary shares	¥69,065	¥38	March 31, 2013	June 24, 2013

FY2013: Year ended March 31, 2014

	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
				FY2013	
(Resolution) Annual Shareholders Meeting (June 24, 2014)	**Ordinary shares**	**¥90,877**	**¥50**	**March 31, 2014**	**June 25, 2014**

25. Revenue

The reconciliation from "Gross turnover" to "Revenue" for each fiscal year is as follows:

Millions of yen

	FY2012 (Year ended March 31, 2013)	**FY2013 (Year ended March 31, 2014)**
Gross turnover	¥ 6,673,222	**¥ 7,442,722**
Tobacco excise taxes and agency transaction amount	(4,553,027)	**(5,042,881)**
Revenue	¥ 2,120,196	**¥ 2,399,841**

The tobacco excise taxes and other transactions in which the Group is involved as an agency are excluded from revenue. The inflow of economic benefits after deducting the tobacco excise taxes and other transactions is presented as "Revenue" in the consolidated statement of income.

Gross turnover is an item that the Group discloses voluntarily and is not "Revenue" as defined by IFRS.

26. Other Operating Income

The breakdown of "Other operating income" for each fiscal year is as follows:

Millions of yen

	FY2012 (Year ended March 31, 2013)	**FY2013 (Year ended March 31, 2014)**
Gains on sale of property, plant and equipment, intangible assets and investment properties (Notes 1, 2)	¥35,195	**¥44,954**
Other (Note 2)	6,970	**10,680**
Total	¥42,165	**¥55,634**

(Note 1) Mainly from sales of old factory site.
(Note 2) The amount of restructuring income included in each account for each fiscal year is as follows:

Millions of yen

	FY2012 (Year ended March 31, 2013)	**FY2013 (Year ended March 31, 2014)**
Gains on sale of property, plant and equipment, intangible assets and investment properties	¥34,229	**¥43,877**
Other	5	**138**
Total	¥34,234	**¥44,016**

27. Selling, General and Administrative Expenses

The breakdown of "Selling, general and administrative expenses" for each fiscal year is as follows:

Millions of yen

	FY2012 (Year ended March 31, 2013)	**FY2013 (Year ended March 31, 2014)**
Advertising expenses	¥ 20,566	**¥ 21,736**
Promotion expenses	137,480	**147,793**
Shipping, warehousing expenses	27,092	**27,089**
Commission	41,184	**49,294**
Employee benefit expenses (Note 2)	241,491	**275,831**
Research and development expenses (Note 1)	56,862	**57,103**
Depreciation and amortization	59,092	**68,767**
Impairment losses on other than financial assets (Note 2)	3,213	**2,446**
Impairment losses of investments in associates	—	**9,717**
Losses on sale and disposal of property, plant and equipment, intangible assets, and investment property (Note 2)	9,265	**9,467**
Other (Note 2)	137,240	**159,699**
Total	¥733,486	**¥828,942**

(Note 1) All research and development expenses are included in "Selling, general and administrative expenses."
(Note 2) The amount of restructuring costs included in each account is as follows:

Millions of yen

	FY2012 (Year ended March 31, 2013)	**FY2013 (Year ended March 31, 2014)**
Employee benefit expenses	¥3,835	**¥ (205)**
Impairment losses on other than financial assets	3,076	**668**
Losses on sale and disposal of property, plant and equipment, intangible assets, and investment property	1,258	**1,650**
Other	1,197	**2,749**
Total	¥9,366	**¥4,862**

28. Financial Income and Financial Costs

The breakdown of "Financial income" and "Financial costs" for each fiscal year is as follows:

Millions of yen

Financial Income	FY2012 (Year ended March 31, 2013)	**FY2013 (Year ended March 31, 2014)**
Dividend income		
Financial assets measured at fair value through other comprehensive income	¥1,365	**¥1,520**
Interest income		
Financial assets measured at amortized cost		
Deposits and bonds	3,772	**6,413**
Other	356	**418**
Total	¥5,493	**¥8,351**

Millions of yen

Financial Costs	FY2012 (Year ended March 31, 2013)	**FY2013 (Year ended March 31, 2014)**
Interest expenses		
Financial liabilities measured at amortized cost		
Bonds and borrowings (Note 2)	¥ 9,688	**¥ 8,144**
Other	446	**468**
Foreign exchange losses (Note 1)	11,285	**4,728**
Employee benefit expenses (Note 3)	5,779	**5,836**
Other	1,153	**1,233**
Total	¥28,351	**¥20,408**

(Note 1) Valuation gain (loss) of currency derivatives is included in the foreign exchange losses.
(Note 2) Valuation gain (loss) of interest rate derivatives is included in interest expenses.
(Note 3) The employee benefit expenses are the net amount of interest cost and interest income related to employee benefits.

29. Other Comprehensive Income

Amount arising during year, reclassification adjustments to profit or loss and tax effects for each component of "Other comprehensive income" for each fiscal year are as follows:

FY2012: Year ended March 31, 2013

Millions of yen

	FY2012				
	Amount arising	Reclassification adjustments	Before tax effects	Tax effects	Net of tax effects
Items that will not be reclassified to profit or loss					
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	¥ 7,344	¥ —	¥ 7,344	¥(2,545)	¥ 4,799
Remeasurements of defined benefit plans	(37,400)	—	(37,400)	9,278	(28,122)
Total of items that will not be reclassified to profit or loss	¥ (30,055)	¥ —	¥ (30,055)	¥ 6,733	¥ (23,322)
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	¥216,182	¥ (22)	¥216,161	¥ —	¥216,161
Net gain (loss) on derivatives designated as cash flow hedges	4,102	(3,914)	188	(66)	121
Total of items that may be reclassified subsequently to profit or loss	¥220,284	¥(3,936)	¥216,348	¥ (66)	¥216,282
Total	¥190,229	¥(3,936)	¥186,293	¥ 6,667	¥192,959

FY2013: Year ended March 31, 2014

Millions of yen

	FY2013				
	Amount arising	Reclassification adjustments	Before tax effects	Tax effects	Net of tax effects
Items that will not be reclassified to profit or loss					
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	**¥ 7,235**	**¥ —**	**¥ 7,235**	**¥(2,509)**	**¥ 4,725**
Remeasurements of defined benefit plans	**13,103**	**—**	**13,103**	**(4,279)**	**8,824**
Total of items that will not be reclassified to profit or loss	**¥ 20,337**	**¥ —**	**¥ 20,337**	**¥(6,788)**	**¥ 13,549**
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	**¥400,578**	**¥ (32)**	**¥400,546**	**¥ 395**	**¥400,941**
Net gain (loss) on derivatives designated as cash flow hedges	**4,444**	**(3,700)**	**744**	**(264)**	**481**
Total of items that may be reclassified subsequently to profit or loss	**¥405,022**	**¥(3,733)**	**¥401,290**	**¥ 131**	**¥401,421**
Total	**¥425,360**	**¥(3,733)**	**¥421,627**	**¥(6,657)**	**¥414,970**

30. Earnings per Share

(1) Basis of Calculating Basic Earnings per Share

A. Profit Attributable to Ordinary Shareholders of the Parent Company

Millions of yen

	FY2012 (Year ended March 31, 2013)	**FY2013 (Year ended March 31, 2014)**
Profit attributable to owners of the parent company	¥343,596	**¥427,987**
Profit not attributable to ordinary shareholders of the parent company	—	**—**
Profit used for calculation of basic earnings per share	¥343,596	**¥427,987**

B. Weighted-average Number of Ordinary Shares Outstanding During the Year

Thousands of shares

	FY2012 (Year ended March 31, 2013	**FY2013 (Year ended March 31, 2014)**
Weighted-average number of shares during the year	1,897,636	**1,817,507**

(2) Basis of Calculating Diluted Earnings per Share

A. Profit Attributable to Diluted Ordinary Shareholders

Millions of yen

	FY2012 (Year ended March 31, 2013)	**FY2013 (Year ended March 31, 2014)**
Profit used for calculation of basic earnings per share	¥343,596	**¥427,987**
Adjustment	—	**—**
Profit used for calculation of diluted earnings per share	¥343,596	**¥427,987**

B. Weighted-average Number of Diluted Ordinary Shares Outstanding During the Year

Thousands of shares

	FY2012 (Year ended March 31, 2013	**FY2013 (Year ended March 31, 2014)**
Weighted-average number of ordinary shares during the year	1,897,636	**1,817,507**
Increased number of ordinary shares under subscription rights to shares	918	**1,014**
Weighted-average number of diluted ordinary shares during the year	1,898,553	**1,818,521**

(3) Adjusted Diluted Earnings per Share

Millions of yen

	FY2012 (Year ended March 31, 2013)	**FY2013 (Year ended March 31, 2014)**
Profit used for calculation of adjusted diluted earnings per share	¥343,596	**¥427,987**
Adjustment items (income)	(34,234)	**(44,016)**
Adjustment items (costs)	7,536	**14,580**
Adjustments on income taxes and non-controlling interests	12,772	**11,856**
Adjusted profit for the year	¥329,671	**¥410,408**
Adjusted diluted earnings per share (yen)	¥ 173.64	**¥ 225.68**

The weighted-average number of ordinary shares and the weighted-average number of diluted ordinary shares for the year ended March 31, 2013 reflect the effect of the share split conducted at a ratio of 200 shares to one share with June 30, 2012 as the basis date and July 1, 2012 as the effective date.

31. Non-cash Transactions

Significant Non-cash Transactions

The amount of assets acquired under finance leases was ¥4,756 million for the year ended March 31, 2013 and ¥5,835 million for the year ended March 31, 2014, respectively.

32. Share-Based Payments

The Company adopts share option plans. Share options are granted by the resolution of the Board of Directors based on the approval at the Annual Shareholders Meeting.

The outline of the share option plan is as follows:

(1) Share Option Contract Conditions

Positions of persons granted	: Directors and Executive Officers
Settlement	: Issuance of share
Effective period of granted share option	: 30 years after the date of grant
Vesting conditions	: None

Conditions related to the exercise of share options are as follows:

(a) The subscription rights to shares become exercisable when a holder of a subscription right to shares no longer holds a position as a director, an audit & supervisory board member or an executive officer. In the subscription rights to shares allocation contract with holders of such rights, it is provided for that the rights become exercisable from the date following the date on which one year has elapsed after leaving their positions (however, the rights become exercisable even within one year after leaving their positions only in the case where the Board of Directors find it to be unavoidable).

(b) In the case where any holders of subscription rights to shares waive such rights, they cannot exercise them.

(2) Changes in the Number of Share Options

Shares

	FY2012 (Year ended March 31, 2013)			**FY2013 (Year ended March 31, 2014)**		
	Directors	Executive Officers	Total	Directors	Executive Officers	Total
Balance at the beginning of the year	1,875	2,244	4,119	**324,400**	**644,600**	**969,000**
Effect of share splits	373,125	446,556	819,681	**—**	**—**	**—**
Granted	65,600	80,200	145,800	**42,000**	**58,000**	**100,000**
Exercised	—	(600)	(600)	**—**	**(58,200)**	**(58,200)**
Transfer	(116,200)	116,200	—	**(15,400)**	**15,400**	**—**
Balance at the end of the year	324,400	644,600	969,000	**351,000**	**659,800**	**1,010,800**
Exercisable balance at the end of the year	—	138,200	138,200	**—**	**332,800**	**332,800**

(Note 1) The number of share options is presented as the number of underlying shares.

(Note 2) All share options are granted with an exercise price of ¥1 per share.

(Note 3) Share options were granted to 7 directors and 17 executive officers for the year ended March 31, 2013, and 7 directors and 19 executive officers for the year ended March 31, 2014. "Transfer" included in the "Changes in the Number of Share Options" represents the number of share options for persons granted whose management position changed during the year.

(Note 4) The weighted-average fair values per share of share options granted during the year were ¥1,600 and ¥2,567 for the years ended March 31, 2013 and 2014, respectively.

(Note 5) The weighted-average share prices of share options at the time of exercise during the period were ¥2,924 and ¥3,445 for the years ended March 31, 2013 and 2014, respectively.

(Note 6) The weighted-average remaining contract year of unexercised share options at the end of the year was 27.3 years and 26.7 years for the years ended March 31, 2013 and 2014, respectively.

(Note 7) The Company conducted the 200-for-one share split, with basis date of June 30, 2012 and effective date of July 1, 2012.

(3) Method of Measuring Fair Value of Share Options Granted During the Year

A. Valuation Model

Black-Scholes Model

B. Main Assumptions and Estimation

	FY2012 (Year ended March 31, 2013)	**FY2013 (Year ended March 31, 2014)**
Share price	¥2,238	**¥3,450**
Volatility of share price (Note 1)	36.0%	**36.1%**
Estimated remaining period (Note 2)	15 years	**15 years**
Estimated dividends (Note 3)	¥50/share	**¥68/share**
Risk free interest rate (Note 4)	1.30%	**1.10%**

(Note 1) Calculated based on daily share prices quoted for the past 15 years.

(Note 2) With difficulty in reasonable estimation due to insufficient data, the remaining period is estimated based on the assumption that share option rights would be exercised at a midpoint of the exercise period.

(Note 3) Based on the latest dividends paid.

(Note 4) The yield on government bonds for a period of the expected remaining period.

(4) Share-Based Payments Expenses

The costs for share options included in "Selling, general and administrative expenses" in the consolidated statement of income were ¥247 million for the year ended March 31, 2013, and ¥251 million for the year ended March 31, 2014.

33. Financial Instruments

(1) Capital Management

The Group's management principle is pursuit of the "4S" model: balancing the interests of consumers, shareholders, employees and wider society, and fulfilling our responsibilities towards them, aiming to exceed their expectations.

The Group believes that sustainable profit growth in the mid- to long-term based on this principle will increase the Group's value in the mid- to long-term, and is consequently in the best interest of all stakeholders, including our shareholders.

The Group understands that it is inevitable to maintain a sufficient financing capacity in order to make agile business investments which link to sustainable growth such as acquisitions of external resources. For that reason, the Group aims to maintain a well-balanced capital structure that ensures an appropriate return on equity and to maintain a sound and flexible financial condition for future business investments.

The Group manages net interest-bearing debt, where cash and cash equivalents are deducted from interest-bearing debt, and capital (the part attributable to the owners of the parent company). The amounts as of each fiscal year end are as follows:

Millions of yen

	FY2012 (As of March 31, 2013)	**FY2013 (As of March 31, 2014)**
Interest-bearing debt	¥ 327,242	**¥ 375,881**
Cash and cash equivalents	(142,713)	**(253,219)**
Net interest-bearing debt	184,530	**122,662**
Capital (equity attributable to owners of the parent company)	1,806,543	**2,505,610**

There are specific rules for shares of the Company under the Japan Tobacco Inc. Act as follows:

The Japanese government shall hold more than one-third of all of the shares issued by the Company (excluding the type of shares, for which it is stipulated that voting rights may not be exercised on any matters that can be resolved by Annual Shareholders Meeting) (Article 2 (1)).

In cases where the Company intends to solicit persons to subscribe for shares to be issued or subscription rights to shares or where the Company intends to deliver shares (excluding treasury shares), subscription rights to shares (excluding subscription right to own shares) or bonds with subscription right to shares (excluding bonds with subscription rights to shares) when exchanging with shares, the Company shall obtain the approval of the Minister of Finance (Article 2 (2)).

Disposal of shares owned by the Japanese government shall be within the limits on the number of shares decided by the Diet in the relevant annual budget (Article 3).

The Group monitors financial indicators in order to maintain a well-balanced capital structure that ensures an appropriate return on equity and a sound and flexible financial condition for future investment. We monitor credit ratings for financial soundness and flexibility, and ROE (return on equity) for profitability, while focusing on changes in the domestic and overseas environment.

(2) Financial Risk Management

The Group is exposed to financial risks (credit risks, liquidity risks, foreign exchange risks, interest rate risks, and market price fluctuation risks) in the process of its management activities; and it manages risks based on a specific policy in order to avoid or reduce said risks. The results of risk management are quarterly reported by the treasury division to the Executive Committee of the Company.

The Group policy limits derivatives to transactions for the purpose for mitigating risks from transactions based on actual demand. Therefore, we do not transact derivatives for speculation purposes or trading purposes.

(3) Credit Risk

Receivables, such as note and account receivables, acquired from the operating activities of the Group are exposed to customer credit risk.

The Group holds mainly debt securities for surplus investment and equity securities of customers and suppliers to strengthen relationships with them; those securities are exposed to the issuer's credit risk. In addition, through derivative transactions that the Group conducts in order to hedge foreign exchange fluctuation risks and interest rate fluctuation risks, we are exposed to the credit risk of the financial institutions which are counterparties to these transactions.

In principle, the Group sets credit lines or transaction conditions with respect to trade receivables for counterparties based on the Credit Management Guidelines in order to control the credit risk relating to counterparties. In addition, the receivable balances of counterparties with high credit risk are monitored. The Treasury Division of the Company regularly monitors the status of the occurrence and collection of bad debts, and reports them to the Executive Committee of the Company.

With regard to the investment of cash surpluses and derivatives, the Group invests in debt securities and other financial instruments with a certain credit rating and transacts with financial institutions with a high credit rating in principle in order to prevent credit risks from occurring and based on the Group Financial Operation Basic Policy. In addition, the Treasury Division of the Company regularly monitors the performances of these transactions and reports the results to the Executive Committee of the Company.

The maximum exposure pertaining to credit risks for financial assets is the carrying amount after considering impairment in the consolidated financial statements.

The analysis of the aging of financial assets that are past due but not impaired as of each fiscal year end date is as follows: The financial assets include amounts considered recoverable by credit insurance and collateral.

FY2012: As of March 31, 2013

	Millions of yen				
	FY2012				
		Amount past due			
	Total	Within 30 days	Over 30 days, within 60 days	Over 60 days, within 90 days	Over 90 days
Trade and other receivables	¥6,709	¥6,494	¥120	¥ 20	¥ 76
Other financial assets	351	—	—	—	351

FY2013: As of March 31, 2014

	Millions of yen				
	FY2013				
		Amount past due			
	Total	Within 30 days	Over 30 days, within 60 days	Over 60 days, within 90 days	Over 90 days
Trade and other receivables	**¥6,271**	**¥5,353**	**¥612**	**¥140**	**¥165**
Other financial assets	**86**	**—**	**—**	**—**	**86**

The Group reviews collectability of trade receivables depending on the credit conditions of counterparties and recognizes allowance for doubtful accounts. The schedule of the allowance of doubtful accounts is as follows:

	Millions of yen	
	FY2012 (Year ended March 31, 2013)	**FY2013 (Year ended March 31, 2014)**
Balance at the beginning of the year	¥15,866	**¥10,681**
Addition	1,444	**1,486**
Decrease (intended use)	(6,016)	**(1,609)**
Decrease (reversal)	(922)	**(480)**
Other	309	**541**
Balance at the end of the year	¥10,681	**¥10,620**

(4) Liquidity Risk

The Group raises funds by borrowings, commercial paper and bonds; however, these liabilities are exposed to the liquidity risk that we would not be able to repay liabilities on the due date due to the deterioration of the financing environment.

In accordance with the Group Financial Operation Basic Policy, the Group establishes a finance plan based on the annual business plan and the Treasury Division of the Company regularly monitors and collects information on the balance of liquidity-in-hand and interest-bearing debt and reports it to the Executive Committee of the Company. In addition, the Group keeps necessary credit facilities to manage liquidity risk by having commitment lines with several financial institutions.

The financial liability balance (including derivative financial instruments) by maturity as of each fiscal year end is as follows:

FY2012: As of March 31, 2013

Millions of yen

FY2012

	Carrying amount	Contractual cash flow	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Non-derivative financial liabilities								
Trade and other payables	¥312,741	¥312,741	¥312,741	¥ —	¥ —	¥ —	¥ —	¥ —
Short-term borrowings	23,847	23,847	23,847	—	—	—	—	—
Current portion of long-term borrowings	20,454	20,454	20,454	—	—	—	—	—
Long-term borrowings	33,163	33,163	—	1,217	31,145	107	109	584
Bonds	237,236	237,298	—	157,298	40,000	—	20,000	20,000
Subtotal	627,441	627,504	357,042	158,515	71,145	107	20,109	20,584
Derivative financial liabilities								
Foreign exchange forward contract	3,614	3,614	3,614	—	—	—	—	—
Interest rate swap	202	200	83	66	50	—	—	—
Subtotal	3,816	3,814	3,698	66	50	—	—	—
Total	¥631,258	¥631,317	¥360,740	¥158,582	¥71,195	¥107	¥20,109	¥20,584

FY2013: As of March 31, 2014

Millions of yen

FY2013

	Carrying amount	Contractual cash flow	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Non-derivative financial liabilities								
Trade and other payables	**¥354,704**	**¥354,704**	**¥354,704**	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥ —**
Short-term borrowings	**21,936**	**21,936**	**21,936**	**—**	**—**	**—**	**—**	**—**
Current portion of long-term borrowings	**1,225**	**1,225**	**1,225**	**—**	**—**	**—**	**—**	**—**
Long-term borrowings	**35,034**	**35,034**	**—**	**34,096**	**131**	**133**	**135**	**539**
Current portion of bonds	**172,401**	**172,412**	**172,412**	**—**	**—**	**—**	**—**	**—**
Bonds	**131,131**	**131,460**	**—**	**40,000**	**—**	**20,000**	**51,460**	**20,000**
Subtotal	**716,431**	**716,771**	**550,277**	**74,096**	**131**	**20,133**	**51,595**	**20,539**
Derivative financial liabilities								
Foreign exchange forward contract	**4,681**	**4,681**	**4,681**	**—**	**—**	**—**	**—**	**—**
Interest rate swap	**175**	**166**	**103**	**62**	**—**	**—**	**—**	**—**
Subtotal	**4,856**	**4,846**	**4,784**	**62**	**—**	**—**	**—**	**—**
Total	**¥721,287**	**¥721,617**	**¥555,062**	**¥74,158**	**¥131**	**¥20,133**	**¥51,595**	**¥20,539**

The total of commitment lines and withdrawal as of each fiscal year end are as follows:

Millions of yen

	FY2012 (As of March 31, 2013)	**FY2013 (As of March 31, 2014)**
Total committed line of credit	¥444,597	**¥364,826**
Withdrawing	—	**—**
Unused balance	¥444,597	**¥364,826**

(5) Foreign Exchange Risk

The Group operates businesses globally and, therefore, is exposed to the following risks due to foreign exchange fluctuation:

(i) The risk where the profit or loss and cash flow in each functional currency of the Group is influenced by foreign exchange fluctuation as a result of external transactions and intergroup transactions, including the payment and receipt of dividends, in currencies that are different from each functional currency of the Group.

(ii) The risk that the equity of the Group is influenced by foreign exchange fluctuation when equity denominated in each functional currency of the Group is translated into Japanese yen and consolidated.

(iii) The risk that the profit or loss of the Group is influenced by foreign exchange fluctuation when profit or loss denominated in each functional currency of the Group is translated into Japanese yen and consolidated.

The Group hedges against risk (i) using derivatives or foreign currency-denominated interest-bearing debts when future cash flow is projected or when receivables and payables are fixed.

The Group hedges against risk (ii) using foreign currency-denominated interest-bearing debts and part of these are designated as net investment hedges. The Group does not hedge against risk (iii) in principle.

In order to mitigate risks mentioned above resulting from the foreign exchange fluctuation, in accordance with the Group Financial Operation Basic Policy, the Group establishes a foreign currency hedge policy based on the current conditions and forecast of the foreign exchange market, implement the aforementioned hedges under the supervision of the Financial Risk Management Committee of the Company, and the Treasury Division of the Company regularly reports the performances to the Executive Committee of the Company.

The breakdown of currency derivatives is follows:

(i) Derivative transactions to which hedge accounting is not applied

Millions of yen

	FY2012 (As of March 31, 2013)			**FY2013 (As of March 31, 2014)**		
	Contract amount	Over one year	Fair value	Contract amount	Over one year	Fair value
Foreign exchange forward contract						
Buying	¥318,342	¥—	¥ 2,298	**¥269,718**	**¥—**	**¥ 764**
Selling	157,921	—	(2,585)	**307,880**	**—**	**(1,937)**
Total	¥476,263	¥—	¥ (287)	**¥577,598**	**¥—**	**¥(1,173)**

(ii) Derivative transactions to which hedge accounting is applied

Millions of yen

	FY2012 (As of March 31, 2013)			**FY2013 (As of March 31, 2014)**		
	Contract amount	Over one year	Fair value	Contract amount	Over one year	Fair value (Note)
Foreign exchange forward contract						
Buying	¥—	¥—	¥—	**¥14,122**	**¥—**	**¥505**
Total	¥—	¥—	¥—	**¥14,122**	**¥—**	**¥505**

(Note): Cash flow hedge or fair value hedge is applied, and derivative transactions are recognized at fair value in the consolidated statement of financial position.

Foreign currency-denominated bonds are designated as hedging instruments for the Group in order to reduce fluctuation risk of foreign currency translation differences that are incurred by translating net investment in foreign operations into the reporting currency.

Bonds designated as hedging instruments as of each fiscal year end are as follows:

Millions of yen

	FY2012 (As of March 31, 2013)		**FY2013 (As of March 31, 2014)**	
	Carrying amount	Due	Carrying amount	Due
Bonds in EUR	¥50,995	2014	**¥64,448**	**2014**
Bonds in USD	—	—	**33,120**	**2018**

Foreign Exchange Sensitivity Analysis

In cases where each currency other than the functional currency that denominates the financial instruments held by the Group as of each fiscal year end increases by 10% in value against the functional currency, the impact on profit before income taxes in the consolidated statement of income is as follows:

The impact from the translation of functional currency-denominated financial instruments, and assets, liabilities, income and expenses of foreign operations into Japanese yen is not included. Also, it is based on the assumption that currencies other than the currencies used for the calculation do not fluctuate.

Millions of yen

	FY2012 (As of March 31, 2013)	**FY2013 (As of March 31, 2014)**
Profit before income taxes	¥(118)	**¥(4,262)**

(6) Interest Rate Risk

Interest rate risk within the Group arises from interest-bearing debts after deducting cash equivalents. Borrowings and bonds with floating rates are exposed to interest rate fluctuation risk.

In accordance with the Group Financial Operation Basic Policy, the Group establishes an interest rate hedging policy based on the current condition and the forecast of the interest rates to reduce the interest rate fluctuation risk related to borrowings and bonds, implement the hedges using derivatives under the supervision of the Financial Risk Management Committee of the Company and the Treasury Division of the Company regularly reports the performances to the Executive Committee of the Company.

The descriptions of interest rate derivatives are as follows:

(i) Derivative transactions to which hedge accounting is not applied

Millions of yen

	FY2012 (As of March 31, 2013)			**FY2013 (As of March 31, 2014)**		
	Contract amount	Over one year	Fair value	Contract amount	Over one year	Fair value
Interest rate swap						
Floating rate receipt and fixed rate payment	¥2,063	¥2,063	¥(202)	**¥2,607**	**¥2,607**	**¥(175)**
Total	¥2,063	¥2,063	¥(202)	**¥2,607**	**¥2,607**	**¥(175)**

(ii) Derivative transactions to which hedge accounting is applied

Millions of yen

	FY2012 (As of March 31, 2013)			**FY2013 (As of March 31, 2014)**		
	Contract amount	Over one year	Fair value (Note)	Contract amount	Over one year	Fair value (Note)
Interest rate swap						
Floating rate receipt and fixed rate payment	¥ 58	¥ —	¥ (0)	**¥ —**	**¥ —**	**¥ —**
Cross currency swap						
Floating rate receipt and fixed rate payment	30,000	30,000	750	**30,000**	**30,000**	**3,866**
Fixed rate receipt and fixed rate payment	—	—	—	**17,439**	**17,439**	**721**
Total	¥30,058	¥30,000	¥749	**¥47,439**	**¥47,439**	**¥4,587**

(Note) Cash flow hedge is applied, and derivative transactions are recognized at fair value in the consolidated statement of financial position.

Interest Rate Sensitivity Analysis

In cases where the interest rate of financial instruments held by the Group as of each fiscal year end increases by 100bp, the impact on profit before income taxes in the consolidated statement of income is as follows:

The analysis is subject to financial instruments affected by interest rate fluctuation and based on the assumption that other factors, including the impacts of foreign exchange fluctuation, are constant.

Millions of yen

	FY2012 (As of March 31, 2013)	**FY2013 (As of March 31, 2014)**
Profit before income taxes	¥458	**¥(634)**

(7) Market Price Fluctuation Risk

With respect to securities, the Group regularly assesses the fair value and financial conditions of the issuers, and each relevant department reviews the portfolio held by taking into account the relationship with counterparty entities as necessary.

(8) Fair Value of Financial Instruments

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

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

(i) Financial instruments measured at amortized cost

The carrying amount and fair value hierarchy of financial instruments measured at amortized cost as of each fiscal year end are as follows:

FY2012: As of March 31, 2013

					Millions of yen
					Fair value
	Carrying amount	Level 1	Level 2	Level 3	Total
Long-term borrowings (Note)	¥ 53,617	¥ —	¥ —	¥53,624	¥ 53,624
Bonds	237,236	245,334	—	—	245,334

FY2013: As of March 31, 2014

					Millions of yen
					Fair value
	Carrying amount	Level 1	Level 2	Level 3	Total
Long-term borrowings (Note)	**¥ 36,259**	**¥ —**	**¥ —**	**¥36,259**	**¥ 36,259**
Bonds (Note)	**303,532**	**309,025**	**—**	**—**	**309,025**

(Note) Current portion is included.

With regard to short-term financial assets and short-term financial liabilities measured at amortized cost, their fair value approximates the carrying amount.

The fair value of long-term borrowings is calculated based on the present value which is obtained by discounting the total of the principal and interest by the interest rate assumed in a case where the same loan is newly made.

(ii) Financial instruments measured at fair value

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

FY2012: As of March 31, 2013

				Millions of yen
				FY2012
	Level 1	Level 2	Level 3 (Note)	Total
Derivative assets	¥ —	¥4,077	¥ —	¥ 4,077
Equity securities	43,052	—	3,646	46,699
Other	120	—	978	1,098
Total	¥43,172	¥4,077	¥4,625	¥51,874
Derivative liabilities	¥ —	¥3,816	¥ —	¥ 3,816
Total	¥ —	¥3,816	¥ —	¥ 3,816

FY2013: As of March 31, 2014

				Millions of yen
				FY2013
	Level 1	Level 2	Level 3 (Note)	Total
Derivative assets	**¥ —**	**¥8,600**	**¥ —**	**¥ 8,600**
Equity securities	**49,809**	**—**	**3,896**	**53,705**
Other	**201**	**—**	**1,333**	**1,534**
Total	**¥50,011**	**¥8,600**	**¥5,229**	**¥63,840**
Derivative liabilities	**¥ —**	**¥4,856**	**¥ —**	**¥ 4,856**
Total	**¥ —**	**¥4,856**	**¥ —**	**¥ 4,856**

(Note) The schedule of financial instruments that are classified in Level 3 is as follows:

Millions of yen

	FY2012 (Year ended March 31, 2013)	**FY2013 (Year ended March 31, 2014)**
Balance at the beginning of the year	¥4,339	**¥4,625**
Total gain (loss)		
Profit or loss (Note 1)	36	**289**
Other comprehensive income (Note 2)	231	**258**
Purchases	42	**89**
Sales	(24)	**(32)**
Balance at the end of the year	¥4,625	**¥5,229**

(Note 1) Gains and losses included in profit or loss for the years ended March 31, 2013 and 2014 are related to financial assets measured at fair value through profit or loss as of the fiscal year end date. These gains and losses are included in "Financial income" and "Financial costs."

(Note 2) Gains and losses included in other comprehensive income for the years ended March 31, 2013 and 2014 are related to financial assets measured at fair value through other comprehensive income as of the fiscal year end date. These gains and losses are included in "Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income."

34. Related Parties

Based on the Japan Tobacco Inc. Act, the Japanese government shall hold more than one-third of all of the shares issued by the Company (excluding the type of shares, for which it is stipulated that voting rights may not be exercised on any matters that can be resolved by Annual Shareholders Meeting). As of March 31, 2014, the Japanese government held 33.35% of all outstanding shares of the Company.

(1) Related-Party Transactions

Related-party transactions are conducted under the same conditions as regular business transactions.

As of March 31, 2014, the Company held notes and receivables of ¥47,393 million from CJSC TK Megapolis, the domestic Russian distribution affiliate.

(2) Remuneration for Directors and Audit & Supervisory Board Members

Remuneration for directors and audit & supervisory board members for each fiscal year is as follows:

Millions of yen

	FY2012 (Year ended March 31, 2013)	**FY2013 (Year ended March 31, 2014)**
Remuneration and bonuses	¥880	**¥814**
Share-based payments	114	**107**
Total	¥994	**¥921**

35. Subsidiaries, Associates and Others

(The composition of the Group)

The composition of the Group by reportable segment as of each fiscal year end is as follows:

	FY2012 (As of March 31, 2013)		**FY2013 (As of March 31, 2014)**	
	Number of subsidiaries	Number of entities accounted for using the equity method (Note)	Number of subsidiaries	Number of entities accounted for using the equity method (Note)
Domestic Tobacco	15	2	**14**	**2**
International Tobacco	155	6	**148**	**7**
Pharmaceuticals	4	—	**3**	**—**
Beverage	17	—	**17**	**—**
Processed Food	30	3	**28**	**3**
Other	9	1	**8**	**1**
Total	230	12	**218**	**13**

(Note) No associates or joint ventures are considered to be material to the Group.

There is no significant change in the composition of the Group for the year ended March 31, 2014.

Regarding the restrictions on its ability to use the assets of the Group, please refer to Note "7. Cash and Cash Equivalents."

36. Commitments

(1) Commitments for the Acquisition of Assets

Commitments for the acquisition of assets after fiscal year end date are as follows:

		Millions of yen
	FY2012 (As of March 31, 2013)	**FY2013 (As of March 31, 2014)**
Acquisition of property, plant and equipment	¥78,802	**¥62,670**
Acquisition of intangible assets	2,108	**934**
Total	¥80,909	**¥63,605**

(2) Procurement of Domestic Leaf Tobacco

With regard to the procurement of domestic leaf tobacco by the Company, based on the Tobacco Business Act, the Company enters into purchase contracts with domestic leaf tobacco growers every year, and the contracts determine the area under cultivation by type of tobacco and the prices by type and quality of tobacco leaf. Under the contracts, the Company is obligated to purchase all domestic leaf tobacco produced pursuant to such contracts, except for any domestic leaf tobacco not suited for the manufacture of tobacco products.

37. Contingencies

Contingent Liabilities

The Company and some of its subsidiaries are defendants in lawsuits. Provisions are not accounted for in matters it is not practicable to reasonably estimate the final outcomes.

The Group believes that our defenses asserted in these lawsuits are based on substantial evidence and implements the system for the response to action with the assistance of external lawyers.

(1) Smoking and Health Related Litigation

The Company and some of its subsidiaries become defendants in lawsuits filed by plaintiffs seeking damages for harm allegedly caused by smoking, the marketing of tobacco products, or exposure to tobacco smoke. As of March 31, 2014, there were a total of 20 smoking and health related cases pending in which one or more members of the Group were named as a defendant or for which the Company may have certain indemnity obligations pursuant to the agreement for the Company's acquisition of RJR Nabisco Inc.'s overseas (non-U.S.) tobacco operations.

The major ongoing smoking and health related cases are as follows:

a. Individual Claim

There is one individual case brought against the Company's indemnitee in South Africa.

South Africa Individual Claim (Joselowitz):

The individual claim was brought against the Company's indemnitee in South Africa in October 2000. Plaintiff seeks compensatory and punitive damages, alleging that the Company's indemnitee marketed products which it knew to be dangerous to health, manipulated nicotine content to foster addiction, failed to comply with South African labeling requirements and participated in a clandestine worldwide operation to encourage children to smoke. This case has been dormant since February 2001.

In addition, there is one individual case (the case is currently dormant) brought against the Company's subsidiary in Ireland, and one individual case brought against the Company in Japan.

b. Class Actions

There are eight ongoing class actions in Canada against the Company's subsidiary and/or indemnitees.

Canada Quebec Class Action (Cecilia Letourneau):

This class action was brought in September 1998 against three Canadian tobacco manufacturers including JTI-Macdonald Corp. (hereinafter referred to as "JTI-Mac"), the Company's Canadian subsidiary. Plaintiffs are seeking a total of approximately ¥427.8 billion (approximately CAD 4.6 billion) in compensatory damages, an amount for which all the defendants would be jointly and severally liable. Plaintiffs are seeking an additional amount of approximately ¥427.8 billion (approximately CAD 4.6 billion) in punitive damages, to be divided among all the defendants based on their respective market shares. The class was certified by the court in February 2005. The trial commenced in March 2012. The defendants filed a third-party claim against the Government of Canada seeking contribution and indemnity on the grounds that the Canadian government was highly involved in the tobacco industry in respect of smoking and health related matters. The Court of First Instance denied the Government of Canada's motion to dismiss such third-party claim in February 2012. The Court of Appeal thereafter granted the Government of Canada's appeal of the decision of the Court of First Instance in November 2012. The defendants did not appeal that decision, which dismissed the Government of Canada as a defendant in the case. The Court of First Instance granted plaintiffs' motion to amend their claims in March 2014, and thereby the claim amount currently sought is as set out above.

Canada Quebec Class Action (Conseil Québécois sur le tabac et la santé):

This class action was brought in November 1998 against three Canadian tobacco manufacturers including JTI-Mac. Plaintiffs are seeking a total of approximately ¥1,158.8 billion (approximately CAD 12.4 billion) in compensatory damages, an amount for which all the defendants would be jointly and severally liable. Plaintiffs are seeking an additional amount of approximately ¥75.5 billion (approximately CAD 0.8 billion) in punitive damages, to be divided among all the defendants based on their respective market shares. The class was certified by the court in February 2005. The trial commenced in March 2012. The defendants filed a third-party claim against the Government of Canada seeking contribution and indemnity on the grounds that the Canadian government was highly involved in the tobacco industry in respect of smoking and health related matters. The Court of First Instance denied the Government of Canada's motion to dismiss such third-party claim in February 2012. The Court of Appeal thereafter granted the Government of Canada's appeal of the decision of the Court of First Instance in November 2012. The defendants did not appeal that decision, which dismissed the Government of Canada as a defendant in the case. The Court of First Instance granted plaintiffs' motion to amend their claims in March 2014, and thereby the claim amount currently sought is as set out above.

Canada Saskatchewan Class Action (Adams):

This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2009. Plaintiffs are seeking unspecified compensatory and punitive damages on behalf of class members who allege to be or have been addicted to the nicotine contained in cigarettes manufactured by the defendants. The preliminary motions are pending. The case is currently dormant.

Canada Manitoba Class Action (Kunta):

This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2009. Plaintiffs are seeking unspecified compensatory and punitive damages on behalf of class members who allege to be or have been addicted to the nicotine contained in cigarettes manufactured by the defendants. The statement of claim was served on the Company's indemnitees but not on JTI-Mac. The class action is currently dormant.

Canada Nova Scotia Class Action (Semple):

This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2009. Plaintiffs are seeking unspecified compensatory and punitive damages on behalf of class members who allege to be or have been addicted to the nicotine contained in cigarettes manufactured by the defendants. The statement of claim was served on the Company's indemnitees but not on JTI-Mac. The class action is currently dormant.

Canada British Columbia Class Action (Bourassa):

This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2010. Plaintiffs are seeking unspecified compensatory and punitive damages for class members. The preliminary motions are pending. The case is currently dormant.

Canada British Columbia Class Action (McDermid):

This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2010. Plaintiffs are seeking unspecified compensatory and punitive damages for class members. The preliminary motions are pending. The case is currently dormant.

Canada Ontario Class Action (Jacklin):

This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2012. Plaintiffs are seeking unspecified compensatory and punitive damages for class members. The class action has been dormant since the date it was served on defendants.

c. Health-Care Cost Recovery Litigation

There are nine ongoing health-care cost recovery cases in Canada pending against the Company's subsidiary and indemnitees brought by the Provinces of British Columbia, New Brunswick, Ontario, Newfoundland and Labrador, Manitoba, Quebec, Alberta, Saskatchewan and Prince Edward Island. These provinces filed lawsuits under their own provincial legislation which was enacted exclusively for the purpose of authorizing the provincial government to file a direct action against tobacco manufacturers to recoup the health-care costs the government has incurred and will incur, resulting from "tobacco related wrongs."

Canada British Columbia Health-Care Cost Recovery Litigation:

This health-care cost recovery litigation was filed by the Province of British Columbia in January 2001 against tobacco industry members including JTI-Mac and the Company's indemnitees based on its provincial legislation, the "Tobacco Damages and Health-Care Costs Recovery Act." The claim amount is unspecified. In 2001, several defendants challenged the legislation's constitutionality, which was ultimately rejected by the Supreme Court of Canada in September 2005. The action remains pending in the first instance. The defendants further filed a third-party claim against the Government of Canada seeking contribution and indemnity on the grounds that the Canadian government was highly involved in the tobacco industry in respect of smoking and health related matters. In July 2011, the Supreme Court of Canada ultimately dismissed the defendants' third-party claim against the Government of Canada. The pre-trial process is ongoing. A trial date is not yet scheduled.

Canada New Brunswick Health-Care Cost Recovery Litigation:

This health-care cost recovery litigation was filed by the Province of New Brunswick in March 2008 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The pre-trial process is ongoing. A trial date is not yet scheduled.

Canada Ontario Health-Care Cost Recovery Litigation:

This health-care cost recovery litigation was filed by the Province of Ontario in September 2009 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The statement of claim in this case contains allegations of joint and several liabilities among all the defendants but does not specify any individual amount or percentages within the total claimed amount of ¥4,658.5 billion (CAD 50.0 billion). The pre-trial process is ongoing. A trial date is not yet scheduled.

Canada Newfoundland and Labrador Health-Care Cost Recovery Litigation:

This health-care cost recovery litigation was filed by the Province of Newfoundland and Labrador in February 2011 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The pre-trial process is ongoing. A trial date is not yet scheduled.

Canada Manitoba Health-Care Cost Recovery Litigation:
This health-care cost recovery litigation was filed by the Province of Manitoba in May 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The pre-trial process is ongoing. A trial date is not yet scheduled.
Canada Quebec Health-Care Cost Recovery Litigation:
This health-care cost recovery litigation was filed by the Province of Quebec in June 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The statement of claim in this case contains allegations of joint and several liabilities among all the defendants but does not specify any individual amount or percentages, within the total amount of the claim approximately ¥5,651.4 billion (approximately CAD 60.7 billion). The pre-trial process is ongoing. A trial date is not yet scheduled.
Canada Alberta Health-Care Cost Recovery Litigation:
This health-care cost recovery litigation was filed by the Province of Alberta in June 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on the legislation similar to that introduced in the Province of British Columbia. The statement of claim in this case contains allegations of joint and several liabilities among all the defendants but does not specify any individual amount or percentages, within the total claimed amount of at least ¥931.7 billion (CAD 10.0 billion). The pre-trial process is ongoing. A trial date is not yet scheduled.
Canada Saskatchewan Health-Care Cost Recovery Litigation:
This health-care cost recovery litigation was filed by the Province of Saskatchewan in June 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The pre-trial process is ongoing. A trial date is not yet scheduled.
Canada Prince Edward Island Health-Care Cost Recovery Litigation:
This health-care cost recovery litigation was filed by the Province of Prince Edward Island in September 2012 against tobacco industry members including JTI-Mac and the Company’s indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The pre-trial process is ongoing. A trial date is not yet scheduled

(2) Other Litigation
The Company and some of its subsidiaries are also named as defendants in other litigation such as commercial and tax disputes. One major case is pending:
Commercial Litigation
Japan Compensatory Damages Claim:
In February 2010, a former President & CEO of Katokichi Co., Ltd. (renamed as TableMark Co., Ltd. after acquisition by the Company) filed a claim against TableMark Co., Ltd. and its subsidiary seeking damages allegedly incurred by the plaintiff from an asset purchase agreement between the plaintiff and Katokichi Co., Ltd. and a joint and several guarantee provided by the plaintiff. The plaintiff argues the invalidity of the asset purchase agreement.

(Note) The amount of damages sought denominated in foreign currencies is translated into Japanese yen at the rates of 31 March 2014.

38. Subsequent Events

No items to report

Consolidated Supplementary Information

A. Quarterly Information for the Year ended March 31, 2014

Millions of yen

	Q1 From April 1, 2013 to June 30, 2013	Q2 From April 1, 2013 to September 30, 2013	Q3 From April 1, 2013 to December 31, 2013	FY2013 From April 1, 2013 to March 31, 2014
Revenue	¥547,937	¥1,159,116	¥1,779,878	¥2,399,841
Profit before income taxes for the period (year)	141,591	339,075	504,478	636,203
Profit for the period (year)	99,907	241,057	365,062	435,291
Basic earnings per share for the period (year) (yen)	53.98	130.48	197.68	235.48

	Q1 From April 1, 2013 to June 30, 2013	Q2 From July 1, 2013 to September 30, 2013	Q3 From October 1, 2013 to December 31, 2013	Q4 From January 1, 2014 to March 31, 2014
Basic earnings per share for the quarter (yen)	¥53.98	¥76.50	¥67.20	¥37.80

B. Significant Lawsuits

The significant lawsuits of the Group are as stated in “37. Contingencies” in the notes to consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

Deloitte.

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To the Board of Directors of Japan Tobacco Inc.:

We have audited the accompanying consolidated statement of financial position of Japan Tobacco Inc. and its consolidated subsidiaries as of March 31, 2014, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and notes to consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Japan Tobacco Inc. and its consolidated subsidiaries as of March 31, 2014, and the consolidated results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte Touche Tohmatsu LLC

June 24, 2014

Member of
Deloitte Touche Tohmatsu Limited