Continuous investment in our brands for quality top-line growth delivered strong results.

Our strategic emphasis on top-line growth resulted in another strong business performance. We stayed true to our mid- to long-term perspective and did not compromise on investments in our business and in our people. The end result was a strong achievement, exceeding our initial forecast while reinforcing future growth potential.
Industry Overview

Tobacco

Tobacco industry

Market dynamics
There are many types of tobacco products available in the marketplace. Cigarettes remain the most popular choice of consumers, while cigars, pipe tobacco, snuff, chewing tobacco and other product varieties continue to draw consumers’ interest, with some of these product categories increasing their volume worldwide.

Approximately 5.8 trillion cigarettes are consumed around the world. China is by far the largest market, which accounts for nearly one third of global consumption, but it is almost exclusively operated by a state monopoly. Russia, the U.S., Indonesia and Japan are the next four largest markets, according to a survey conducted in 2012.*

In general, market dynamics are distinctively different between mature and emerging markets.

In mature markets, industry volume tends to decline reflecting various factors such as limited economic growth, tax increases, tightening regulations, and demographic changes, among others.

In addition, down-trading is prevalent in these markets. Consumers are inclined to seek more value as they feel tobacco products become less affordable in the context of limited disposable income growth.

Recently, these trends have been especially notable in the EU countries, as weak economic conditions accelerate industry contraction and down-trading.

In emerging markets, on the other hand, total consumption tends to increase driven by population growth and economic development, particularly in Asia, the Middle East and Africa.

As their disposable income increases, consumers look for quality and trade up to products in higher price bands.

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

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

Recent regulations are focusing more on the product itself. Specifically, plain packaging has been discussed in the UK, Ireland and New Zealand after being implemented in Australia. Further, regulators are becoming more aggressive by restricting ingredients and emissions, following the guidelines on these attributes proposed by the Framework Convention on Tobacco Control. These moves to commoditize tobacco products could undermine healthy competition among tobacco manufacturers trying to meet increasingly diverse consumer preferences. Worse, they could result in an undesired increase in illicit trade, as commoditized products with less uniqueness are easier to counterfeit and more difficult to detect when smuggled.

Excise taxes were raised in various markets during the past year, but there was no disruptive tax increase in our key markets as Governments have become aware that repeated tax increases in a short period of time, or steep tax increases, could be detrimental to tax revenues, due to a large decline in industry volume and, most likely, an increase in illicit trade.

Competition
Excluding China, two thirds of world industry volume is produced by four major global tobacco companies, namely Philip Morris International Inc., British American Tobacco Plc., Japan Tobacco Inc. and Imperial Tobacco Group Plc.

The competition within the industry is intense and, as consumers’ needs and preferences continue to diversify, a strong portfolio with established brands is increasingly important to support market share gains. Therefore, major global companies are focusing on brand equity enhancement to strengthen their brand portfolios by introducing innovative products. In addition to the pursuit of organic growth, M&A is an effective way to supplement growth opportunities in this industry.

* Source: Euromonitor.
### Top 10 countries by volume

<table>
<thead>
<tr>
<th>Country</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>2,143.1</td>
<td>2,229.2</td>
<td>2,316.7</td>
<td>2,406.2</td>
<td>2,477.9</td>
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<tr>
<td>Russia</td>
<td>393.5</td>
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<td>383.1</td>
<td>375.1</td>
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<tr>
<td>U.S.</td>
<td>353.0</td>
<td>320.7</td>
<td>309.1</td>
<td>299.1</td>
<td>287.1</td>
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<tr>
<td>Indonesia</td>
<td>167.7</td>
<td>173.8</td>
<td>181.6</td>
<td>191.8</td>
<td>203.1</td>
</tr>
<tr>
<td>Japan</td>
<td>248.8</td>
<td>235.1</td>
<td>217.9</td>
<td>195.9</td>
<td>197.5</td>
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<tr>
<td>India</td>
<td>97.6</td>
<td>98.7</td>
<td>98.6</td>
<td>102.8</td>
<td>102.1</td>
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<tr>
<td>Philippines</td>
<td>99.5</td>
<td>94.8</td>
<td>101.4</td>
<td>97.4</td>
<td>100.5</td>
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<tr>
<td>Vietnam</td>
<td>81.0</td>
<td>89.9</td>
<td>95.3</td>
<td>97.7</td>
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<tr>
<td>Turkey</td>
<td>107.9</td>
<td>107.5</td>
<td>93.4</td>
<td>91.2</td>
<td>95.3</td>
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<tr>
<td>South Korea</td>
<td>94.2</td>
<td>94.2</td>
<td>90.5</td>
<td>89.9</td>
<td>89.0</td>
</tr>
</tbody>
</table>

Source: Euromonitor.

### Top market players

<table>
<thead>
<tr>
<th>Player</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philip Morris International Inc.</td>
<td>22.3</td>
<td>22.8</td>
<td>24.9</td>
<td>25.3</td>
<td>25.5</td>
</tr>
<tr>
<td>British American Tobacco Plc</td>
<td>18.6</td>
<td>18.7</td>
<td>19.0</td>
<td>19.2</td>
<td>19.1</td>
</tr>
<tr>
<td>Japan Tobacco Inc.</td>
<td>15.4</td>
<td>15.2</td>
<td>14.8</td>
<td>14.0</td>
<td>14.5</td>
</tr>
<tr>
<td>Imperial Tobacco Group Plc</td>
<td>7.2</td>
<td>7.1</td>
<td>7.0</td>
<td>6.9</td>
<td>6.7</td>
</tr>
</tbody>
</table>

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

### Top brands

<table>
<thead>
<tr>
<th>Brand</th>
<th>Company</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marlboro</td>
<td>Philip Morris International Inc.</td>
<td>428.8</td>
<td>414.5</td>
<td>412.8</td>
<td>406.6</td>
<td>400.9</td>
</tr>
<tr>
<td></td>
<td>Altria Group Inc.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Winston</td>
<td>Japan Tobacco Inc.</td>
<td>122.4</td>
<td>122.1</td>
<td>122.4</td>
<td>122.4</td>
<td>129.7</td>
</tr>
<tr>
<td></td>
<td>Reynolds American Inc.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pall Mall</td>
<td>British American Tobacco Plc</td>
<td>74.0</td>
<td>85.6</td>
<td>94.6</td>
<td>96.8</td>
<td>95.8</td>
</tr>
<tr>
<td></td>
<td>Reynolds American Inc.</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Mild Seven/MEVIUS</td>
<td>Japan Tobacco Inc.</td>
<td>107.4</td>
<td>103.7</td>
<td>95.1</td>
<td>80.5</td>
<td>85.8</td>
</tr>
<tr>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>L&amp;M</td>
<td>Philip Morris International Inc.</td>
<td>85.2</td>
<td>84.0</td>
<td>82.1</td>
<td>84.1</td>
<td>83.5</td>
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<tr>
<td>Kent</td>
<td>British American Tobacco Plc</td>
<td>61.7</td>
<td>60.6</td>
<td>59.6</td>
<td>62.6</td>
<td>66.7</td>
</tr>
<tr>
<td>Camel</td>
<td>Japan Tobacco Inc.</td>
<td>78.5</td>
<td>69.7</td>
<td>64.8</td>
<td>61.2</td>
<td>61.4</td>
</tr>
<tr>
<td></td>
<td>Reynolds American Inc.</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gudang Garam</td>
<td>Gudang Garam Tbk PT</td>
<td>47.4</td>
<td>48.8</td>
<td>52.3</td>
<td>53.7</td>
<td>57.8</td>
</tr>
<tr>
<td>Fortune International</td>
<td>Philip Morris International Inc.</td>
<td>42.5</td>
<td>43.8</td>
<td>50.1</td>
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<tr>
<td></td>
<td>Fortune Tobacco Corp</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Gold Flake</td>
<td>ITC Ltd</td>
<td>48.7</td>
<td>47.4</td>
<td>47.1</td>
<td>47.9</td>
<td>47.6</td>
</tr>
<tr>
<td></td>
<td>British American Tobacco Plc</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Euromonitor. Excluding China National Tobacco Corp (CNTC).
Industry Overview continued
Pharmaceutical, Beverage and Processed Food

Pharmaceutical industry

Market dynamics
The global pharmaceutical market continues to grow, reaching approximately US $950 billion in 2011 according to IMS Health.

In emerging countries, demand for modern medicine is rapidly growing due to multiple factors including growing consciousness of health, increase in population, and development of public healthcare systems, among others.

Mature countries also see a market value increase, though the pace of growth is moderate. Facing an ageing society and a fiscal deficit, the Governments in these markets try to contain healthcare costs through mandated price cuts and wider promotion of generic drugs. In addition, patents of commercially successful drugs have been expiring during recent years.

Despite the limited growth, mature markets hold majority of share in global pharmaceutical markets. North America is the largest market and accounts for 36% of the worldwide market, followed by Europe and Japan, representing 28% and 12%, respectively.

Japan, the main market for our pharmaceutical business, is a typical mature market with a moderate industry growth. In an ageing population, this trend is expected to continue at a CAGR of 1% to 4% from 2012 through 2016, according to IMS Health.

Prescription drugs comprise the majority of the Japanese pharmaceutical market in terms of net sales. The Japanese generic drug market for prescription drugs is still small compared with the generic drug market in the U.S. and Europe, but the generic drug market has been expanding more recently due in part to the government promotion of generic drugs in order to control medical care expenses.

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

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

Japanese beverage industry

Market dynamics
Sales volume of the Japanese beverage market was approximately 1,810 million cases for 2012, up 3% year-on-year. The increase was due to the increase in demand for mineral water for stocking as well as the summer heat wave and Indian summer. (Source: Inryo Soken Inc. Data of packaged products including cans, PET bottles and glass bottles). In general, sales volume is significantly affected by weather conditions including temperature, as well as by economic conditions.

Popular beverage categories in Japan include tea-based drinks, coffee, carbonated drinks and mineral water. In 2012, sales volume of most categories increased year-on-year. In particular, the sale of cola drinks, designated as Food for Specified Health Uses, contributed to the strong growth of carbonated drinks. Tea-based drinks and coffee, the mainstay categories, grew steadily.

Key sales channels in Japan include vending machines, supermarkets, convenience stores and other channels, with share of sales volume standing at 37%, 32%, 20%, and 11% respectively (Source: Inryo Soken Inc. Data of packaged products including bins, cans and PET bottles). In general, supermarkets frequently offer price discounts, while vending machines and convenience stores maintain regular prices. However, the consumer down-trading trend has led to the emergence of vending machines offering discounts and to the growing popularity of private-label products, causing price competition to intensify. Price competition is also driven by wholesalers and retailers.
Competition
Many companies, both domestic and international, are selling beverages in Japan, including the JT Group, Coca-Cola Group, Suntory Foods, Kirin Beverage, ITO EN and Asahi Soft Drinks. The competition is increasingly intensive. These companies are competing in various areas including price, brand equity, distribution reach among others.

Japanese processed food industry

Market dynamics
JT focuses on frozen and ambient processed foods, freshly baked bakery items sold in stores and seasoning through our subsidiary TableMark Co., Ltd., which plays a central role in our processed food business.

Processed foods sold in Japan include grain-based food such as noodles or packed rice, bread, meat and fish. Seasoning products include raw seasonings, such as yeast and other extracts, basic seasonings, such as soy sauce and miso, and processed seasonings such as mayonnaise and other condiments.

Frozen food is a key segment in TableMark’s processed food business. The size of the Japanese frozen food market in 2012 on a consumption basis including imports was ¥895.1 billion, up 4.2% year-on-year (Source: Japan Frozen Food Association). This was due to an increase in household consumption of frozen food as we saw stronger preference for eating in – demand for ready-made frozen food also remained solid.

Processed frozen food products constitute approximately 85% of frozen food products produced domestically in Japan (by volume/Source: Japan Frozen Food Association). Frozen udon noodles constitute approximately 11% of frozen food products produced domestically in Japan in 2012 and this category grew by more than 3% year-on-year in 2012 (by volume/Source: Japan Frozen Food Association).

The business environment for the Japanese processed food business is challenging, as prices of raw materials such as wheat are rising in spite of the prolonged economic stagnation in Japan. The processed food business is also significantly impacted by developments in the wholesale and retail sales channels particularly by their consolidation. We will continue to monitor the development of these channels, especially in the area of M&A.

Competition
TableMark is competing against major players like Nichirei, Ajinomoto, Maruha Nichiro Foods and Nissui as well as a multitude of mid-or small-scale producers. As a consequence of the consolidation among the major wholesale or retail players, the competition in the processed food industry is increasing.
Review of Operations
Role of Tobacco Businesses

Mid- to long-term target:
• As the core business and profit growth engine of the JT Group, grow adjusted EBITDA at mid to high single-digit rate per annum
  – Japanese domestic: highly competitive platform of profitability
  – International: strengthen its role as the Group’s profit growth engine.

MEVIUS, a bold and promising initiative
• With the evolution from Mild Seven to MEVIUS, we aim to transform it into the number one global premium brand in the future.
• When we look at the composition of our GFBs, the high price brands constitute about 20% of the portfolio. We believe that, by reinforcing our premium segment offerings, we can further strengthen our brand portfolio for sustainable mid- to long-term profit growth.
• In selecting a brand to enhance our premium segment offerings, we examined various options. Early in the process, we recognized the potential of Mild Seven with its smooth taste and clean finish, thanks to its unique tobacco leaf blend and the use of a charcoal filter.
• Mild Seven already has a strong presence in several markets, especially in Asia. We therefore came to the conclusion that Mild Seven has the strongest potential for cultivating demand in global markets.
• To ensure the success of this evolution, we needed to address some hurdles through a unified brand image and quality for all markets and further enhanced brand equity. This led to:
  – Changing the package design to better represent global premium quality.
  – Expanding the product portfolio through high value-added extensions in order to meet diverse consumer needs.
  – Renaming the brand to grow its geographic reach and address the ban of descriptors in certain markets, such as in the EU where terms such as “mild” or “light” are not allowed on cigarette packs.

MEVIUS in international markets
• MEVIUS name change rolled out to all markets by end 2013
• Singapore was the first market to launch the MEVIUS name while South Korea was the first market to release the new name and design
• Our objective is not only to retain and expand our share in existing markets but also to achieve further geographical expansion.

MEVIUS in the Japanese market
• A new package design was introduced in November 2012
• We successfully proceeded with the name change from Mild Seven to MEVIUS in February 2013, as the first step towards becoming the number one global premium brand
  – Market share of the MEVIUS family remained steady throughout the transition
• Going forward, we will continue to invest to strengthen the brand equity.

Please be reminded that this section is intended to explain the business operations of JT to investors, but not to promote sales of tobacco products to encourage smoking by consumers.
### Value Chain

<table>
<thead>
<tr>
<th>R&amp;D</th>
<th>Procurement</th>
<th>Manufacturing</th>
<th>Marketing</th>
<th>Sales &amp; Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Create value for the business through innovation and quality</td>
<td>Ensure stable supply of quality tobacco leaf</td>
<td>Support top-line growth by delivering quality products</td>
<td>Enhance equity of key brands</td>
<td>Expand product availability by leveraging our trade marketing excellence</td>
</tr>
</tbody>
</table>

#### R&D
Create value for the business through innovation and quality

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

#### Procurement
Ensure stable supply of quality tobacco leaf

- Tobacco leaf is the most important material for our products, and we dedicate our efforts to strengthen our capability to ensure a stable supply of quality leaf in the long-term.
  - Increase the proportion of internally sourced leaf from our procurement bases in Africa, Brazil and the U.S.
  - Enhance sustainability of tobacco farming by helping farmers to improve productivity as well as taking initiatives to support their communities.
  - Maintain good relationships with external suppliers to ensure sufficient supply at competitive prices.

#### Manufacturing
Support top-line growth by delivering quality products

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

#### Marketing
Enhance equity of key brands

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

#### Sales & Distribution
Expand product availability by leveraging our trade marketing excellence

- There are various sales channels for tobacco products such as supermarkets, convenience stores, street and train station kiosks, small independent retailers and vending machines. Key channels are different depending on market and we develop win-win relationships with them to increase the availability of our products.
  - Strengthen relationship with key accounts, leveraging our trained sales forces.
  - Develop trade marketing initiatives for each market, taking into account the channel development as well as consumer trends and competitors’ actions.
"JTI continued to deliver strong results in 2012, achieving double-digit growth in both our revenue and profits, at constant rates of exchange, despite the ongoing challenges in our operating environment.

Our solid performance was driven by robust pricing and volume growth, and I am pleased to say that our strategy of continuous investment in our Global Flagship Brands has resulted in share gains in most of our key markets.

In addition, we continue to secure our future growth by expanding JTI’s presence in other tobacco categories. This includes Fine Cut tobacco, with the acquisition of Gryson, and water pipe tobacco, following the acquisition of Nakhla. These and other opportunities will help us to further broaden our earnings base.

Looking to the future, despite ongoing economic and regulatory challenges, I am confident that the professionalism and dedication of our people, combined with our strategy, will continue to deliver solid performance.”

Pierre de Labouchere
President & CEO, JT International

**JT International (JTI) represents the international activities of JT Group’s tobacco business. JTI manufactures and sells more than 90 brands of tobacco products in more than 120 countries. It is the profit growth engine of the Group driven by its diversified geographic profile and the strength of its brands and people.**
Global Flagship Brands (GFB) Portfolio

Our GFBs form the core of our brand portfolio. Among this portfolio, Winston and Camel are our Engine brands and the main drivers of top-line growth.

Winston

First introduced in 1954, Winston is one of our key growth drivers. The second largest cigarette brand worldwide since 2007, Winston is currently sold in more than 100 markets. 2012 was a landmark year for Winston, achieving record performance. Winston’s growth rate continued to accelerate, reaching its highest level of +6.7%. 2012 shipment volume surpassed all previous records to reach 139.4bn units.

Growth was driven by both pillars of the newly established portfolio architecture: Winston Core and XS.
- Our Core pillar delivers an authentic, high quality, premium smoking experience. It continues to grow steadily driven by mainstream products: Winston King Size, Winston Super Slims and Winston Fine Cut.
- The XS pillar offers a more style focused product, created specifically to open up new segments and territories to Winston. 65% of overall Winston growth in 2012 was attributed to this portfolio pillar, and despite being one of the newer players in emerging segments, XS has grown to become No. 1 in the King Size Super Slim segment and No. 2 in Fat Slims globally.

Winston shipment volume growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>-4.1%</td>
</tr>
<tr>
<td>2010</td>
<td>+3.1%</td>
</tr>
<tr>
<td>2011</td>
<td>+4.9%</td>
</tr>
<tr>
<td>2012</td>
<td>+6.7%</td>
</tr>
</tbody>
</table>

Winston shipment volume by cluster (growth 2012 vs. 2011)

<table>
<thead>
<tr>
<th>Region</th>
<th>Growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td>South &amp; West Europe</td>
<td>+3.1%</td>
</tr>
<tr>
<td>North &amp; Central Europe</td>
<td>+7.8%</td>
</tr>
<tr>
<td>CIS+</td>
<td>+13.5%</td>
</tr>
<tr>
<td>Rest-of-the-World</td>
<td>-2.3%</td>
</tr>
</tbody>
</table>

Camel

In 2012, rejuvenation and innovative line extensions drove Camel shipment volume and market share growth.

- Camel shipment volume grew by 200 million units vs. prior year, driven by Camel Activate, Camel Black & White (now available in 34 markets) and Fine Cut line extensions.
- Camel Curve drove share gains in most of Camel’s top 10 markets, such as The Netherlands, Belgium, Italy and Spain.

In 2013, we celebrate the 100 years anniversary of a global icon

- Launched in 1913 and originator of the American blend, Camel has stood the test of time. It is sold today in 110 countries and is one of the top five premium brands in many of our key markets.
- Even after 100 years, with its strong heritage and genuine taste, Camel continues to successfully reinvent itself.
- We are celebrating Camel’s 100 years of inspiring creativity by reinterpreting stories from some of the brand’s iconic moments and making them relevant and unique today through special edition packs and point of sales campaigns.
Our strategies:
As in previous years, our strategic priorities are to achieve quality top-line growth and broaden our earnings base. JTI is committed to deploying its key strategies under the guiding principle of continuous improvement.

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

Operating performance
• JTI gained total share in most key markets. Our portfolio is well balanced, allowing us to capture consumers in both up-trading and down-trading environments, supported by superior trade marketing capabilities.
• Total shipment volume grew 2.5% to 436.6 billion units driven by market share gains, despite the context of global industry contraction.

Share of market (12-month moving average)

<table>
<thead>
<tr>
<th>Markets</th>
<th>2012 Total</th>
<th>Excl. Gryson</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>17.4%</td>
<td>+1.4%</td>
</tr>
<tr>
<td>Italy</td>
<td>21.4%</td>
<td>+1.0%</td>
</tr>
<tr>
<td>Russia</td>
<td>36.5%</td>
<td>-0.6%</td>
</tr>
<tr>
<td>Spain</td>
<td>20.8%</td>
<td>+0.6%</td>
</tr>
<tr>
<td>Taiwan</td>
<td>38.9%</td>
<td>+0.7%</td>
</tr>
<tr>
<td>Turkey</td>
<td>26.3%</td>
<td>+2.2%</td>
</tr>
<tr>
<td>UK</td>
<td>39.3%</td>
<td>+1.0%</td>
</tr>
</tbody>
</table>

Note: Market shares include cigarettes and Fine Cut.
Source: Nielsen, Logista, Altadis.

GFB shipment volume performance

In 2012, GFB shipment volume grew 4.8% to 268.8 billion units, a clear acceleration from the 2.6% growth in the prior year. GFB now represent 61.6% of our total shipment volume, up 1.4ppt from the year before. This shows again the success of our ongoing investments to enhance the equity of our portfolio and launch innovative propositions.

Our Engine brands performed strongly, driven by both Winston and Camel. Engine brands’ weight in our total portfolio increased by 1.1ppt vs. the prior year.

Our Stronghold brands achieved solid growth, driven by the performance of LD as a result of stronger equity and the successful launch of the innovative LD Club Lounge.

Cluster performance

South & West Europe

The economic outlook throughout 2012 remained challenging and fiscal pressures have affected consumer behavior, leading to significant industry contractions and down-trading, especially in France, Italy and Spain.

Nevertheless, we have successfully grown shipment volume and market share across our key markets as a result of brand equity building initiatives and GFB product innovations, as well as the Gryson acquisition.

In Italy, JTI reached the No.2 position by market share. Furthermore, JTI was the only player growing market share in both the cigarette and the Fine Cut categories.

The pricing environment has also remained robust. Price increases, together with our strong volume performance, drove Core Revenue growth of 4.4% and Adjusted EBITA growth of 2.8%, at constant rates of exchange.
Global Flagship Brands Portfolio continued

Our other GFBs include Mild Seven – MEVIUS, Silk Cut, Benson & Hedges and LD which hold strong positions in their regions and complement our Engine brands. There are also Sobranie and Glamour, positioned as “future potential” brands with strong growth expected in the future. Below is a more detailed description of these GFBs.

Stronghold

- **MEVIUS**
  - Launched in 1977 in Japan, Mild Seven is the top-selling premium charcoal brand.
  - Outside Japan, it is present in 16 countries with its key markets being Korea, Malaysia, Russia and Taiwan, where it is market leader. The brand is built around three pillars and 21 different styles. In 2012, Mild Seven benefited from the success of our unique Less Smoke Smell technology.
  - In 2013, following our brand name change announcement in August 2012, Mild Seven will progressively become MEVIUS and aim to become the highest value-added global premium brand.

- **B&H**
  - Originally established in 1873, Benson & Hedges has a proud British heritage as a leading brand. Today, JT International owns the B&H trademark in 27 EU markets (excluding Baltics) and is continuously evolving its three-pillar based portfolio to adapt to consumers’ lifestyles.
  - B&H carries 21 different SKUs and continues to broaden its reach with the introduction of the B&H Progressive range in Cyprus, Denmark, Portugal, Slovenia and Sweden, as well as B&H London in Switzerland. B&H enjoys the No.2 position in the UK’s sub-premium segment and in France’s Virginia segment.

- **LD**
  - Launched in 1999 as a mid-price brand in the Russian market. The brand achieved immediate success and is now recognized as a compelling international brand, ranked No.2 globally in the Value segment. Since 2007, LD has grown continuously in all clusters, reaching 33 countries. LD has constantly expanded its portfolio to meet consumer aspirations, including in Fine Cut. In 2012, the LD Club family grew shipment volume by 105% driven by the success of LD Club Lounge. LD enjoys segment leadership in various markets including Azerbaijan, Kazakhstan, Poland, Serbia and Turkey.

Future Potential

- **Sobranie**
  - Sobranie is one of the world’s oldest tobacco brands and has been synonymous with luxury cigarettes since 1879. This heritage, exquisite style and the best selected tobaccos have made Sobranie one of the most prestigious brands in the world. Sobranie has presence in 23 markets and its portfolio includes 15 SKUs. In 2012, Sobranie launched a number of products such as Super Slims in Kazakhstan, Romania, Russia and Ukraine and King Size Super Slims in Azerbaijan.

- **Glamour**
  - Glamour is JT’s leading Super Slims brand. Since its introduction in 2005, Glamour has achieved remarkable growth, consolidating its position as a Super Slims brand in several CIS+ markets. Glamour is constantly expanding its geographical presence, now covering 29 markets. Glamour is developing its portfolio in the growing Super Slims segment around three main families. Glamour holds the No.1 shipment volume position in several segments including in Austria, Kazakhstan, Russia, Slovenia and Ukraine.
Review of Operations continued

International Tobacco Business continued

<table>
<thead>
<tr>
<th>North &amp; Central Europe</th>
<th></th>
<th>Year-on-year change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total shipment volume (billion units)</td>
<td>49.9</td>
<td>+1.6%</td>
</tr>
<tr>
<td>GFB shipment volume (billion units)</td>
<td>24.3</td>
<td>+4.1%</td>
</tr>
</tbody>
</table>

Total shipment volume growth was driven by Poland, Germany, Hungary and the Czech Republic. In these markets, investments in GFBs are generating positive returns as LD, B&H and Camel all gained share of market.

In the UK, in spite of the weak economic environment, JTI has continued to increase its share of market. We also implemented a price increase in September, which more than offset strong down-trading, and enabled continued profit growth.

Core Revenue and Adjusted EBITA grew 5.6% and 16.3% respectively, at constant rates of exchange. Adjusted EBITA margins also improved by 3.9ppt to reach 41.8%.

<table>
<thead>
<tr>
<th>CIS+</th>
<th></th>
<th>Year-on-year change</th>
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<tr>
<td>Total shipment volume (billion units)</td>
<td>197.4</td>
<td>-0.2%</td>
</tr>
<tr>
<td>GFB shipment volume (billion units)</td>
<td>122.9</td>
<td>+3.6%</td>
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</tbody>
</table>

The impact of industry contractions in Russia and Ukraine was offset by our growing volume base in the Caucasus and Central Asia markets, and the recovery in Belarus.

GFB shipment volume continued to increase driven by strong performance from Winston and LD.

Our approach to pricing remained disciplined, seizing pricing opportunities mainly in Kazakhstan, Romania, Russia and Ukraine.

In Russia, GFB growth and robust pricing continued to strengthen our share of value leadership.

Core Revenue grew 14.2% and Adjusted EBITA grew by 32.2% at constant rates of exchange. Profitability in the cluster grew, with Adjusted EBITA margin up to 37.8%, driven by pricing gains and an improvement in mix.

<table>
<thead>
<tr>
<th>Rest-of-the-World</th>
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<th>Year-on-year change</th>
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<tr>
<td>Total shipment volume (billion units)</td>
<td>126.5</td>
<td>+7.2%</td>
</tr>
<tr>
<td>GFB shipment volume (billion units)</td>
<td>67.6</td>
<td>+0.2%</td>
</tr>
</tbody>
</table>

Total shipment volume grew driven by solid performances in Sudan, Turkey and markets across the rest of the Middle East and Africa. This offset the impact of the suspension of our business in Syria.

We achieved strong pricing gains in Canada, Malaysia, the Middle East and Africa, and Taiwan.

In Turkey, during 2012, JTI reached the No.2 position by market share, growing shipment volume and further consolidating its #2 position by share of value.

Core Revenue and Adjusted EBITA grew by 13.0%* and 17.3%*, respectively, at constant rates of exchange. Adjusted EBITA margin increased by 0.9ppt*. This illustrates the ability of this cluster to significantly contribute to JTI’s overall profitability, as a result of our growing business scale.

**Outlook**

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

In 2013, we aim to demonstrate once again the solidity of our business fundamentals, the capabilities of our people and the soundness of our strategic focus on top-line growth and broadening the earnings base.

While the economic and regulatory environments will remain challenging, we are highly confident in our ability to continue double-digit Adjusted EBITDA growth at constant rates of exchange.

* These numbers exclude pricing taken to mitigate the effect of a currency with substantial devaluation.
New opportunities

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

Sudan

In July 2011, we announced the acquisition of Haggar Cigarette & Tobacco Factory, the leading tobacco manufacturer in Sudan and South Sudan, with 80% market share and the No.1 brand in the market.

We continue to focus our efforts on strengthening the brand portfolio, via the strong local brand Bringi, enhancing the route-to-market, modernizing production facilities, increasing product quality to JTI standards and enhancing workforce capabilities.

Performance in Sudan has been strong since the acquisition, with shipment volume increasing 0.9 billion units to 5.5 billion units in 2012.

Ploom

In December 2011, we announced our partnership with Ploom Inc. Our partnership has come a long way since then and we have jointly developed a new, upgraded device, which is now battery powered.

We also developed a range of tobacco blends to be used in the device, including a number of JTI Global Flagship Brands. Unlike the so-called “e-cigarettes”, Ploom pods allow the consumer to savor the full taste of real tobacco, but with no combustion, producing only vapor.

JTI and Ploom continue to work jointly on the development of other products, including new devices.

In May 2013, Ploom was launched in Austria, and our aim is to roll out Ploom to several other markets during the course of 2013.

Nakhla

In March 2013, we completed the acquisition of Nakhla, one of the world’s leading manufacturers of water pipe tobacco, based in Egypt. With this acquisition, we entered a new category, estimated at over 100,000 tons in the Middle East and Africa.

This acquisition offers several strategic advantages:

• allowing JTI to satisfy consumer needs in a different product category, while remaining close to our core competencies;

• an opportunity to develop this category by improving product quality and applying JTI’s marketing and distribution capabilities; and

• combining JTI’s competencies with Nakhla’s platform will enable us to distribute our cigarette brands in Egypt, a market of approximately 64 billion units.

Nakhla’s shipment volume in 2012 was 5,200 tons in Egypt and 18,000 tons for export to 97 countries.

Gryson

The Fine Cut category is growing rapidly in several European markets, driven by the down-trading currently seen in the region due to the difficult economic environment.

Over the years, JTI has developed a strong position in this category, through GFB and specific Fine Cut brands, such as Amber Leaf, which is now the largest tobacco brand in the UK.

In August 2012, we acquired Gryson, a leading European Fine Cut manufacturer. This makes us the No.2 Fine Cut manufacturer in Europe. Furthermore, we are now the category leader in France, in addition to Ireland. We are also a strong No.2 player in Spain and the UK.

By combining Gryson’s portfolio of products and countries as well as manufacturing capacity with JTI’s marketing and distribution capabilities, this acquisition gives us new growth opportunities.

Fine Cut shipment volume grew 30% in 2012 (+5 billion units in cigarette equivalents). Gryson represented 38% of this increase.
Review of Operations continued

Japanese Domestic Tobacco Business

(Year ended March 31, 2013)

In the year ended March 31, 2013, revenue and profits of the Japanese domestic tobacco business grew from an increase in the sales volume driven by a steady recovery of market share, compared with the prior year when sales volume dropped steeply due to the impact of the Great East Japan Earthquake.

The industry volume in Japan, however, has been declining over the past years. In this challenging environment, we prioritize top-line growth through investing in brand equity enhancement and launching new products to meet consumers’ needs. In the year ended March 2013, we launched 13 new products with a focus on key brands, and expanding the menthol segment, resulting in market share recovery. For further growth, we also aim to create innovative new product categories with unique value propositions to supplement our main focus on conventional cigarettes to meet diversified consumers’ needs.

In February 2013, we completed successfully the name change of Mild Seven to MEVIUS in Japan as the first step toward becoming the number one global premium brand. Market share of MEVIUS has been robust since the completion of name change initiative.

We continue to be a significant profit contributor to the JT Group by further quality top-line growth. In order to achieve this goal, we will not compromise investments to build brand equity.

In the year ended March 2013, industry volume was 195.1 billion units in Japan, which is one of the largest markets in the world. We own 9 of top 10 selling products in such a large market. We are the undisputed market leader in Japan with nearly 60% market share.

### Business results (vol./financial performance)

- Revenue and profit growth driven by sales volume increase from market share recovery:
  - Sales volume increased 7.2% year-on-year to 116.2 billion units driven by market share recovery, compared with the prior year when sales volume declined steeply due to the impact of the Great East Japan Earthquake.

- Core revenue increased 6.9% year-on-year to ¥654.0 billion due to sales volume increase.
- Adjusted EBITDA also increased 7.3% year-on-year to ¥281.3 billion.
Expansion initiatives with a focus on key brands

MEVIUS (changed from Mild Seven)

- Our leading brand in Japan is MEVIUS, evolved from Mild Seven. MEVIUS inherits Mild Seven’s strong consumer base which has commanded the No.1 share in the Japanese domestic market for more than 30 years since 1978*.
- In February 2013, two of the Mild Seven menthol series, the Aqua and the Impact Menthol, were merged into the Mevius Premium Menthol series. This new Mevius Premium Menthol offering uses menthol which is 100% natural.
- In May 2013, we launched “Mevius Premium Menthol Option” featuring the “aroma-changing capsule”. The three new products from the Mevius Premium Menthol series meet the diversified consumers’ needs.
- The MEVIUS family encompasses 27 products (as of May 31, 2013), reflecting the evolution that it has undergone in step with the changing times and brand expansion.

Extension initiatives
- Mevius Premium Menthol series – 100% natural menthol.

Seven Stars

- Launched in 1969, Seven Stars featured Japan’s first domestically produced charcoal filter in pursuit of better taste.
- Since its launch, Seven Stars has consistently offered unique value in terms of taste, aroma and product design.
- The Seven Stars family comprises a line-up of ten products (as of May 31, 2013) built around ‘Seven Stars’, the best selling stand-alone product by market share in the year ended March 2013*.

Extension initiatives

Pianissimo

- In August 1995, the Pianissimo family saw the launch of Japan’s first 1mg-tar menthol cigarette product featuring reduced odor and smoke**.
- The Pianissimo brand, mainly comprising the Super King Size Slim menthol format, continues to achieve growth after integrating two other brands in the year ended March 2010.
- The Pianissimo family, a core JT tobacco franchise, features a diverse line-up of nine products (as of May 31, 2013). Pianissimo Aria Menthol is the leading product in the 1mg-tar menthol segment.

Extension initiatives

* Source: TIOJ
**Reduce smoke: Less smoke is released from the tip of the cigarette based on a visual comparison with conventional JT cigarette products.
Business results (market share performance)
• Steady recovery of market share through brand equity enhancement:
  – Share of market recovered by +4.7ppt year-on-year
  – 60% market share achieved for the months of February and March supported mainly by the launch of MEVIUS, among others.
• Continue with efforts to increase market share by further enhancing brand equity of our key brands.

Our strategies:
In the Japanese market, as a feature of mature markets, industry volume has been declining due to various factors such as demographic changes, tighter regulations among others. Compared to other markets, the distinctive feature of the Japanese market is the limited impact of up or down-trading due to its narrow price range. Under this circumstance, we focus on quality top-line growth and continuous cost improvement to maintain competitiveness and to deliver profits.

- Priority on quality top-line growth:
  – Continue to strengthen our brand equity, with a focus on our key brands
  – Further increase market share
  – Develop emerging product categories.

Outlook
We cannot be too optimistic about our growth for the year ended March 2013, which was fueled by the recovery from the unfavorable impact of the earthquake in 2011.

With the declining industry volume and intensifying competition, the operating environment will remain challenging. Even under such circumstances, the Japanese domestic tobacco business is committed to fulfilling its role as a highly competitive platform of profitability. This will be achieved by quality top-line growth through market share gains as well as further pursuit of a competitive cost base.
Please be reminded that this section is intended to explain the business operations of JT to investors, but not to promote sales of tobacco products to encourage smoking by consumers.
Role and Priorities of each business

Pharmaceutical Business

*Strive to establish a stronger profit platform through the rapid and efficient market launch of compounds in the late phase of clinical trials and through maximization of each product value*

Beverage Business

*Strengthen the business foundation for future growth in order to make further profit contribution to the JT Group*

Processed Food Business

*Strive to achieve operating profit margin on par with or above the industry average to grow its profit contribution to the JT Group*
In addition to the Tobacco Business, our core business, JT operates: Pharmaceutical, Beverage and Processed Food.

Pharmaceutical Business

JT commenced the pharmaceutical business in 1987. Its mission is to build world-class, unique R&D capabilities and reinforce its market presence through innovative drugs. The pharmaceutical business focuses on the development, production and sale of prescription drugs. The business has been expanding steadily, with the establishment of the Central Pharmaceutical Research Institute in 1993, the acquisition of a majority of the outstanding shares in Torii Pharmaceutical Co., Ltd. (Torii Pharmaceutical) in 1998 and the addition of a clinical development function to our U.S. subsidiary, Akros Pharma Inc., in 2000. In order to establish and strengthen our earnings base, we are enhancing our research and development pipeline, exploring opportunities for strategic in-or out-licensing and strengthening collaboration with license partners.

Beverage Business

The beverage business started its operation in 1988. Our beverage products are sold in Japan. The flagship brand is ‘Roots’ and it is one of the leading brands in the canned coffee category in Japan. Another key brand is ‘Momono Tennen-sui’, a well-known long-selling beverage product in Japan. Japan Beverage Holdings Inc. (Japan Beverage), the vending machine operator, became our subsidiary in 1998 and collaboration within the Group centered on Japan Beverage will be pursued to enhance our sales network.

Processed Food Business

Our processed food business is operated by TableMark Co., Ltd. (TableMark), a 100% subsidiary of JT. The business started in 1998 and has been expanding through organic growth as well as through M&A and strategic partnerships. In 2008, we acquired Katokichi Co., Ltd. (Katokichi), a major frozen food manufacturing company in Japan, through a tender offer. The JT Group’s processed food business was transferred over to Katokichi as part of the integration. In 2010, Katokichi’s corporate name was changed to TableMark, to pursue synergies and foster a sense of unity within the group. TableMark operates mainly in Japan producing frozen and ambient processed food, mainly staple food products such as frozen noodles, frozen rice, packed cooked rice and frozen baked bread. The company’s business also includes bakery chain outlets, mainly in the Tokyo metropolitan area, as well as seasoning including yeast extracts and oyster source. TableMark’s frozen noodles, particularly frozen ‘Sanuki-Udon’ noodles is a household name in Japan. The bakery chain business is operated mainly under ‘Saint Germain’ brands. Products for the seasoning business include “Vertex”, a yeast extract seasoning, which is used in various foods such as instant noodles or snacks.
In the pharmaceutical business, we aim to build a unique, world-class pharmaceutical business driven by R&D, and to increase our market presence through original and innovative drugs. We strive to strengthen the profit base through the rapid and efficient market launch of compounds in the late phases of clinical trials and value maximization of each product.

Performance overview:
We made significant achievements in the year ended March 2013:
• Strobil, an anti-HIV single-tablet regimen containing our original compound (JTK-303)
  – Launched in the U.S. by our license partner, Gilead Sciences, Inc. (May 2013: Marketing approval obtained in Europe).
  – Manufacturing and marketing approval was obtained by us in Japan (May 2013: Launched in Japan).
• MEK inhibitor trametinib (melanoma)
  – NDA/MAA filed in the U.S. and EU by our license partner, GlaxoSmithKline. (May 2013: Marketing approval obtained in the U.S.)
• NDA filed by us in Japan for two compounds
  – JTT-751 (hyperphosphatemia)
  – TO-194SL (Japanese cedar pollinosis) by Torii Pharmaceutical.

Strategy:
• Rapid and efficient market launch of compounds in late phases of clinical trials.
• Value maximization of each product.
• Promote R&D for next generation of strategic compounds and seek optimum timing for out-licensing.

Business results (financial overview):
• Revenue grew driven by continued growth in sales of Remitch Capsules and Truvada Combination Tablets by Torii Pharmaceutical and the increase in milestone revenue for JT as a result of progress in the development of out-licensed compounds.
• Adjusted EBITDA decreased due to the increase in R&D investments from progress in compound development at both JT and Torii Pharmaceutical.

Glossary
NDA – New drug application for marketing approval
MAA – Marketing Authorization Application
**Value Chain**

**R&D**

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

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

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

**Manufacturing**

*Ensure a reliable supply of quality products*

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

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

**Sales & Promotion**

*Build marketing competence on our MRs*

In the pharmaceutical industry, medical representatives (MRs) play a crucial role in successful sales and promotion by providing medical and scientific knowledge with clients. At the same time, they collect valuable information from the medical front which could be reflected in the ongoing or future R&D activities. Torii Pharmaceutical is marketing our products in Japan through 460 highly-trained MRs. Outside Japan, we do not have a sales function. As such, instead of directly marketing our products, we receive royalties based on sales performance from our license partners for the compounds for which we out-license the right to develop and market.

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

<table>
<thead>
<tr>
<th>Code</th>
<th>Potential Indication/Dosage form</th>
<th>Mechanism</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>JTK-303 (elvitegravir)</td>
<td>HIV infection/Oral</td>
<td>HIV Integrase inhibitor</td>
<td>Integrase inhibitor which works by blocking integrase, an enzyme that is involved in the replication of HIV</td>
</tr>
<tr>
<td>JTT-705 (dalcetrapib)</td>
<td>Dyslipidemia/Oral</td>
<td>CETP modulator</td>
<td>Decreases LDL (bad cholesterol) and increases HDL (good cholesterol) by modulation of CETP activity</td>
</tr>
<tr>
<td>JTT-302</td>
<td>Dyslipidemia/Oral</td>
<td>CETP inhibitor</td>
<td>Decreases LDL and increases HDL by inhibition of CETP</td>
</tr>
<tr>
<td>JTT-751 (ferric citrate)</td>
<td>Hyperphosphatemia/Oral</td>
<td>Phosphate binder</td>
<td>Decreases serum phosphorous level by binding phosphate derived from dietary in the gastrointestinal tract</td>
</tr>
<tr>
<td>JTT-851</td>
<td>Type 2 diabetes mellitus/Oral</td>
<td>G protein-coupled receptor 40 agonist</td>
<td>Decreases blood glucose by stimulation of glucose-dependent insulin secretion</td>
</tr>
<tr>
<td>JTZ-951</td>
<td>Anemia associated with chronic kidney disease/Oral</td>
<td>HIF-PHD inhibitor</td>
<td>Increases red blood cells by stimulating production of erythropoietin, an erythropoiesis-stimulating hormone, via inhibition of HIF-PHD</td>
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<tr>
<td>JTE-051</td>
<td>Autoimmune/allergic diseases/Oral</td>
<td>Interleukin-2 inducible T cell kinase inhibitor</td>
<td>Suppresses overactive immune response via inhibition of the signal to activate T cells related to immune response</td>
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<tr>
<td>JTE-052</td>
<td>Autoimmune/allergic diseases/Oral</td>
<td>JAK inhibitor</td>
<td>Suppresses overactive immune response via inhibition of Janus kinase (JAK) related to immune signal</td>
</tr>
</tbody>
</table>

*Based on the first dose*

### Licensed compounds

<table>
<thead>
<tr>
<th>Compound</th>
<th>Licensee</th>
<th>Mechanism</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>elvitegravir (JTK-303)</td>
<td>Gilead Sciences</td>
<td>HIV Integrase inhibitor</td>
<td>Integrase inhibitor which works by blocking integrase, an enzyme that is involved in the replication of HIV</td>
</tr>
<tr>
<td>trametinib (JTT-705)</td>
<td>GlaxoSmithKline</td>
<td>MEK inhibitor</td>
<td>Inhibits cellular growth by specifically inhibiting the activity of MAPK/ERK Kinase (MEK1/2)</td>
</tr>
<tr>
<td>dalcetrapib (JTT-705)</td>
<td>Roche</td>
<td>CETP modulator</td>
<td>Decreases LDL (bad cholesterol) and increases HDL (good cholesterol) by modulation of CETP activity</td>
</tr>
<tr>
<td>Anti-ICOS monoclonal antibody</td>
<td>MedImmune</td>
<td>ICOS antagonist</td>
<td>Suppresses overactive immune response via inhibition of ICOS which regulates activation of T cells</td>
</tr>
</tbody>
</table>

**Note**

- Elvitegravir: U.S. and EU marketing approvals submitted
- Stribild: EU marketing approval submitted
- New Single Tablet Regimen: Phase 3
- Metastatic melanoma: U.S. and EU marketing approvals submitted
- Metastatic melanoma, trametinib+ dabrafenib: EU marketing approval submitted
- Roche announced the termination of the development of dalcetrapib on May 7, 2012.
<table>
<thead>
<tr>
<th>Location</th>
<th>Phase 1</th>
<th>Phase 2</th>
<th>Phase 3</th>
<th>Preparing to file</th>
<th>Filed</th>
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<td>Japan</td>
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<td>In-license (Keryx Biopharmaceuticals) Co-development with Torii</td>
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<td>In-house</td>
</tr>
</tbody>
</table>
Revenue

\[
\begin{array}{ccc}
\text{Revenue} & \text{Year-on-year change} & \text{Adjusted EBITDA}^1 & \text{Year-on-year change} \\
\text{(JPY BN)} & \text{(JPY BN)} & \text{(JPY BN)} & \text{(JPY BN)} \\
185.5 & -3.3 & 12.4 & -2.2 \\
\end{array}
\]

1 Adjusted EBITDA = Operating profit + depreciation and amortization + adjustment items (income and costs)*
* adjustment items (income and costs) = impairment losses on goodwill ± restructuring income and costs ± others.

Goichi Matsuda
Head of Beverage Business

We would like to deliver our beverages to “those that matter to us most”. With this aspiration in mind, the beverage business strives to offer products that are “safe and tasty” to drink. We aim to earn the continuous support of our consumers through ‘food’, which forms the basis of our everyday life. We strive to enhance our brand equity with focus on ‘Roots’ and ‘Momono Tennen-sui’ and strengthen our cost competitiveness, as we move forward to reinforce our profit generating ability.

Performance overview:
• Record high volume performance of our Company products.
• Sales volume of bottle can type ‘Roots’, our flagship brand, and the long-selling brand ‘Momono Tennen-sui’ both increased.

Strategy:
• Strengthen the business base for future growth in order to make further profit contribution to the JT Group.
• Top-line growth: Enhance brand equity with a focus on the flagship brand ‘Roots’, and foster ‘Momono Tennen-sui’ as the second pillar brand.
• Strengthen trade marketing capabilities: Strive further for a high quality vending machine operation.

Business results (volume performance):
• Sales volume of our Company products for bottle can type ‘Roots’ and ‘Momono Tennen-sui’ increased, resulting in record high sales volume of 32,250,000 cases for the year ended March 31, 2013.

Business results (financial performance):
• In spite of increase in sales volume of company products, revenue was affected by decline in revenue from cup vending machines.
• Adjusted EBITDA declined year-on-year, affected by decline in revenue and change in distribution channel composition, among others.
Roots Aroma Black

‘Roots’ is the flagship brand of JT’s beverage business. It was first offered in the year 2000 and, ever since then, the theme of the brand has been to offer ‘genuine, tasty coffee for all occasions’.

In particular, ‘Aroma Black’ in screw top bottle cans, first sold in 2003, firmly captured the increase in demand for this type of beverage product. As a result, ‘Aroma Black’ in bottle cans is now a signature product of JT’s beverage business. The product’s roasty aroma and rich taste have been favored by many consumers. Since 2011, ‘Aroma Black’* has been awarded with Monde Selection, Gold prize, for three years in a row, as it continues to lead the bottle can coffee segment.

The product was most recently renewed in April 2013 and it uses JT’s own roasting technology ‘aqua roast’ which utilizes the patented technology of Key Coffee. JT and Key Coffee jointly develop. By using water at the start of the roasting process, this new technology enables us to effectively exclude bitterness or any other odd flavors. As a result, we can extract the smooth original flavor of the beans giving the product a clean body and taste.

* Roots Aroma Black 300g bottle can offered in 2010, 2011 and 2012 received the award.

Roots Aroma Revolut

‘Roots Aroma Revolut’ was first offered in 2009 as a coffee beverage with ‘overwhelming roasting aroma’. The product is a coffee beverage with milk and sugar.

‘Enjoyable aroma’ is the characteristic of ‘Aroma Black’ and, as part of the family, ‘Aroma Revolut’ offering an overwhelming roasting aroma became instantly popular.

The name ‘Aroma Revolut’ shows that this product is ‘revolutionary aromatic’ and takes inspiration from the word ‘REVOLUTION’.

The latest version of Roots ‘Aroma Revolut, low sugar’ is made by using the ‘aqua roast’ technology of ‘Aroma Black’. The product is a coffee beverage with milk and low sugar.

Momono Tennen-sui

‘Momono Tennen-sui’ is a long-selling product of JT. First offered in 1996, it became popular with consumers in their teens and has been popular ever since. The product uses transparent peach juice* and natural water – the characteristic of this beverage is that it is moderate in sweetness and has a clear, fresh aftertaste.

The product was most recently renewed in March 2013. While leaving the clear, fresh aftertaste the same, it is now offered in ‘screw bottles’ which is reminiscent of squeezing a fruit. The package has been rejuvenated by using bright pink colors while retaining the feeling of transparency – the package also shows that it contains peach juice.

* Clear fruit juice is extracted by removing insoluble components such as dietary fibers from the fruit juice.

Momono Tennen-sui SPARKLING

‘Momono Tennen-sui Sparkling’ has a fresh taste, just like the original ‘Momono Tennen-sui’. With its refreshing taste, this calorie off drink has earned many fans.

The product was renewed at the same time as ‘Momono Tennen-sui’ as part of the ‘Tennen-sui (natural water)’ family.

Its popular flavor has been left unchanged, while the refreshing aftertaste has been upgraded. The package design has been rejuvenated and we have used illustrations of large peaches surrounded in bubbles to show its refreshing flavor as a carbonated beverage.
Review of Operations continued

Beverage Business continued

Value Chain

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Food Safety Control

Ensure safety control at all levels of the value chain

R&D

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

Procurement

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

Production

Prioritize safety and follow established quality control procedures
- JT Group is pursuing the adoption of ISO 9001, the HACCP system and FSSC22000 in our and business partners’ factories.
- Production of beverages is outsourced to domestic partner factories (except for certain bottled drinking water), under strict monitoring of the production process and product quality.
- Strong partnership with our partner factories to retain competitive production capabilities and stable supply.

Marketing

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

Sales & Distribution

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

Food Safety Control

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

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

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If we are going to prepare food for those who matter to us most, we wish to do so cordially with care. This is our desire when running our business at TableMark. From 2010 onwards, TableMark began its operation as a food manufacturer with frozen and ambient processed food, bakery items and seasoning as our business pillars. In particular, we strive to provide high value-added products by focusing on staple food such as frozen noodles, frozen rice, packed cooked rice and frozen baked bread.

Performance overview:
- Steady top-line growth driven by continued performance of staple food products*.
- Closure of the unprofitable processed fishery product business to concentrate on core business.

Strategy:
- Continue with a focus on staple food products for top-line growth, in order to achieve steady improvement in profitability.

Business results (financial performance):
- Revenue remained more or less flat year-on-year at ¥168.7 billion. Excluding the processed fishery product business which was discontinued during the year ended March 2013, revenue grew by ¥4.9 billion to ¥152.6 billion.
- Profitability continued to improve, driven by the performance of staple food products. Adjusted EBITDA increased by ¥1.9 billion to ¥7.4 billion, as the increase in raw material costs was more than offset by the absence of expenses incurred in the same period in the prior year.

* Staple food products: frozen noodles, frozen rice, packed cooked rice and frozen baked bread.
Frozen Udon Noodles

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

The texture of udon noodles is determined by the moisture level. The outside layer of the noodles has a different moisture level from the inside layer, and this forms the key to the overall texture of the noodles. After boiling, TableMark’s frozen udon noodles are ‘quickly frozen’, enabling us to maintain the texture as well as the flavor of freshly cooked noodles. This is the key to the tastiness of the product.

We have a wide range in our line-up including ready-to-eat noodles. TableMark’s frozen noodles are popular as a regular food stock for everyone’s freezer.

Packed Cooked Rice

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

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

Frozen Baked Bread

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

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

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

* In monetary terms.
R&D

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

Procurement

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

Production

Prioritize safety and follow established quality control procedures
- JT Group is pursuing the adoption of the HACCP system and ISO 22000 in our and business partners’ factories. Under the ISO 22000 standard, continuous improvements are made following effective rules to control sanitation and other key issues. These rules are based on the HACCP concept, and their effectiveness is tested using scientific evidence.
- All of JT Group’s 27 factories in and outside Japan, as well as our business partners’ factories that produce frozen foods, have achieved the ISO 22000 certification.

Marketing

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

Sales & Distribution

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

Ensure safety control at all levels of the value chain

- Independent food safety management division is responsible for overall safety control, ensuring that consumers can continue to enjoy our products safely.
- Cross-functional food safety initiatives within the JT Group are promoted.
- External food safety experts provide assessment and advice regarding our initiatives – their knowledge and viewpoints are actively incorporated into our business.
The JT Group operates diverse businesses, namely tobacco, pharmaceutical, beverage and processed food. In addition, we conduct our business on a global basis, extending to Europe, CIS countries, Africa, the Middle East and others. Due to this diversity and these changing environments, we are exposed to various risks.

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

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

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

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

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

Measures to address the risk
• Promote the understanding of relevant authorities that a disruptive tax increase does not necessarily serve their purpose.
• Optimize our product offerings to capture the potential changes in consumer preference.
• Enhance our geographical portfolio to limit the negative impact of a disruptive tax increase in a specific market.
• Further improve efficiency to protect earnings.
• If a disruptive tax increase takes place, find an optimal price for each product which minimizes the unfavorable influence in the market.
2. Pressure from illicit trade
Illicit trade is a major concern not only for the tobacco industry, but for wider society. For the tobacco industry, it undermines the legitimate tobacco business. For society, illicit trade reduces excise revenue for the government, often fuels organized crime, and may increase health concern due to poor manufacturing standards and improper product handling. The tobacco industry has been fighting against illicit trade, which takes the forms of contraband, counterfeit and illicit whites. Illegally traded products in a market tend to increase after a steep tax increase. Regulatory actions seeking to commoditize packages and products could also trigger the acceleration of illicit trade because such commoditization could make counterfeit manufacturing easier and detection of illicit products more difficult.

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

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

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

Glossary

Contraband – genuine products smuggled from abroad. Genuine products diverted from the legitimate supply chain and sold in a country different from the intended market of retail sale and without domestic duty paid in that country.

Counterfeit – fake products appearing to be a genuine brand. Products protected by intellectual property rights which are manufactured without authorization from the right’s owners and with the intent to copy the genuine brand to deceive the consumer, also sold without duties being paid.

Illicit whites – legitimately manufactured brands intentionally sold on the illicit market. Brands manufactured legitimately in one country but smuggled into another country to provide consumers with cheap brands, also without duties being paid.

Working together with authorities:
In 2007, JT International Holding B.V. and JT International S.A., JT Group subsidiaries, entered a cooperation agreement with the European Commission, the executive branch of the European Union (EU), and 26 EU Member States as part of efforts to combat illicit trades. In 2009, the United Kingdom joined the agreement. Under the terms of the agreement, the JT Group contributes US $50 million annually in the first five years from its execution and US $15 million annually in the subsequent 10 years. This financial contribution is to be used to support anti-smuggling and anti-counterfeiting initiatives led by the EU or EU Member States.

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

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

Among the regulations on products, for example, we may incur additional costs in order to comply with the requirements for ingredient and packaging. Furthermore, the regulatory attempt to commoditize tobacco products could lead to an increase in illicit trades and negatively influence our legitimate business.

Business activities of tobacco companies are also restricted. With more prohibitive regulations on communication with consumers, our ability to effectively market products becomes further limited, and our top-line performance may be adversely impacted.

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

**Risk description and potential impact**

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

**Measures to address the risk**

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

4. **Country risks**

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

**Risk description and potential impact**

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

**Measures to address the risk**

- Avoid overdependence on a small number of markets as sources of profits by expanding the pool of highly profitable markets.

5. **Instability in the procurement of key materials**

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

**Risk description and potential impact**

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

**Measures to address the risk**

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

6. **Unfavorable development in litigation**

JT and some of its subsidiaries are defendants in lawsuits filed by plaintiffs seeking damages for harm allegedly caused by smoking. As of March 31 2013, 28 smoking and health-related cases were pending in which one or more members of the JT Group were named as defendant or for which JT may have certain indemnity obligations pursuant to the agreement for JT’s acquisition of RJR Nabisco Inc.’s overseas (non-U.S.) tobacco operations. We believe that we have
valid grounds to defend the claims in such lawsuits; however, we cannot predict the outcome of any pending or future litigation.

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

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

7. Natural disasters
Our operations may be disturbed by natural disasters such as earthquakes, typhoons, floods, volcano eruptions and others.

Japan is one of the most important markets for the JT Group’s businesses and subject in particular to various natural disasters. The Great East Japan Earthquake was devastating. The impacts on the JT Group included casualties among our employees, physical damage to our factories, and shortage of supply for certain material for tobacco products. Our tobacco business was forced to temporarily suspend product shipment and limit shipment volume for an extended period.

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

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

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

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

The reporting currency of the JT Group consolidated financial statements is Japanese yen, while the financial statements of our international subsidiaries are reported in other currencies such as Russian ruble, euro, British pound, Taiwanese dollar, U.S. dollar, and Swiss franc. Therefore, exchange rate fluctuations of these currencies against Japanese yen influence the Group’s reported financial results. As for the financial reporting of the international tobacco business, JT International Holding B.V. consolidates the financial results of the international tobacco subsidiaries and reports its consolidated financial statements in U.S. dollars. We often communicate the financial performance of our international tobacco business in U.S. dollars, which is affected by exchange rate fluctuations against the U.S. dollar. We do not hedge these risks which arise from the translation of financial statements.

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

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

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

Measures to address the risk
• Mitigate the risk through hedging activities such as derivative contracts or debts in a key currency for cash inflow.
Corporate Social Responsibility forms an essential part of business and companies are expected to conduct business in an ethical and responsible manner. The pursuit of sustainable profit growth cannot be achieved without meeting this expectation. As a globally recognized company, it is our responsibility to operate with integrity and help address social concerns, thus contributing to the sustainable development of society.

Seven core subjects on social responsibility (ISO 26000)
We have adopted the ISO 26000 guidelines on social responsibility as a reporting framework. The guidelines comprise seven core subjects on social responsibility. These are: Human Rights, Labor Practices, The Environment, Fair Operating Practices, Consumer Issues, Community Involvement and Development, and Organizational Governance.

Human Rights
The JT Group reinforces the importance of human rights, in all areas of its business activities and workplaces. Policies are employed to ensure that no employee is subjected to discrimination or exploitation, and is treated fairly and appropriately at all times. The Group procures a wide variety of raw materials through a complex supply chain that spans the world. Accordingly, all suppliers are expected to observe the sanctity of human rights in their business operations. These standards are set out clearly in the JT Group’s Responsible Procurement Policy and all business partners are held to the same stringent standards.

ARISE Program
In February 2012, JTI began a program called ARISE (Achieving Reduction of Child Labor in Support of Education). The purpose is to help eliminate child labor in the communities where it purchases tobacco leaf. This program is currently active in Malawi, Zambia and Brazil.
Labor Practices
The health, safety and well-being of its workforce are of paramount importance to the JT Group. It has established policies and standards beyond its statutory requirements, which safeguard the interests of all employees.

Recognizing the importance of dialogue with staff helps to create an understanding of how the JT Group can be a better employer. To this end, employee surveys are conducted and the result is a two-way communication between the Group and its employees, who cooperate to create rewarding business environments.

Employee Engagement Survey (EES)
Between 2008 and 2009, the JT Group piloted an Employee Engagement Survey in 12 countries across its CIS+ region. The aim of the Survey was to gather employees’ suggestions on how to improve business practices and discover what issues they may have. The scope of the EES was subsequently extended in 2010, and in 2012 the first Group-wide survey took place.

Employees
46,729

Countries
72

Response rate
93%

Languages
38

The Environment
The JT Group utilizes agricultural products worldwide and recognizes that its global activities have an environmental impact. From the procurement of raw ingredients and materials, to the manufacturing and distribution of products, the aim is to lessen this impact by promoting sustainability.

Minimizing the environmental impact, and the promotion of the efficient use of resources, is achieved through focusing activities on lowering greenhouse gas (GHG) emissions and reducing water consumption and waste generation. Biodiversity conservation and consideration of local ecosystems are also addressed in a number of ways.

The JT Group’s environmental principles and policies are set out in its Environmental Charter, which has led to the implementation of numerous programs that reduce environmental impact across the entire value chain.

Reducing greenhouse gas emissions
The JT Group aims to reduce GHG emissions through efficient energy use and a shift to low carbon fuels. In 2012, the scope of measuring GHG emissions was expanded across its entire value chain to monitor the environmental effects of energy use. GHG emissions have decreased by 10% compared with 2007.
**Fair Operating Practices**
The JT Group connects to a global market place where ethics, fairness and transparency in business are increasingly central to the way companies are expected to operate.

Achieving and maintaining high standards of ethical business conduct is something the JT Group takes very seriously. Employees across all Group entities must be aware of and adhere to the relevant Code of Conduct for their business. All commercial partners must also recognize the values embodied in these business standards and act accordingly at all times. Failure to do so results in serious consequences, including the termination of a partner’s commercial relationship with the JT Group.

Another important area that falls within the area of Fair Operating Practices is the fight against illicit trade in the tobacco supply chain. Here, the JT Group cooperates with government actors such as law enforcement agencies and customs authorities. It also works closely with retailers and consumers to prevent the proliferation of illicit tobacco products. To that end, the JT Group has participated in global product awareness campaigns to inform retailers and consumers about these issues. It also has a number of robust compliance programs in place to monitor its commercial partners.

**Consumer Issues**
Consumers today are faced with great choice. Making a purchasing decision is a complex combination of factors, and the way in which a company communicates regarding its products is an integral part of enabling consumers to make fully informed choices.

The JT Group informs and educates consumers in a transparent, responsible and proactive manner. This includes disclosing ingredients on tobacco products, engaging in dialogue, listening to customers’ needs and responding openly to complaints and opinions.

The Group’s pharmaceutical business develops, manufactures and markets prescription drugs that are strictly regulated and comply with the highest national and international standards. Additionally, internal systems have also been established to ensure safe, high-quality drugs.

To ensure the integrity of its beverages and processed foods, the JT Group applies rigorous quality processes. From the sourcing of ingredients to the manufacture, packaging and sale of food products, safety controls and standards are observed at every stage. On all products, ingredients are extensively disclosed and traceability information provided.
Community Involvement & Development
The JT Group helps to address social needs in local communities, often in relation to the elderly and those at an economic disadvantage.

Activities aim to improve people’s lives, alleviate suffering and complement the efforts of local systems providing services to the underprivileged. This often includes partnering with charities, non-governmental organizations and non-profit organizations.

Supporting food bank in Spain
The Madrid Banco de Alimentos Foundation is a nonprofit charity dedicated to improving the quality of life of people with limited resources facing poverty. Its mission is to collect and distribute food among more than 400 officially registered NGOs in the Madrid community.

In 2012, JTI Spain contributed to the work of the Foundation, helping it build a new food bank facility in the southern part of Madrid, creating a new point for the collection and distribution of food. This new bank will dramatically increase the number of soup kitchens and service centers that receive food daily.

Restoring forests in Japan
JT Forest is an initiative that was first established in 2005. Today it includes a program of activities in nine forests throughout Japan. This involvement provides necessary support for forest developers, and engages with local communities, authorities and experts.

Organizational Governance
The JT Group structures its corporate governance to enable prompt, high-quality decision-making and proper business conduct.

Please refer to page 58 for detail of Corporate Governance.
Overview
In our belief, enhancement of corporate governance is one of the critical management initiatives in order to achieve sustainable profit growth under the uncertain business environment. We have enhanced our corporate governance aiming at “quality and prompt decision-making”, “efficient business execution” and “rigorous supervisory and advisory function”.

We believe that our current governance framework is effective and contributes to the increase in company value. Our governance framework consists of the Board of Directors responsible for the resolution of important matters including the Group strategy as well as supervision of business execution; the Executive Officer System for the purpose of efficient business execution; the Audit & Supervisory Board to perform both accounting and operating audits in collaboration with the external accounting auditors and our internal audit division; and three committees (the Compensation Advisory Panel, the Compliance Committee and the Advisory Committee) which provide advice to the Board of Directors and the representative directors. We will continue to improve this framework to further strengthen our corporate governance.

Initiatives to enhance corporate governance

Rigorous advisory function
Set up the Compliance Committee
(In the year ended March, 2001)
Set up the Advisory Committee
(In the year ended March, 2002)
Set up the Compensation Advisory Panel
(In the year ended March, 2007)

Quality and prompt decision-making/
Rigorous supervisory function
Reduced number of directors
(In the year ended March, 2001)
Promote the delegation of business execution to the executive officers
(In the year ended March, 2001, 2009 and 2012)
Invited outsider directors
(In the year ended March, 2013)

Efficient business execution
Introduced executive officer system
(In the year ended March, 2002)

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

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

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

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

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

A board meeting, in principle, is held every month and a special board meeting may be called, as necessary. The Board of Directors decides those matters required to be resolved by the Board of Directors under the Companies Act, such as important business plans, disposal or acquisition of important assets, significant amount of borrowings, conclusion of important agreements. For the purpose of supervising the Company’s activities, the Board of Directors requires directors to deliver a report on the progress of operations at least on a quarterly basis. In year ended March 2012, we had 16 board meetings to discuss important issues including the management plan.

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

The directors marked with * are also the executive officers.

Hiroshi Kimura
Chairman of the Board

Date of birth: April 23, 1953
Term of office: Two years since June 2012
Number of shares held: 28,600

April 1976
Joined the Company (Japan Tobacco and Salt Public Corporation)

January 1999
Vice President of Corporate Planning Division

May 1999
Senior Vice President in Tobacco Business Planning Division, Tobacco Business Headquarters; Executive Vice President, JT International S.A.

June 1999
Member of the Board

June 2001
Retired from the Board

June 2005
Member of the Board

June 2006
President, Chief Executive Officer and Representative Director

June 2012
Chairman of the Board (Current Position)

March 2013
Member of the Board (outside director), ASAHI GLASS CO., LTD. (Current Position)
<table>
<thead>
<tr>
<th>Mitsuomi Koizumi*</th>
<th>Yasushi Shingai*</th>
<th>Noriaki Okubo*</th>
</tr>
</thead>
<tbody>
<tr>
<td>President, Chief Executive Officer and Representative Director</td>
<td>Representative Director and Executive Deputy President</td>
<td>Representative Director and Executive Deputy President</td>
</tr>
<tr>
<td>Date of birth: April 15, 1957</td>
<td>Date of birth: January 11, 1956</td>
<td>Date of birth: May 22, 1959</td>
</tr>
<tr>
<td>Term of office: Two years since June 2012</td>
<td>Term of office: Two years since June 2012</td>
<td>Term of office: Two years since June 2012</td>
</tr>
<tr>
<td>Number of shares held: 21,000</td>
<td>Number of shares held: 20,300</td>
<td>Number of shares held: 9,300</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>April 1981</th>
<th>April 1980</th>
<th>April 1983</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joined the Company (Japan Tobacco and Salt Public Corporation)</td>
<td>Joined the Company (Japan Tobacco and Salt Public Corporation)</td>
<td>Joined the Company (Japan Tobacco and Salt Public Corporation)</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>June 2001</th>
<th>June 2003</th>
<th>June 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vice President of Corporate Planning Division</td>
<td>Senior Vice President, and Head of Human Resources and Labor Relations Group</td>
<td>Vice President of Business Development Dept., Pharmaceutical Division</td>
</tr>
</tbody>
</table>

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<thead>
<tr>
<th>June 2004</th>
<th>June 2002</th>
<th>June 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Vice President, and Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters</td>
<td>Senior Vice President, and Head of Finance Group, Vice President of Financial Planning Division</td>
<td>Member of the Board, Senior Vice President, and President, Pharmaceutical Business</td>
</tr>
</tbody>
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<tr>
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</thead>
<tbody>
<tr>
<td>Executive Vice President, and Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters</td>
<td>Member of the Board, Senior Vice President, and Chief Financial Officer</td>
<td>Member of the Board, Executive Vice President, and President, Pharmaceutical Business</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>June 2007</th>
<th>June 2007</th>
<th>June 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Member of the Board, Executive Vice President, and Head of Marketing &amp; Sales General Division, Tobacco Business Headquarters</td>
<td>Member of the Board, Executive Vice President, and Chief Financial Officer</td>
<td>Member of the Board, Senior Executive Vice President, and President, Pharmaceutical Business</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>July 2009</th>
<th>June 2011</th>
<th>May 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Representative Director and Executive Deputy President</td>
<td>Member of the Board, Senior Vice President, and Executive Vice President in charge of International Tobacco Business</td>
<td>Member of the Board, Senior Executive Vice President, and President, Pharmaceutical Business</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>June 2011</th>
<th>January 2011</th>
<th>June 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Representative Director and Executive Deputy President (Current Position)</td>
<td>Member of the Board, Senior Executive Vice President, and President, Pharmaceutical Business</td>
<td>Representative Director and Executive Deputy President (Current Position)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>April 1983</th>
<th>June 2001</th>
<th>June 2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vice President of Corporate Planning Division</td>
<td>Vice President of Financial Planning Division</td>
<td>Vice President of Financial Planning Division</td>
</tr>
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<table>
<thead>
<tr>
<th>June 2004</th>
<th>June 2004</th>
<th>June 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Vice President, and Head of Finance Group, Vice President of Financial Planning Division</td>
<td>Senior Vice President, and Chief Financial Officer</td>
<td>Senior Vice President, and President, JT International S.A.</td>
</tr>
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</thead>
<tbody>
<tr>
<td>Executive Vice President, and Chief Executive Officer and Representative Director</td>
<td>Representative Director and Executive Deputy President (Current Position)</td>
<td>Representative Director and Executive Deputy President (Current Position)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>June 2007</th>
<th>June 2011</th>
<th>June 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Member of the Board, Executive Vice President, and President, Pharmaceutical Business</td>
<td>Member of the Board, Senior Vice President, and President, Pharmaceutical Business</td>
<td>President, Chief Executive Officer and Representative Director (Current Position)</td>
</tr>
</tbody>
</table>
Corporate Governance continued

Decision Making, Business Execution, Supervision continued

Masamichi Terabatake
Member of the Board
Date of birth: November 26, 1965
Term of office: One year since June 2013
Number of shares held: 3,600

April 1989
Joined the Company

July 2005
General Manager, Secretary’s Office

July 2008
Vice President of Corporate Strategy

June 2011
Senior Vice President, Chief Strategy Officer and Assistant to CEO in Food Business

March 2012
Senior Vice President, Chief Strategy Officer and Assistant to CEO in Food Business

June 2012
Senior Vice President, Chief Strategy Officer

June 2013
Member of the Board, Executive Vice President, JT International S.A. (Current Position)

Akira Saeki*
Representative Director and Executive Deputy President
Date of birth: August 25, 1960
Term of office: Two years since June 2012
Number of shares held: 11,700

April 1985
Joined the Company (Japan Tobacco Inc.)

June 2005
Vice President of Corporate Strategy Division

June 2007
Senior Vice President, Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters

May 2008
Senior Vice President, Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters, Head of China Division, Tobacco Business

June 2008
Senior Vice President, Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters, Chief Corporate, Scientific & Regulatory Affairs Officer, Tobacco Business, Head of China Division, Tobacco Business

July 2008
Senior Vice President, Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters, Chief Corporate, Scientific & Regulatory Affairs Officer, Tobacco Business

July 2009
Senior Vice President, Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters, Chief Corporate, Scientific & Regulatory Affairs Officer, Tobacco Business

June 2010
Executive Vice President, and Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters

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

Hideki Miyazaki*
Member of the Board and Executive Deputy President
Date of birth: January 22, 1958
Term of office: Two years since June 2012
Number of shares held: 8,800

April 1980
Joined Nomura Securities Co., Ltd.

July 2005
Deputy Chief Financial Officer

January 2006
Deputy Chief Financial Officer

June 2008
Senior Vice President, and Chief Financial Officer, Vice President, Tax Division

October 2009
Senior Vice President, and Chief Financial Officer

May 2010
Senior Vice President, and Chief Financial Officer, Vice President, Treasury Division

June 2010
Senior Vice President, and Chief Financial Officer, Vice President, Treasury Division

June 2010
Executive Vice President and Chief Financial Officer, Vice President, Treasury Division

July 2010
Executive Vice President and Chief Financial Officer, Vice President, Treasury Division and Vice President, Procurement Planning Division

August 2010
Executive Vice President and Chief Financial Officer

June 2012
Member of the Board and Executive Vice President (Current Position)
Date of birth: September 15, 1943  
Term of office: Two years since June 2012  
Number of shares held: 0

April 1966  
Joined Sumitomo Corporation

June 1994  
Director, Sumitomo Corporation

April 1998  
Managing Director, Sumitomo Corporation

April 2001  
Senior Managing Director, Sumitomo Corporation

June 2001  
President, Chief Executive Officer, Sumitomo Corporation

June 2007  
Chairman of the Board of Directors, Sumitomo Corporation

June 2012  
Advisor, Sumitomo Corporation. Member of the Board, the Company (Current Position)

Date of birth: April 25, 1951  
Term of office: Two years since June 2012  
Number of shares held: 0

September 1995  
Started independently as Novelist (Current Position)

January 2003  
Member of Financial System Council, Ministry of Finance Japan

April 2004  
Visiting Professor, Faculty of Economics, Shiga University

March 2005  
Member of the Council for Transport Policy, Ministry of Land, Infrastructure, Transport and Tourism

November 2006  
Member of the Tax Commission, Cabinet Office, Government of Japan

June 2010  
Member of the Board of Governors, Japan Broadcasting Corporation

June 2012  
Member of the Board, the Company (Current Position)

June 2013  
Member of the Board (outside director), LIXIL Corporation (Current Position)

The directors marked with * are also the executive officers.
The Audit & Supervisory Board

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

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

Futoshi Nakamura
Audit & Supervisory Board Member

Date of birth: November 23, 1957
Term of office: Three years since June 2012
Number of shares held: 4,800

<table>
<thead>
<tr>
<th>Date</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 1981</td>
<td>Joined the Company (Japan Tobacco and Salt Public Corporation)</td>
</tr>
<tr>
<td>July 2004</td>
<td>Head of Procurement Planning Division</td>
</tr>
<tr>
<td>September 2005</td>
<td>Senior Manager of Operational Review and Business Assurance Division, JT International Holding B.V. Vice President</td>
</tr>
<tr>
<td>July 2009</td>
<td>Senior Manager of Accounting Division</td>
</tr>
<tr>
<td>July 2010</td>
<td>Head of Operational Review and Business Assurance Division</td>
</tr>
<tr>
<td>June 2012</td>
<td>Audit &amp; Supervisory Board Members, the Company (Current Position)</td>
</tr>
</tbody>
</table>
Tomotaka Kojima
Audit & Supervisory Board Member
Date of birth: December 19, 1953
Term of office: Two years since June 2013
Number of shares held: 0

Apr 1976
Joined Ministry of Finance

Jul 2000
Director of the Fukuoka Local Finance Branch Bureau

Jul 2002
Deputy Head of Finance Group of the Company

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

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

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

Aug 2009
Executive Director, National Hospital Organization

Mar 2010
Retired from Executive Director, National Hospital Organization

October 2010
Adviser, Japan Association of Corporate Directors

Nov 2010
Secretary General, Japan Association of Corporate Directors

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

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Koichi Ueda
Audit & Supervisory Board Member (Outside Audit & Supervisory Board Member)
Date of birth: December 17, 1943
Term of office: Four years since June 2011
Number of shares held: 2,300

April 1967
Judicial Apprentice

April 1969
Appointed as Public Prosecutor

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

December 2006
Took mandatory retirement

January 2007
Registered as an attorney at law

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

January 2009
Representative Director, The Resolution and Collection Corporation

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

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

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Yoshinori Imai
Audit & Supervisory Board Member (Outside Audit & Supervisory Board Member)
Date of birth: December 3, 1944
Term of office: Four years since June 2011
Number of shares held: 700

April 1968
Joined Japan Broadcasting Corporation

June 1995
Bureau Chief of General Bureau for Europe

May 2000
Director General, Planning & Broadcasting Department

June 2003
Executive Editor and Program Host

January 2008
Executive Vice President

January 2011
Retired from Executive Vice President

April 2011
Visiting Professor, Ritsumeikan University (Current Position)

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

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

Criteria list for independence of an executive

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

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

Support for Outside Directors and Outside Audit & Supervisory Board Members

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

Executive Officer System

JT employs the Executive Officer System to ensure effective and efficient management by promptly responding to the changing environment, and thus aims to increase its company value. Executive officers are appointed by the Board of Directors. At the same time, the board assigns certain responsibilities and delegates relevant authorities to the executive officers in accordance with the Rules Defining the Extent of Responsibility and Authority.

The Executive Committee has been established to consult with the President who is our Chief Executive Officer. Comprising the President, the Chairman, Deputy Presidents, as well as executive officers and other participants designated by the President, this Committee is, in principle, held on a weekly basis.
The agendas for the Executive Committee include the issues to be discussed at the board meetings as well as the matters delegated to the Committee by the Board of Directors. Important management issues are also discussed at the Executive Committee, including management policies and fundamental strategies of the Group. Considering its significance, a full-time audit & supervisory board member attends the Committee to monitor the discussion.

Please refer to page 184 for the list of executive officers.

**Advisory Committee**

The Advisory Committee provides advice from a broad perspective concerning JT Group’s mid- to long-term direction and other subjects of similar importance. This Committee is comprising four external individuals with ample managerial or international experience and two outside directors. Based on the information shared by the Company, the Advisory Committee reviews various topics such as management strategies, management plans and financial results, and then provides advice to our representative directors. During the year ended March 2013, the Advisory Committee was held three times and discussed various issues including the regulatory environment of our tobacco business. The Committee members also made a field trip to one of TableMark’s factories.

**Members of Advisory Committee**

<table>
<thead>
<tr>
<th>Member</th>
<th>Kazuo Inamori</th>
<th>Founder and Chairman Emeritus, Kyocera Corporation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Member</td>
<td>Sakutaro Tanino</td>
<td>Former Japanese Ambassador to India and China/Vice President, Japan-China Friendship Center</td>
</tr>
<tr>
<td>Member</td>
<td>Tomijiro Morita</td>
<td>Senior Advisor, The Dai-ichi Life Insurance Co., Ltd.</td>
</tr>
<tr>
<td>Member</td>
<td>Sakue Mizukoshi</td>
<td>Corporate Advisor, Seven &amp; i Holdings Co., Ltd.</td>
</tr>
<tr>
<td>Associate Member</td>
<td>Motoyuki Oka</td>
<td>JT’s outside director</td>
</tr>
<tr>
<td>Associate Member</td>
<td>Main Kohda</td>
<td>JT’s outside director</td>
</tr>
</tbody>
</table>
Overview
JT devotes its efforts to ensure appropriate business operation by reinforcing internal control such as compliance, internal audit and risk management among other matters. The developments of these internal control focuses are reported regularly to the Board of Directors. In addition, we have the Auditor Office, a department dedicated to support the Audit & Supervisory Board, for our audit & supervisory board members to effectively perform their duties. Collaboration among the Group companies is encouraged to strengthen the framework for compliance (which includes the internal consultation and reporting), reliable financial reporting, internal audit and risk management.

Internal control framework

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

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

The Compliance Office is in charge of improving the compliance framework, while identifying any issue in the framework. The Compliance Office also promotes compliance by offering training programs to directors and employees.

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

The Compliance Committee is headed by the Chairman, and external members comprise the majority. The Compliance Committee met five times in the year ended March 31, 2013, and discussed initiatives to strengthen compliance throughout the Group among other matters.

External members of the Compliance Committee

Rokuro Tsuruta  TSURUTA ROKURO LAW OFFICE
Makoto Matsuo  Attorney at Law, Momo-o, Matsuo, & Namba.
Hideo Kojima  Certified Public Accountant, Hideo Kojima Certified Public Accountant Office
Reliable financial reporting
In order to ensure the reliability of its financial reporting, JT has introduced a relevant internal control system in accordance with the Financial Instruments and Exchange Act and other standards. In addition, a dedicated division has been created which reviews the internal control system and reports the result of the assessment. Reliability of our financial reporting is confirmed by the external accounting auditor who makes an assessment of our internal control system based on the Internal Control Report prepared by us.

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

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

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

Please refer to page 50 for our risk factors.

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

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

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

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

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

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

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

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

The remuneration payments to the directors and audit & supervisory board members for the year ended March 2013 are as follows.

<table>
<thead>
<tr>
<th>Category</th>
<th>Total remuneration and other payments (million yen)</th>
<th>Total amount of remuneration and other payments by type (million yen)</th>
<th>Number to be paid (people)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors (excluding Outside Directors)</td>
<td>627</td>
<td>324 198 105</td>
<td>10</td>
</tr>
<tr>
<td>Audit &amp; Supervisory Board member</td>
<td>36</td>
<td>36</td>
<td>2</td>
</tr>
<tr>
<td>(excluding Outside Audit &amp; Supervisory</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board members)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outside Directors and Outside Audit &amp;</td>
<td>83</td>
<td>83</td>
<td>5</td>
</tr>
<tr>
<td>Supervisory Board members</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>746</td>
<td>442 198 105</td>
<td>17</td>
</tr>
</tbody>
</table>

1 Amounts to be paid.
2 Total amounts granted for the year ended March 2013.

The remuneration payments to the directors and the audit & supervisory board members whose total remuneration exceeds ¥100 million for the year ended March 2013 are as follows.

<table>
<thead>
<tr>
<th>Name</th>
<th>Category</th>
<th>Company</th>
<th>Amount of consolidated remuneration and other payments by type (million yen)</th>
<th>Total (million yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mitsuomi Koizumi</td>
<td>Representative</td>
<td>JT</td>
<td>67 64 25</td>
<td>156</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Resolution date</th>
<th>Positions and number of people grants</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 21, 2012</td>
<td>Directors seven persons</td>
</tr>
<tr>
<td></td>
<td>Executive officers (excluding persons serving as Directors) 17 persons</td>
</tr>
<tr>
<td></td>
<td>65,600 shares to Directors</td>
</tr>
<tr>
<td></td>
<td>80,200 shares to Executive officers; total 145,800 shares (200 shares per stock acquisition right)</td>
</tr>
</tbody>
</table>
Deloitte Touche Tohmatsu LLC (Tohmatsu) conducts accounting audits in accordance with the Companies Act and the Financial Instruments and Exchange Act. The Certified Public Accountants who audited the JT Group’s consolidated financial statements for the year ended March 31, 2013 and the number of people who assisted the auditing work are as follows:

Audit partners responsible for the Group accounting audit:
Yasuyuki Miyasaka
Satoshi Iizuka
Koji Ishikawa

Assistants for the audit:
Certified public accountants: 13 persons
Junior accountants: 7 persons
Others: 10 persons.

Policy to determine audit fee
The audit fee is determined after sufficient negotiations with external accounting auditors based on the audit plan and fee estimates proposed by them. During the process, we confirm that the proposed audit hours properly reflect the scope of audits or reviews, taking into account the focus audit areas under the audit plan and the additions or subtractions of the Group companies among other factors. We also analyze the variance between the actual and planned auditing hours in the prior audits. With these and other information being considered, the audit fee is agreed.

Consent from the Audit & Supervisory Board is acquired before final agreement on the audit fee to ensure the independence of external auditors.

Audit and non-audit fees
In addition to the accounting audit fee, the JT Group pays fees to Tohmatsu for its services unrelated to the accounting audit. Fees paid to Tohmatsu for the year ended March 31, 2012 and the year ended March 31, 2013 are as follows:

<table>
<thead>
<tr>
<th>Classification</th>
<th>Year ended March 31, 2012</th>
<th>Year ended March 31, 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fees for audit attestation services (million yen)</td>
<td>Fees for non-audit services (million yen)</td>
</tr>
<tr>
<td>JT</td>
<td>310</td>
<td>134¹</td>
</tr>
<tr>
<td>Consolidated subsidiaries in Japan</td>
<td>188</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>498</td>
<td>136</td>
</tr>
</tbody>
</table>

¹ Includes the fee for the advisory service concerning IFRS adoption.
² Includes the fee for the issuance of the comfort letter in relation to the share offering.
Our subsidiaries outside Japan receive accounting audits mainly by the member firms of Deloitte Touche Tohmatsu Limited, which Tohmatsu belongs to. In particular, the fees paid by the JTIH Group for the accounting audits of their financial statements and the non-audit services are material. Fees paid to the member firms of Deloitte Touche Tohmatsu Limited for the year ended March 31, 2012 and the year ended March 31, 2013 are as follows:

<table>
<thead>
<tr>
<th>Classification</th>
<th>Year ended March 31, 2012</th>
<th>Year ended March 31, 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fees for audit attestation services (million yen)</td>
<td>Fees for non-audit services (million yen)</td>
</tr>
<tr>
<td>JTIH Group</td>
<td>679</td>
<td>368</td>
</tr>
</tbody>
</table>