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Our quest for better communication with the financial community

In the year ended March 31, 2012, we adopted IFRS with the aim of improving international comparability of financial information in the capital markets. In the following year, we split the former food business into two segments, the beverage business and processed food business, to improve transparency of our business. We will continue with our efforts to improve our disclosure and communication with the financial community.

Financial Review

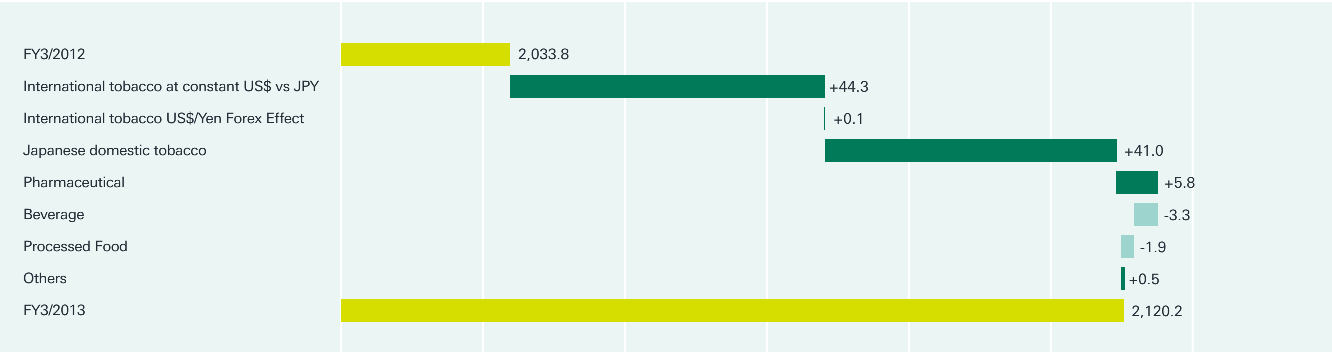
Analysis of the Results for year ended March 2013[1]

1 Consolidated results: Year ended March 2012 and year ended March 2013.
International tobacco business: Year ended December 2011 and year ended December 2012.

Actual Results   Decrease   Increase (Decrease in case of expense)

Revenue[2]

(billions of yen)

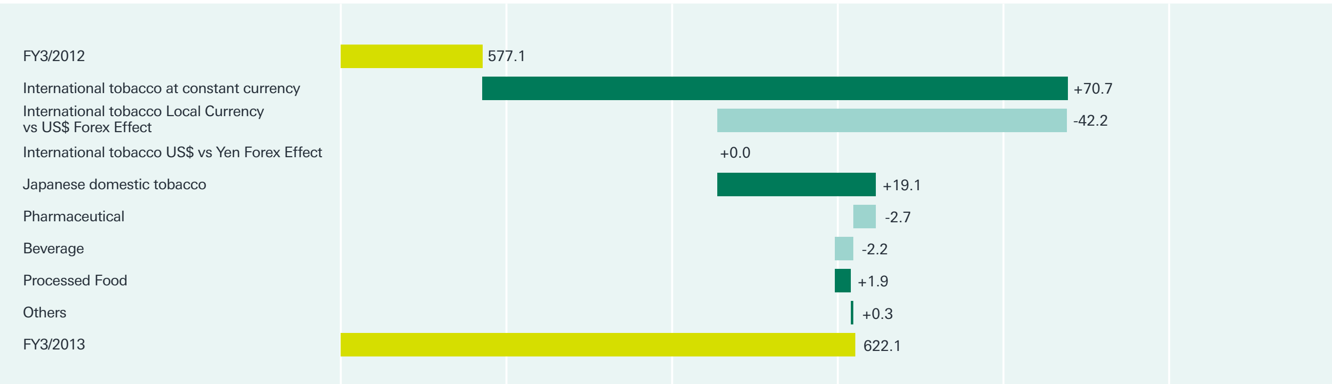


- Revenue increased ¥86.4 billion or +4.2% year-on-year to ¥2,120.2 billion.
- This was mainly the result of robust pricing and mix as well as an increase in total shipment volume in the international tobacco business and an increase in sales volume in the Japanese domestic tobacco business from the prior fiscal year which was affected by the earthquake disaster.

2 Excludes tobacco excise taxes and agency transactions.

Adjusted EBITDA[3]

(billions of yen)

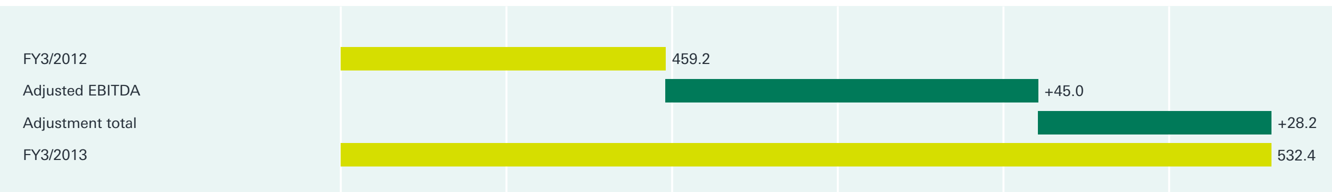


- Adjusted EBITDA increased ¥45.0 billion or +7.8% year-on-year to ¥622.1 billion, driven mainly by the tobacco business.
- In the international tobacco business, adjusted EBITDA grew driven by strong volume and price/mix, which more than offset the increase in costs and unfavorable currency exchange movements.
- In the Japanese domestic tobacco business, adjusted EBITDA grew, as the increase in costs was more than offset by the increase in sales volume and the absence of the earthquake related costs incurred in the prior fiscal year.
- Adjusted EBITDA at constant rates of exchange grew +15.1% year-on-year.

3 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.

Operating Profit

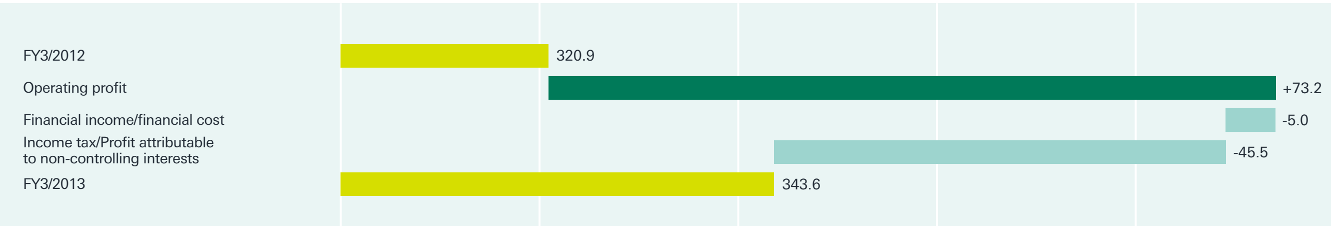
(billions of yen)



- Operating profit increased ¥73.2 billion or +15.9% year-on-year, driven by an increase in revenue in the international tobacco business and the Japanese domestic tobacco business, and the absence of a cooperation fee for terminating leaf tobacco farming incurred in the prior fiscal year.

Profit[4]

(billions of yen)



- Profit increased ¥22.7 billion or +7.1% year-on-year to ¥343.6 billion, as the increase in operating profit more than offset the worsening in financial income/financial cost and the increase in income tax/profit attributable to non-controlling interests.
- Financial income/financial cost decreased year-on-year, as the decrease in interest expenses could not offset the increase in foreign exchange losses.
- Income tax increased (decreased as in the above graph), in the absence of the effect of the loss on the valuation of investments in subsidiaries in the prior fiscal year.

4 Profit attributable to owners of the parent.

Revenue by business segment

	Billions of yen	
Years ended March 31	2012	2013
Revenue	2,033.8	**2,120.2**
International tobacco[5]	966.3	**1,010.7**
Core revenue[6]	894.6	**943.1**
Japanese domestic tobacco	646.2	**687.1**
Core revenue[7]	611.9	**654.0**
Pharmaceutical	47.4	**53.2**
Beverage	188.8	**185.5**
Processed Food	170.7	**168.7**
Others	14.6	**15.0**

5 International tobacco business: Year ended December 2011 and year ended December 2012.
6 Excludes revenues from distribution, contract manufacturing and other peripheral businesses.
7 Excludes revenue from the distribution of imported tobacco in the Japanese domestic tobacco business, among other factors.

Average Exchange Rate

	Jan-Dec 2011	Jan-Dec 2012
YEN/US$	79.80	**79.81**
RUB/US$	29.40	**31.07**
GBP/US$	0.63	**0.63**
EUR/US$	0.72	**0.78**

Adjusted EBITDA and Operating Profit by business segment

	Billions of yen	
Years ended March 31	2012	2013
Consolidated operating profit	459.2	**532.4**
Adjustment total[8]	118.0	**89.8**
Consolidated: Adjusted EBITDA	577.1	**622.1**
International tobacco: Operating profit[9]	252.4	**289.5**
Adjustment total[8]	62.4	**53.8**
International tobacco: Adjusted EBITDA	314.8	**343.3**
Japanese domestic tobacco: Operating profit	209.3	**241.3**
Adjustment total[8]	53.0	**40.0**
Japanese domestic tobacco: Adjusted EBITDA	262.3	**281.3**
Pharmaceutical: Operating profit	(13.5)	**(16.2)**
Adjustment total[8]	3.5	**3.4**
Pharmaceutical: Adjusted EBITDA	(10.0)	**(12.7)**
Beverage: Operating profit	4.5	**2.4**
Adjustment total[8]	10.1	**10.1**
Beverage: Adjusted EBITDA	14.6	**12.4**
Processed Food: Operating profit	(2.5)	**(5.8)**
Adjustment total[8]	7.9	**13.2**
Processed food: Adjusted EBITDA	5.4	**7.4**
Others/Elimination: Operating profit	9.0	**21.2**
Adjustment total[8]	(18.9)	**(30.7)**
Others/Elimination: Adjusted EBITDA	(9.8)	**(9.6)**

- For analysis of revenue, core revenue and adjusted EBITDA of each business segment, please refer to section "Review of Operation".

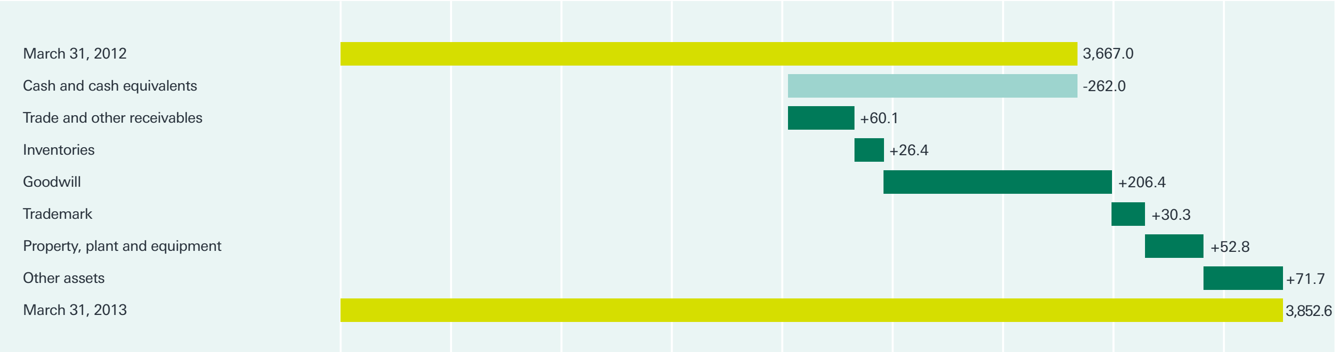
8 Depreciation and amortization ± adjustment items (income and costs)**
** Adjustment items (income and costs) = impairment losses on goodwill ± restructuring income and costs ± others.
9 International tobacco business: Year ended December 2011 and year ended December 2012.

Financial Review *continued*

Analysis of the Results for year ended March 2013 continued

Consolidated Balance Sheet (Assets)

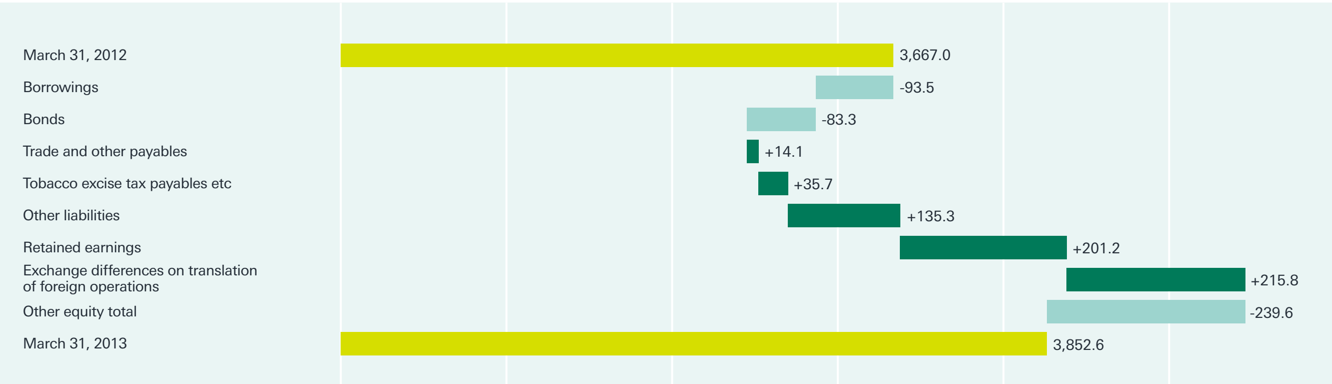
(billions of yen)



- Total assets increased ¥185.6 billion to ¥3,852.6 billion, as the decrease in cash and cash equivalents was more than offset by the increase of goodwill from forex impact and acquisitions, among other factors.
- Cash and cash equivalents decreased from share buy-back, acquisitions and investment in the next generation raw material processing lines in the Japanese domestic tobacco business.

Consolidated Balance Sheet (Debt and Equity)

(billions of yen)



- Total liabilities increased ¥8.2 billion to ¥1,960.6 billion. Borrowings decreased from repayment of loans and bonds decreased from redemptions. However, these were not sufficient to offset the increase in tobacco excise tax payables etc and the increase in retirement benefit liabilities and income tax payables in the international tobacco business.
- Total equity increased ¥177.4 billion to ¥1,892.0 billion, mainly as retained earnings increased and exchange differences on translation of foreign operations increased, which more than offset the decrease in equity from share buy-back.

1. Significant Accounting Policies

Having acquired RJR Nabisco's non-U.S. tobacco operation in 1999 and Gallaher Group Plc. in the UK in 2007, the JT Group has been growing steadily as a global company with operations in over 70 countries and with our products sold in over 120 countries. In this context, the JT Group has adopted IFRS from the year ended March 31, 2012 to improve international comparability of financial information in capital markets and to diversify the Group's sources of financing through international capital markets.

While the year end of our consolidated financial results is for March 31, the year end for our international tobacco business is December 31. For further details of the reporting period for our international tobacco business, please refer to Note 2 (6) to the consolidated financial statements.

For further details of significant accounting policies, please refer to Note 3 to the consolidated financial statements.

2. Non-GAAP financial measures

The JT Group discloses certain additional financial measures that are not required or defined under IFRS. These measures help grasp underlying performance of each business and are used for internal performance management. We believe that they are useful information for users of our financial statements to assess the Group's performance.

For our international tobacco business, its consolidated financial statements reported in US dollars are internally reviewed and therefore revenue and adjusted EBITDA are externally communicated in US dollars. These non-GAAP financial measures should be treated as supplementary information, rather than alternative measures to corresponding financial numbers prepared in accordance with IFRS.

Core revenue

For the tobacco business, core revenue is disclosed additionally as a breakdown of revenue. Specifically, the core revenue for the Japanese domestic tobacco business is presented after deducting revenue accounted for distribution of imported tobacco products, among other things, from revenue, while core revenue for the international tobacco business is presented after deducting the revenue accounted for the distribution business and contract manufacturing, among other areas, from revenue.

Adjusted EBITDA

In order to provide useful comparative information on our business performance, adjusted EBITDA is presented as operating profit less depreciation, amortization and adjustment items (income and costs). Adjustment items (income and costs) are impairment losses on goodwill and restructuring income and costs, and others items.

Furthermore, for the international tobacco business, adjusted EBITDA at constant rates of exchange which excludes foreign exchange effects, is also presented as additional information. Adjusted EBITDA at constant rates of exchange for a relevant period in the international tobacco business is calculated using the foreign exchange rates of the prior year.

Adjusted EPS

In order to provide useful comparative information on our shareholder return, adjusted EPS (diluted) is presented after making certain adjustments to dilute EPS. For the adjustments made for the adjusted EPS (diluted), please refer to Note 32 to the consolidated financial statements "Earnings per share".

Consolidated dividend payout ratio

The consolidated dividend payout ratio is calculated by dividing the annual dividend per share for the relevant year (total of interim dividends and year-end dividends for which the record dates are included in the relevant year) by basic earnings per share.

Change in segments

In the second quarter ended September 30, 2012, the JT Group split the former "Food Business" into two segments, the "Beverage Business" and the "Processed Food Business". For details, please refer to Note 6(1) to the consolidated financial statements.

3. Analysis of consolidated financial results for the year ended March 31, 2013

1. Consolidated financial results for the year ended March 31, 2013

For analysis of "Revenue", "Adjusted EBITDA", "Operating profit" and "Profit attributable to owners of the parent company", please refer to page 76-77. For analysis of "Assets", "Debt" and "Equity", please refer to page 78.

For analysis of financial results by business segment, please refer to "Review of Operations".

Financial Review *continued*

2. Adjusted EPS

Adjusted profit for the year ended March 31, 2013 increased ¥38.9 billion year-on-year to ¥329.7 billion. Adjusted EPS (diluted) for the year ended March 31, 2013 increased ¥21.00 or +13.8% year-on-year to ¥173.65.

Adjusted diluted earnings per share

Billions of yen

	Year ended March 31, 2012	**Year ended March 31, 2013**
Profit used for calculation of adjusted diluted earnings per share	320.9	**343.6**
Adjustment items (income)	(29.9)	**(34.2)**
Adjustment items (costs)	29.0	**7.5**
Adjustments on income taxes and non-controlling interests	2.0	**12.8**
Adjustments on income taxes related to losses on valuation of investments in subsidiaries	(31.2)	**–**
Adjusted profit for the year	290.8	**329.7**
Weighted-average number of diluted ordinary shares during the year (thousands of shares)	1,905,040	**1,898,553**
Adjusted diluted earnings per share (yen)	152.65	**173.65**

In calculating adjusted EPS, the effect of the share split conducted at a ratio of 200 shares to one share, with July 1, 2012 as the effective date, has been reflected.

4. Results and plans of capital expenditures

Capital expenditure include outlays on property, plants and equipment such as land, buildings and structures; machinery; vehicles and others; and intangible assets such as goodwill, trademark, software and others that are necessary for enhancing the productivity of our factories and other facilities; strengthening our competitiveness, and operating in various business fields.

Billions of yen, %

Years ended March 31	2012	**2013**	Change	Rates of Change
Capital expenditure	119.0	**137.4**	+18.5	+15.5%
International tobacco*	39.1	**37.5**	-1.6	-4.2%
Japanese domestic tobacco	56.2	**71.2**	+15.0	+26.7%
Pharmaceutical	3.9	**5.8**	+1.9	+47.8%
Beverage	8.1	**12.0**	+3.9	+48.5%
Processed Food	7.3	**4.6**	-2.7	-37.1%
Other/Elimination and corporate	4.3	**6.3**	+2.0	+46.3%

* International tobacco business: FY ended December 2011 and FY ended December 2012.

Total capital expenditure amounted to ¥137.4 billion in the year ended March 31, 2013. In the international tobacco business, capital expenditure amounted to ¥37.5 billion which was spent on expanding production capacity, maintenance and replacement of facility, and on improvement of product specifications. In the Japanese domestic tobacco business, capital expenditure amounted to ¥71.2 billion which was spent on initiatives to streamline manufacturing processes, to strengthen our ability to respond flexibly to supply and demand fluctuations with an increasingly diverse range of products, and to develop new products. In the pharmaceutical business, capital expenditure amounted to ¥5.8 billion which was spent on the development and reinforcement of R&D capabilities. In the beverage business, capital expenditure amounted to ¥12.0 billion, which was spent on maintaining and renewing the vending machine network, among other areas. In the processed food business, capital expenditure amounted to ¥4.6 billion, which was spent on enhancing and maintaining the production capacity. These capital expenditures were internally funded through cash generated by operations.

Plans for new installations and disposal of facilities

Regarding the mid-to long-term resource allocation of the JT Group, we will place top priority on business investments that will lead to sustainable profit growth in the mid- to long-term based on our management principles. We position the international and Japanese domestic tobacco business as the core business and profit growth engine and place top priority on business investments that will lead to their sustainable profit growth. Meanwhile, regarding the pharmaceutical business, beverage business and processed food business, we will strive to strengthen foundations that will lead to future profit contribution, and we will make investments to that end. Based on this policy, we plan capital expenditures totaling ¥195.0 billion for year ending March 31, 2014. As JT and JT Group companies have wide-ranging plans for capital expenditure, figures are disclosed by segment. Our actual capital expenditures may differ significantly from the planned figures mentioned above as a result of a number of factors, including those discussed in “Risk Factors”.

	Billions of yen		
	Capital Expenditure plan for the year ending March 31, 2014	Main purpose of investment	Funding
International tobacco business	94.0	Investment for improvement of product specifications, expansion of production capacity, maintenance and upgrading of facilities	Internally funded
Japanese domestic tobacco business	63.0	Investment in production and sales facilities for the purpose of brand equity enhancement	Same as above
Pharmaceutical business	4.0	Investment for the maintaining and reinforcing of R&D	Same as above
Beverage business	12.0	Investment for the maintenance and reinforcing trade marketing	Same as above
Processed food business	8.0	Investment for enhancing and maintaining production capacity	Same as above

5. Dividends

The year-end dividends for the year ended March 31, 2013 were ¥38 per share. The total annual dividends per share, including the interim dividends per share of ¥30 per share, were ¥68 per share, with a consolidated payout ratio of 37.6%.

The year-end dividends related to the current year are recognized in the following year for accounting purposes. The year-end dividend related to the year ended March 31, 2012 (record date of March 31, 2012) and the interim dividends for the year ended March 31, 2013 (record date September 30, 2012) are recorded in the financial statements for the year ended March 31, 2013. For more details, please refer to Note 26 to the consolidated financial statements “Dividends”.

6. Capital management

The JT Group’s management principle is pursuit of the “4S” model: ensuring that in all our activities, we satisfy and fulfill our responsibilities towards our consumers, shareholders, employees and wider society, while balancing the interest of these key stakeholder groups.

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

In order to achieve sustainable growth, the JT Group understands that financing capacities sufficient enough to make agile business investments when there are opportunities, such as the acquisition of external resources for business growth, are required. For that reason, the JT Group aims to maintain a well-balanced capital structure by ensuring sound and flexible financial conditions for future business investment as well as an appropriate return on equity.

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

	Billions of yen	
	As of March 31, 2012	**As of March 31, 2013**
Interest-bearing debt	502.4	**327.2**
Cash and cash equivalents	(404.7)	**(142.7)**
Net interest-bearing debt	97.6	**184.5**
Capital (equity attributable to owners of the parent company)	1,634.1	**1,806.1**

Share buy-back:

A repurchase of our shares requires cash outlays. As of March 31, 2013, we held 182,510,100 shares of common stock as treasury stock, amounting to 9.13% of the total number of shares issued.

In order to repurchase our shares in a flexible manner, we amended the Articles of Incorporation at the general meeting of shareholders held on June 24, 2004 so that we could make repurchase based on a resolution made by the Board of Directors.

We may continue to hold the repurchased shares as treasury stock or use them for other purposes. Stock repurchase provides our management with an additional option for increasing flexibility and speed in capital management in order to adopt to a rapidly changing business environment.

7. Financial activities

Our Group Treasury Division provides Group-wide support to enable secure and efficient financing activities. JT Group is exposed to financial risks (credit risks, liquidity risks, foreign exchange risks, interest rate risks, and market price fluctuation risks). Treasury operations are conducted pursuant to a set of group-wide financial risk management policies and results are reported quarterly to the Executive Committee and, as appropriate, the Board of Directors of JT. For more details on financial risk management, please refer to "(2) Financial Risk Management" to "(7) Market Price Fluctuation Risk" of Note 35 to the consolidated financial statements "Financial Instruments".

1. Cash Management Systems

To maximize the total Group cash efficiency, we give first priority to utilizing internal financing mainly by the Cash Management Systems (CMS) within our Group, where legally permissible and economically viable.

2. External financing

Short-term working capital needs are normally financed through short-term borrowings from financial institutions or through commercial paper, or a combination of both; mid- to long-term financing is done through long-term borrowings from financial institutions, bond or equity, or a combination of those. For secure and efficient financing, we continue to diversify our financing means as well as the financial institutions, and set up secure financing means, such as committed facilities. The status of the debts owed by Group is quarterly reported to the Executive Committee and, as appropriate, the Board of Directors of JT.

3. External investments

Our financial investments are always made taking into account safety, liquidity and optimal yield. Speculative dealings in pursuit of profit margin are not allowed. The results of the financial investment are quarterly reported to the Executive Committee and, as appropriate, the Board of Directors of JT.

8. Results of cash flows

Year ended March 31, 2013 and year ended March 31, 2012

Cash and cash equivalents at the end of the year ended March 31, 2013 decreased by ¥262.0 billion from the end of the prior year to ¥142.7 billion. Cash and cash equivalents at the end of the prior year were ¥404.7 billion.

Note:
Tobacco excise tax is paid monthly, one month in arrears, at the end of each month in Japan. Since March 31, 2012 and March 31, 2013 were both holidays for financial institutions in Japan, we did not pay the tobacco excise tax for the previous month's tobacco sales in Japan on those fiscal year ends. The amounts of excise taxes paid on the business days immediately following March 31, 2012 and March 31, 2013 were ¥143.5 billion and ¥136.6 billion, respectively.

Cash flows from (used in) operating activities

Net cash flows from operating activities during the year ended March 31, 2013 were ¥466.6 billion. The main factors were the generation of a stable cash inflow from the tobacco business. As a result of holidays for financial institutions, the amount of tobacco excise tax paid for the prior year in Japan was for 11 months, while the amount for the year ended March 31, 2013 in Japan was for 12 months. Net cash flows from operating activities were ¥551.6 billion for the year ended March 31, 2012.

Cash flows from (used in) investing activities

Net cash flows used in investing activities during the year ended March 31, 2013 were ¥147.9 billion. This was mainly due to the purchase of property, plant and equipment and the purchase of shares of Gryson NV and Nakhla. Net cash flows used in investing activities were ¥103.8 billion for the year ended March 31, 2012.

Cash flows from (used in) financing activities

Net cash flows used in financing activities during the year ended March 31, 2013 were ¥569.5 billion. This was mainly due to the buy-back of shares, the increase of dividends per share, repayments of borrowings and the redemption of bonds. Net cash flows used in financing activities were ¥279.1 billion for the year ended March 31, 2012.

9. Liquidity

We have historically had, and expect to continue to have, significant cash flows from operating activities. We expect that cash generated from operating activities will continue to be stable and cover funds needed for ordinary business activities. On March 31, 2013, we had approximately ¥444.6 billion in committed lines of credit for major financial institutions both domestic and international, of which 100% was unused. In addition, we have a domestic commercial paper program, uncommitted lines of credit and a domestic bond shelf registration.

1. Long-term debt

Bonds issued (including the current portion) as of March 31, 2012 and March 31, 2013 accounted for ¥320.5 billion and ¥237.2 billion respectively and long-term borrowings as loans from financial institutions (including the current portion) accounted for ¥127.5 billion and ¥53.6 billion respectively. Annual interest rates applicable to yen-denominated long-term borrowings outstanding as of March 31, 2012 and March 31, 2013 ranged from 0.93% to 5.30% and 1.15% to 5.30% respectively. Annual interest rates for long-term borrowings denominated in other currencies ranged from 0.43% to 9.00% for those outstanding as of March 31, 2012 and 0.43% to 5.90% for those outstanding as of March 31, 2013. Long-term lease obligations accounted for ¥6.9 billion as of March 31, 2012 and ¥8.2 billion as of March 31, 2013. Maturities of interest-bearing debts are shown in the table below.

As of March 31, 2013, our long-term debt was rated Aa3 by Moody's Japan K.K. (Moody's), A+ by Standard & Poor's Ratings Japan K.K. (S&P), and AA by Rating and Investment Information Inc. (R&I), with a 'stable' outlook from Moody's, a 'positive' outlook from S&P and a 'stable' outlook from R&I. These ratings are among the highest ratings for international tobacco companies.

These ratings are affected by a number of factors such as developments in our major markets, our business strategies and general economic trends that are beyond our control. The ratings may be withdrawn or revised at any time. Each rating should be evaluated separately from other ratings. Under the Japan Tobacco Inc. Act, the bondholders of JT can enjoy statutory preferential rights over unsecured creditors in seeking repayment, with the exception of national and local taxes and other statutory obligations.

2. Short-term debt

Short-terms borrowings totaled ¥43.5 billion as of March 31, 2012 and ¥23.8 billion as of March 31, 2013, of which borrowings denominated in the currencies other than Japanese yen were ¥32.0 billion and ¥20.7 billion, respectively. There was no commercial paper outstanding as of March 31, 2012 and March 31, 2013. Annual interest rates applicable to yen-denominated short-term borrowings ranged from 0.48% to 2.20% as of March 31, 2012, and from 0.46% to 2.10% as of March 31, 2013. Annual interest rates applicable to short-term borrowings in other currencies ranged from 1.60% to 27.00% as of March 31, 2012, and from 1.07% to 41.00% as of March 31, 2013. Short-term lease obligations totaled ¥3.9 billion as of March 31, 2012 and ¥4.3 billion as of March 31, 2013.

Billions of yen

Year ended March 31, 2013	Book Value	Due within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Short-term borrowings as loans	23.8	23.8	–	–	–	–	–
Short-term lease obligations	4.3	4.3	–	–	–	–	–
Long-term borrowings as loans (current portion)	20.5	20.5	–	–	–	–	–
Long-term borrowings as loans	33.2	–	1.2	31.1	0.1	0.1	0.6
Bonds	237.2	–	157.3	40.0	–	20.0	20.0
Long-term lease obligations	8.2	–	3.1	2.1	1.4	0.8	0.8
Total	**327.2**	**48.6**	**161.7**	**73.2**	**1.5**	**20.9**	**21.4**

Consolidated Financial Statements

Consolidated Statement of Financial Position

Japan Tobacco Inc. and Consolidated Subsidiaries

Assets (As of March 31)	Millions of yen 2012	 **2013**
Current assets		
Cash and cash equivalents (Note 8)	¥ 404,740	**¥ 142,713**
Trade and other receivables (Note 9)	327,767	**387,837**
Inventories (Note 10)	446,617	**473,042**
Other financial assets (Note 11)	27,361	**29,103**
Other current assets (Note 12)	123,163	**177,858**
Subtotal	1,329,649	**1,210,552**
Non-current assets held-for-sale (Note 13)	1,401	**2,594**
Total current assets	1,331,050	**1,213,146**
Non-current assets		
Property, plant and equipment (Notes 14, 21)	619,536	**672,316**
Goodwill (Notes 7, 15)	1,110,046	**1,316,476**
Intangible assets (Note 15)	306,448	**348,813**
Investment property (Note 17)	67,387	**58,995**
Retirement benefit assets (Note 24)	14,371	**14,825**
Investments accounted for using the equity method (Note 18)	18,447	**22,940**
Other financial assets (Note 11)	67,548	**71,781**
Deferred tax assets (Note 19)	132,174	**133,348**
Total non-current assets	2,335,957	**2,639,493**
Total assets	¥3,667,007	**¥3,852,639**

Liabilities and equity

(As of March 31)	Millions of yen 2012	2013
Liabilities		
Current liabilities		
Trade and other payables (Note 20)	¥ 298,663	**¥ 312,741**
Bonds and borrowings (Note 21)	211,766	**44,301**
Income tax payables	42,501	**85,714**
Other financial liabilities (Note 21)	8,039	**8,550**
Provisions (Note 22)	5,686	**5,256**
Other current liabilities (Note 23)	590,717	**656,305**
Subtotal	1,157,373	**1,112,867**
Liabilities directly associated with non-current assets held-for-sale (Note 13)	101	**101**
Total current liabilities	1,157,474	**1,112,968**
Non-current liabilities		
Bonds and borrowings (Note 21)	279,750	**270,399**
Other financial liabilities (Note 21)	20,994	**18,844**
Retirement benefit liabilities (Note 24)	315,020	**343,095**
Provisions (Note 22)	4,448	**4,786**
Other non-current liabilities (Note 23)	92,235	**113,226**
Deferred tax liabilities (Note 19)	82,460	**97,309**
Total non-current liabilities	794,906	**847,658**
Total liabilities	1,952,380	**1,960,627**
Equity		
Share capital (Note 25)	100,000	**100,000**
Capital surplus (Note 25)	736,410	**736,411**
Treasury shares (Note 25)	(94,574)	**(344,573)**
Other components of equity (Note 25)	(376,363)	**(155,462)**
Retained earnings	1,268,577	**1,469,749**
Equity attributable to owners of the parent company	1,634,050	**1,806,125**
Non-controlling interests	80,576	**85,887**
Total equity	1,714,626	**1,892,012**
Total liabilities and equity	¥3,667,007	**¥3,852,639**

Consolidated Statement of Income

Japan Tobacco Inc. and Consolidated Subsidiaries

(Years ended March 31)	2012	2013
	Millions of yen	
Revenue (Notes 6, 27)	¥2,033,825	**¥2,120,196**
Cost of sales (Notes 15, 24)	(892,034)	**(899,392)**
Gross profit	1,141,791	**1,220,804**
Other operating income (Note 28)	48,512	**42,165**
Share of profit in investments accounted for using the equity method (Note 18)	2,047	**2,775**
Selling, general and administrative expenses (Notes 7, 13, 14, 15, 17, 24, 29, 34)	(733,169)	**(733,385)**
Operating profit (Note 6)	459,180	**532,360**
Financial income (Notes 30, 35)	5,603	**5,493**
Financial costs (Notes 24, 30, 35)	(23,429)	**(28,292)**
Profit before income taxes	441,355	**509,560**
Income taxes (Note 19)	(112,795)	**(158,042)**
Profit for the year	¥ 328,559	**¥ 351,518**
Attributable to:		
Owners of the parent company	¥ 320,883	**¥ 343,612**
Non-controlling interests	7,676	**7,906**
Profit for the year	¥ 328,559	**¥ 351,518**
Earnings per share		
Basic (Yen) (Note 32)	¥ 168.50	**¥ 181.07**
Diluted (Yen) (Note 32)	168.44	**180.99**

Reconciliation from "Operating profit" to "Adjusted EBITDA"

(Years ended March 31)	2012	2013
	Millions of yen	
Operating profit	¥459,180	**¥532,360**
Depreciation and amortization	118,845	**116,462**
Adjustment items (income)	(29,932)	**(34,234)**
Adjustment items (costs)	29,039	**7,536**
Adjusted EBITDA (Note 6)	¥577,132	**¥622,124**

Consolidated Statement of Comprehensive Income

Japan Tobacco Inc. and Consolidated Subsidiaries

(Years ended March 31)	Millions of yen 2012	2013
Profit for the year	¥ 328,559	**¥351,518**
Other comprehensive income		
Exchange differences on translation of foreign operations (Note 31)	(130,331)	**216,118**
Net gain (loss) on derivatives designated as cash flow hedges (Note 31)	(166)	**121**
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income (Notes 31, 35)	4,750	**4,799**
Actuarial gains (losses) on defined benefit retirement plans (Notes 24, 31)	(10,669)	**(28,200)**
Other comprehensive income (loss), net of taxes	(136,416)	**192,838**
Comprehensive income (loss) for the year	¥ 192,143	**¥544,356**
Attributable to:		
Owners of the parent company	¥ 185,425	**¥536,068**
Non-controlling interests	6,718	**8,288**
Comprehensive income (loss) for the year	¥ 192,143	**¥544,356**

Consolidated Statement of Changes in Equity

Japan Tobacco Inc. and Consolidated Subsidiaries

Millions of yen

	Equity attributable to owners of the parent company						
				Other components of equity			
(Years ended March 31)	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Net gain (loss) on revaluation of available-for-sale securities
As of April 1, 2011	¥100,000	¥736,410	¥ (94,574)	¥ 763	¥(257,262)	¥ —	¥ 5,754
Cumulative effect of applying a new accounting standard	—	—	—	—	—	(142)	(5,754)
Profit for the year	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	(129,966)	(166)	—
Comprehensive income (loss) for the year	—	—	—	—	(129,966)	(166)	—
Acquisition of treasury shares (Note 25)	—	—	—	—	—	—	—
Disposal of treasury shares (Note 25)	—	—	—	—	—	—	—
Share-based payments (Note 34)	—	—	—	265	—	—	—
Dividends (Note 26)	—	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—	—
Other increase (decrease)	—	—	—	—	—	—	—
Total transactions with the owners	—	—	—	265	—	—	—
As of March 31, 2012	100,000	736,410	(94,574)	1,028	(387,228)	(309)	—
Profit for the year	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	215,845	121	—
Comprehensive income (loss) for the year	—	—	—	—	215,845	121	—
Acquisition of treasury shares (Note 25)	—	—	(250,000)	—	—	—	—
Disposal of treasury shares (Note 25)	—	1	1	(2)	—	—	—
Share-based payments (Note 34)	—	—	—	247	—	—	—
Dividends (Note 26)	—	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—	—
Other increase (decrease)	—	—	—	—	—	—	—
Total transactions with the owners	—	1	(249,999)	245	—	—	—
As of March 31, 2013	¥100,000	¥736,411	¥(344,573)	¥1,274	¥(171,383)	¥(187)	¥ —

Millions of yen

	Equity attributable to owners of the parent company						
	Other components of equity						
(Years ended March 31)	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	Actuarial gains (losses) on defined benefit retirement plans	Total	Retained earnings	Total	Non-controlling interests	Total equity
As of April 1, 2011	¥ —	¥ —	¥(250,745)	¥1,034,054	¥1,525,145	¥76,166	¥1,601,311
Cumulative effect of applying a new accounting standard	5,551	—	(344)	97	(247)	47	(201)
Profit for the year	—	—	—	320,883	320,883	7,676	328,559
Other comprehensive income (loss)	4,684	(10,009)	(135,458)	—	(135,458)	(958)	(136,416)
Comprehensive income (loss) for the year	4,684	(10,009)	(135,458)	320,883	185,425	6,718	192,143
Acquisition of treasury shares (Note 25)	—	—	—	—	—	—	—
Disposal of treasury shares (Note 25)	—	—	—	—	—	—	—
Share-based payments (Note 34)	—	—	265	—	265	—	265
Dividends (Note 26)	—	—	—	(76,172)	(76,172)	(2,138)	(78,310)
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	(366)	(366)	(137)	(503)
Transfer from other components of equity to retained earnings	(89)	10,009	9,920	(9,920)	—	—	—
Other increase (decrease)	—	—	—	—	—	(80)	(80)
Total transactions with the owners	(89)	10,009	10,185	(86,458)	(76,273)	(2,355)	(78,628)
As of March 31, 2012	10,146	—	(376,363)	1,268,577	1,634,050	80,576	1,714,626
Profit for the year	—	—	—	343,612	343,612	7,906	351,518
Other comprehensive income (loss)	4,691	(28,201)	192,456	—	192,456	382	192,838
Comprehensive income (loss) for the year	4,691	(28,201)	192,456	343,612	536,068	8,288	544,356
Acquisition of treasury shares (Note 25)	—	—	—	—	(250,000)	—	(250,000)
Disposal of treasury shares (Note 25)	—	—	(2)	—	0	—	0
Share-based payments (Note 34)	—	—	247	—	247	—	247
Dividends (Note 26)	—	—	—	(114,258)	(114,258)	(4,061)	(118,319)
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	17	17	(522)	(505)
Transfer from other components of equity to retained earnings	(2)	28,201	28,199	(28,199)	—	—	—
Other increase (decrease)	—	—	—	—	—	1,606	1,606
Total transactions with the owners	(2)	28,201	28,444	(142,439)	(363,993)	(2,977)	(366,970)
As of March 31, 2013	¥14,835	¥ —	¥(155,462)	¥1,469,749	¥1,806,125	¥85,887	¥1,892,012

Consolidated Statement of Cash Flows

Japan Tobacco Inc. and Consolidated Subsidiaries

(Years ended March 31)	Millions of yen 2012	2013
Cash flows from operating activities		
Profit before income taxes	¥ 441,355	**¥ 509,560**
Depreciation and amortization	118,845	**116,462**
Impairment losses	7,013	**3,213**
Interest and dividend income	(3,646)	**(5,137)**
Interest expense	14,377	**10,134**
Share of profit in investments accounted for using the equity method	(2,047)	**(2,775)**
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	(22,444)	**(29,218)**
(Increase) decrease in trade and other receivables	(30,207)	**(24,118)**
(Increase) decrease in inventories	27,388	**10,791**
Increase (decrease) in trade and other payables	(5,365)	**1,576**
Increase (decrease) in retirement benefit liabilities	(9,686)	**(15,350)**
(Increase) decrease in prepaid tobacco excise taxes	(1,785)	**(31,377)**
Increase (decrease) in tobacco excise tax payables	148,260	**12,802**
Increase (decrease) in consumption tax payables	14,807	**(3,093)**
Other	(13,002)	**16,334**
Subtotal	683,863	**569,804**
Interest and dividends received	6,181	**6,764**
Interest paid	(16,006)	**(8,703)**
Income taxes paid	(122,464)	**(101,258)**
Net cash flows from operating activities	551,573	**466,608**
Cash flows from investing activities		
Purchase of securities	(5,697)	**(19,161)**
Proceeds from sale and redemption of securities	21,622	**3,426**
Purchase of property, plant and equipment	(95,705)	**(114,240)**
Proceeds from sale of investment property	34,545	**33,425**
Purchase of intangible assets	(18,252)	**(18,611)**
Payments into time deposits	(46,648)	**(26,647)**
Proceeds from withdrawal of time deposits	34,854	**45,665**
Purchase of investments in subsidiaries (Note 7)	(33,622)	**(54,128)**
Proceeds from sale of investments in subsidiaries	730	**—**
Other	4,369	**2,343**
Net cash flows from investing activities	(103,805)	**(147,928)**
Cash flows from financing activities		
Dividends paid to owners of the parent company (Note 26)	(76,165)	**(114,236)**
Dividends paid to non-controlling interests	(2,138)	**(4,009)**
Capital contribution from non-controlling interests	629	**216**
Increase (decrease) in short-term borrowings and commercial paper	(2,408)	**(23,012)**
Proceeds from long-term borrowings	—	**518**
Repayments of long-term borrowings	(59,879)	**(81,165)**
Redemption of bonds	(133,333)	**(92,466)**
Repayments of finance lease obligations	(5,268)	**(4,814)**
Acquisition of treasury shares	—	**(250,000)**
Payments for acquisition of interests in subsidiaries from non-controlling interests	(503)	**(505)**
Other	—	**0**
Net cash flows from financing activities	(279,064)	**(569,473)**
Net increase (decrease) in cash and cash equivalents	168,704	**(250,793)**
Cash and cash equivalents at the beginning of the year	244,240	**404,740**
Effect of exchange rate changes on cash and cash equivalents	(8,204)	**(11,235)**
Cash and cash equivalents at the end of the year (Note 8)	¥ 404,740	**¥ 142,713**

Notes to Consolidated Financial Statements

Japan Tobacco Inc. and Consolidated Subsidiaries / As of March 31, 2012 and 2013

1. Reporting Entity

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

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

The Group's consolidated financial statements for the year ended March 31, 2013, were approved on June 21, 2013 by Mitsuomi Koizumi, President and Chief Executive Officer, and Naohiro Minami, Chief Financial Officer.

2. Basis of Preparation

(1) Compliance with IFRS

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

(2) Basis of Measurement

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

(3) Functional Currency and Presentation Currency

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

(4) Early Adoption of New Accounting Standards

The Group has early adopted IFRS 9 "Financial Instruments" (revised in October 2010) (hereinafter referred to as "IFRS 9") from the beginning of the year ended March 31, 2012 (April 1, 2011).

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

(5) Changes in Method of Presentation

(Consolidated statement of cash flows)

In the previous fiscal year, ended March 31, 2012, "Proceeds from sale of property, plant and equipment" were presented separately in "Cash flows from investing activities." However, in this fiscal year, ended March 31, 2013, they are included in "Other" in "Cash flows from investing activities" due to their immateriality. In order to reflect this change in presentation method, the consolidated financial statements for the previous fiscal year have been reclassified.

Accordingly, ¥1,919 million that was previously shown as "Proceeds from sale of property, plant and equipment" in "Cash flows from investing activities" in the previous fiscal year has been reclassified and is shown as "Other."

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

The fiscal year end date of JT International Holding B.V. and its subsidiaries (hereinafter collectively referred to as the "JTIH Group"), which operate the Group's international tobacco business, is December 31, hence the Group consolidates financial results of the JTIH Group for the period from January 1, 2012 to December 31, 2012 into the Group's consolidated the financial results for the year ended March 31, 2013.

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

However, the Group is aiming to achieve the unification of reporting periods at the earliest possible date through promoting a groupwide effort in order to enhance and improve the efficiency of the closing and management systems.

Although there is a three month difference between the fiscal year end of the JTIH Group and that of the Company, since seasonal and periodical fluctuations of the performance of the Group's international tobacco business have been relatively small, the impact from such mismatch of the reporting periods on the

Group's consolidated financial position and operating results is limited. With respect to significant transactions or events occurring during the time gap, the Group makes necessary adjustments and appropriate arrangements in order to assist the users of financial statements to properly understand and assess the consolidated financial position and results of operations of the Group.

3. Significant Accounting Policies

(1) Basis of Consolidation

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

A. Subsidiaries

A subsidiary is an entity that is controlled by the Group and control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The acquisition date of a subsidiary is the date on which the Group obtained control of the subsidiary, and the subsidiary is included in the consolidation from the date of acquisition until the date on which the Group loses control.

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

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

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

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

B. Associates

An associate is an entity of which the Group has significant influence over its financial and operating policy. Investments in associates are accounted for using the equity method from the date on which the Group has the significant influence until the date on which it ceases to have the significant influence.

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

C. Joint Ventures

A joint venture is a contractual agreement whereby two or more parties undertake an economic activity that is subject to joint control. Joint ventures are accounted for using the equity method.

(2) Business Combination

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

(3) Foreign Currency Translation

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

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

The assets and liabilities of foreign operations are translated into Japanese yen at the rates of exchange prevailing at the fiscal year end date, while income and expenses of foreign operations are translated into Japanese yen at the rates of exchange prevailing at the dates of transactions or an approximation to the rate.

The resulting translation differences are recognized as other comprehensive income. In cases where foreign operations are disposed of, the cumulative amount of translation differences related to the foreign operations is recognized as profit or loss in the period of disposition.

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

(4) Financial Instruments

A. Financial Assets

(i) Initial Recognition and Measurement

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

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

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

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

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

(ii) Subsequent Measurement

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

(a) Financial Assets Measured at Amortized Cost

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

(b) Other Financial Assets

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

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

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

(iii) Derecognition

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

B. Impairment of Financial Assets

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

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

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

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

C. Financial Liabilities

(i) Initial Recognition and Measurement

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

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

(ii) Subsequent Measurement

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

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

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

(b) Financial Liabilities Measured at Amortized Cost

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

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

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

(iii) Derecognition

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

D. Offsetting of Financial Instruments

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

E. Derivatives and Hedge Accounting

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

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

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

(i) Fair Value Hedge

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

(ii) Cash Flow Hedge

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

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

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

(iii) Hedge of Net Investment in Foreign Operations

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

F. Fair Value of Financial Instruments

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

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

(5) Cash and Cash Equivalents

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

(6) Inventories

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

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

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

(7) Property, Plant and Equipment

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

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

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

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

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

(8) Goodwill and Intangible Assets

A. Goodwill

Goodwill is stated at acquisition cost less accumulated impairment losses.

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

B. Intangible Assets

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

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

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

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

- Trademarks: 20 years
- Software: 5 years

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

(9) Leases

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

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

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

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

(10) Investment Property

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

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

(11) Impairment of Non-financial Assets

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

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

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

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

(13) Employee Retirement Benefits

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

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

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

Actuarial gains and losses are recognized in full as other comprehensive income in the period when they are incurred and transferred to retained earnings immediately. Past service costs are recognized as an expense using the straight-line method over the average period until the benefits become vested. In cases where the benefits are already vested immediately following the introduction or amendment of the defined benefit plan, it is recognized as profit or loss in the period when it is incurred.

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

(14) Share-based Payments

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

(15) Provisions

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

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

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

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

(16) Revenue

A. Sale of Goods

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

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

B. Interest Income

Interest income is recognized using the effective interest rate method.

C. Dividend Income

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

D. Royalties

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

(17) Government Grants

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

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

(18) Borrowing Costs

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

(19) Income Taxes

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

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

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

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

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

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

(20) Treasury Shares

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

(21) Earnings per Share

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

(22) Dividends

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

(23) Contingencies

A. Contingent Liabilities

The Group discloses contingent liabilities in the notes to consolidated financial statements if it has possible obligations at the fiscal year end, whose existence cannot be confirmed at that date, or if the obligations do not meet the recognition criteria of a provision described in "22. Provisions."

B. Contingent Assets

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

(24) Adjusted Financial Measures

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

The adjustment items are determined by management's judgment, taking into consideration the nature and frequency of the income and costs such that they provide effective comparative information on the Group performance and that they reflect the way of managing our business appropriately. Adjusted financial measures are presented in the consolidated statement of income, "6. Operating Segments" and "32. Earnings per Share."

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

4. Significant Accounting Estimates and Judgments

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

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

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

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

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

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

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

The method for calculating the recoverable amount is described in "14. Property, Plant and Equipment," "15. Goodwill and Intangible Assets" and "17. Investment Property." With regard to goodwill, the sensitivity analysis is described in "15. Goodwill and Intangible Assets."

B. Employee Retirement Benefits and Mutual Pension Benefits

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

The present value of defined benefit obligations on each of these plans and the related service costs are calculated based on actuarial assumptions. These actuarial assumptions require estimates and judgments on variables, such as discount rates and the long-term expected return on plan assets.

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

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

These actuarial assumptions and related sensitivity analysis are described in "24. Employee Benefits."

C. Provisions

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

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

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

The nature and amount of recognized provisions are described in "22. Provisions."

D. Income Taxes

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

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

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

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

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

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

The content and amount related to income taxes are described in "19. Income Taxes."

E. Contingencies

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

The content of contingencies is described in "38. Contingencies."

5. New Accounting Standards Not Yet Adopted by the Group

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

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

IFRS		Mandatory adoption (From the year beginning)	To be adopted by the Group	Description of New Standards/Amendments
IFRS 1	First-time Adoption of International Financial Reporting Standards	January 1, 2013	Fiscal year ending March 2014	Exemption related to government grants
		January 1, 2013	Fiscal year ending March 2014	Provision related to reapplication of IFRS 1
		January 1, 2013	Fiscal year ending March 2014	Exemption related to adjustment of borrowing costs recognized before the application of IFRS
IFRS 7	Financial Instruments: Disclosures	January 1, 2013	Fiscal year ending March 2014	Disclosure related to offsetting of financial assets and liabilities
IFRS 10	Consolidated Financial Statements	January 1, 2013	Fiscal year ending March 2014	Amendment for definition of control, elements of control and basis of existence of control to be applied, regardless of the nature of the investee
IFRS 11	Joint Arrangements	January 1, 2013	Fiscal year ending March 2014	Regarding arrangements of which two or more parties have joint control, provide the classification of a joint arrangement based on legal form, contractual arrangement on assets or liabilities and other facts and conditions, not based on only legal form of the arrangement Provide accounting treatment for each classification
IFRS 12	Disclosure of Interests in Other Entities	January 1, 2013	Fiscal year ending March 2014	Expansion of the scope of the disclosure of ownership of interests in other entities, including unconsolidated structured entities
IFRS 13	Fair Value Measurement	January 1, 2013	Fiscal year ending March 2014	Guidance of fair value measurement to be applied by all standards and unify the definition of fair value which was previously provided separately in each standard
IAS 1	Presentation of Financial Statements	July 1, 2012	Fiscal year ending March 2014	Revision to the presentation of items in other comprehensive income
		January 1, 2013	Fiscal year ending March 2014	Provision for comparative information. When it is disclosed though not required under IFRS, related notes of that period are required
IAS 16	Property, Plant and Equipment	January 1, 2013	Fiscal year ending March 2014	Clarification of treatment related to servicing equipment
IAS 19	Employee Benefits	January 1, 2013	Fiscal year ending March 2014	Revision to recognition and presentation of actuarial gains and losses, past service cost, interest cost and others, and revision to disclosure of retirement benefits
IAS 27	Separate Financial Statements	January 1, 2013	Fiscal year ending March 2014	Transfer of the provisions regarding consolidation to IFRS 10
IAS 28	Investments in Associates and Joint Ventures	January 1, 2013	Fiscal year ending March 2014	Amendments based on IFRS 10, IFRS 11 and IFRS 12
IAS 32	Financial Instruments: Presentation	January 1, 2013	Fiscal year ending March 2014	Clarification of accounting treatment of income taxes related to dividend paid to the equity financial instruments holder
		January 1, 2014	Fiscal year ending March 2015	Clarification of conditions on offset disclosure and addition of guidelines
IAS 34	Interim Financial Reporting	January 1, 2013	Fiscal year ending March 2014	Clarification of conditions on segment disclosure on interim financial reporting
IAS 36	Impairment of Assets	January 1, 2014	Fiscal year ending March 2015	Amendment for recoverable amount disclosures for non-financial assets
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	January 1, 2013	Fiscal year ending March 2014	Accounting treatment for waste removal costs that are incurred in surface mining activity during the production phase of the mine (Not applicable for costs incurred during the development phase)
IFRIC 21	Levies	January 1, 2014	Fiscal year ending March 2015	Clarification of the accounting for levies
IFRS 10 IFRS 12 IAS 27	Investment Entities	January 1, 2014	Fiscal year ending March 2015	Accounting treatment for the investments held by investment entities (measure their investments at fair value through profit or loss instead of consolidating them)

6. Operating Segments

(1) Outline of Reportable Segments

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

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

The Group changed its organizational structure effective July 1, 2012, and the "Beverage Business" and the "Processed Food Business," which were previously combined in "Food Business," became individual reportable segments used by management in deciding how to allocate resources and in assessing performance. Accordingly, separate segment disclosures for the "Beverage Business" and the "Processed Food Business" have been included in the segment information since the second quarter ended September 30, 2012. The comparative segment information for the year ended March 31, 2012 is retrospectively adjusted.

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

(2) Revenues and Performances for Reportable Segments

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

For the year ended March 31, 2012

Millions of yen

	2012								
	Reportable Segments								
	Domestic Tobacco	International Tobacco (Note 2)	Pharmaceuticals	Beverage	Processed Food	Total	Other (Note 3)	Elimination	Consolidated
Revenue									
External revenue (Note 4)	¥646,187	¥966,255	¥ 47,407	¥188,768	¥170,652	¥2,019,269	¥14,556	¥ —	¥2,033,825
Intersegment revenue	28,115	27,497	—	85	770	56,467	9,257	(65,724)	—
Total revenue	¥674,303	¥993,752	¥ 47,407	¥188,853	¥171,422	¥2,075,736	¥23,813	¥(65,724)	¥2,033,825
Segment profit (loss)									
Adjusted EBITDA (Note 1)	¥262,257	¥314,755	¥(10,031)	¥ 14,584	¥ 5,416	¥ 586,981	¥ (8,852)	¥ (997)	¥ 577,132
Other items									
Depreciation and amortization	¥ 39,567	¥ 55,227	¥ 3,465	¥ 10,092	¥ 7,436	¥ 115,788	¥ 3,376	¥ (319)	¥ 118,845
Impairment losses on other than financial assets	314	4,610	—	—	413	5,336	1,677	—	7,013
Reversal of impairment losses on other than financial assets	5	—	—	—	77	82	—	—	82
Share of profit (loss) in investments accounted for using the equity method	31	1,922	—	—	13	1,966	81	—	2,047
Capital expenditures	56,224	39,141	3,897	8,102	7,308	114,671	4,321	(0)	118,992

For the year ended March 31, 2013

Millions of yen

	2013								
	Reportable Segments								
	Domestic Tobacco	International Tobacco (Note 2)	Pharmaceuticals	Beverage	Processed Food	Total	Other (Note 3)	Elimination	Consolidated
Revenue									
External revenue (Note 4)	**¥687,138**	**¥1,010,655**	**¥ 53,158**	**¥185,478**	**¥168,747**	**¥2,105,177**	**¥15,019**	**¥ —**	**¥2,120,196**
Intersegment revenue	**28,402**	**31,029**	**—**	**108**	**647**	**60,186**	**9,398**	**(69,583)**	**—**
Total revenue	**¥715,541**	**¥1,041,683**	**¥ 53,158**	**¥185,586**	**¥169,394**	**¥2,165,362**	**¥24,417**	**¥(69,583)**	**¥2,120,196**
Segment profit (loss)									
Adjusted EBITDA (Note 1)	**¥281,320**	**¥ 343,304**	**¥(12,720)**	**¥ 12,429**	**¥ 7,357**	**¥ 631,691**	**¥ (8,971)**	**¥ (595)**	**¥ 622,124**
Other items									
Depreciation and amortization	**¥ 41,074**	**¥ 51,101**	**¥ 3,440**	**¥ 10,072**	**¥ 7,141**	**¥ 112,828**	**¥ 3,947**	**¥ (313)**	**¥ 116,462**
Impairment losses on other than financial assets	**14**	**322**	**—**	**—**	**1,248**	**1,584**	**1,629**	**—**	**3,213**
Reversal of impairment losses on other than financial assets	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Share of profit (loss) in investments accounted for using the equity method	**48**	**2,685**	**—**	**—**	**(11)**	**2,722**	**54**	**—**	**2,775**
Capital expenditures	**71,238**	**37,504**	**5,761**	**12,029**	**4,596**	**131,128**	**6,527**	**(206)**	**137,450**

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

For the year ended March 31, 2012

Millions of yen

	2012								
	Reportable Segments								
	Domestic Tobacco	International Tobacco (Note 2)	Pharmaceuticals	Beverage	Processed Food	Total	Other (Note 3)	Elimination	Consolidated
Adjusted EBITDA (Note 1)	¥262,257	¥314,755	¥(10,031)	¥ 14,584	¥ 5,416	¥ 586,981	¥ (8,852)	¥(997)	¥577,132
Depreciation and amortization	(39,567)	(55,227)	(3,465)	(10,092)	(7,436)	(115,788)	(3,376)	319	(118,845)
Adjustment items (income) (Note 5)	—	564	—	—	—	564	29,368	—	29,932
Adjustment items (costs) (Note 5)	(13,426)	(7,737)	—	—	(434)	(21,597)	(7,443)	—	(29,039)
Operating profit (loss)	¥209,265	¥252,355	¥(13,497)	¥ 4,492	¥(2,454)	¥ 450,160	¥ 9,697	¥(677)	459,180
Financial income									5,603
Financial costs									(23,429)
Profit before income taxes									¥441,355

For the year ended March 31, 2013

Millions of yen

	2013								
	Reportable Segments								
	Domestic Tobacco	International Tobacco (Note 2)	Pharmaceuticals	Beverage	Processed Food	Total	Other (Note 3)	Elimination	Consolidated
Adjusted EBITDA (Note 1)	**¥281,320**	**¥343,304**	**¥(12,720)**	**¥ 12,429**	**¥ 7,357**	**¥ 631,691**	**¥ (8,971)**	**¥(595)**	**¥ 622,124**
Depreciation and amortization	**(41,074)**	**(51,101)**	**(3,440)**	**(10,072)**	**(7,141)**	**(112,828)**	**(3,947)**	**313**	**(116,462)**
Adjustment items (income) (Note 5)	**1,200**	**395**	**—**	**—**	**—**	**1,595**	**32,639**	**—**	**34,234**
Adjustment items (costs) (Note 5)	**(154)**	**(3,057)**	**—**	**—**	**(6,039)**	**(9,250)**	**1,714**	**—**	**(7,536)**
Operating profit (loss)	**¥241,292**	**¥289,541**	**¥(16,160)**	**¥ 2,357**	**¥(5,822)**	**¥ 511,208**	**¥21,434**	**¥(282)**	**532,360**
Financial income									**5,493**
Financial costs									**(28,292)**
Profit before income taxes									**¥ 509,560**

(Note 1) For adjusted EBITDA, the depreciation and amortization, and adjustment items (income and costs) are excluded from operating profit (loss).
(Note 2) The foreign subsidiaries group, which includes the core company of JT International S.A., that is part of the "International Tobacco Business" segment has December 31 as its fiscal year end date and the profit or loss for the period from January 1 to December 31 is included in the years ended March 31, 2012 and 2013, respectively.
(Note 3) "Other" includes business activities relating to rent of real estate and corporate expenses relating to corporate communication and operation of the head office.
(Note 4) Core revenue as part of the "Domestic Tobacco Business" and the "International Tobacco Business" is as follows:

Millions of yen

(Years ended March 31)	2012	2013
Domestic tobacco	¥611,925	**¥654,000**
International tobacco	894,636	**943,094**

(Note 5) "Adjustment items (income)" include restructuring income of gains on sale of real estate.
"Adjustment items (costs)" include restructuring costs of the closing down of a factory, the effect of revision to laws and regulations related to the mutual pension benefits plan, the cooperation fee for terminating leaf tobacco farming and the adjustment amount of ceasing classification as non-current assets held-for-sale.
The breakdown of restructuring income is described in "28. Other Operating Income." Restructuring costs included in "Cost of sales" and "Selling, general and administrative expenses" are ¥2,445 million and ¥9,366 million, respectively, for the year ended March 31, 2013. The breakdown of restructuring costs in "Selling, general and administrative expenses" is described in "29. Selling, General and Administrative Expenses."
The breakdown of "Adjustment items (costs)" for each fiscal year is as follows:

Millions of yen

(Years ended March 31)	2012	2013
Restructuring costs	¥14,052	**¥11,811**
Effect of revision to laws and regulations related to the mutual pension benefits plan	—	**(4,279)**
Cooperation fee for terminating leaf tobacco farming	12,469	**4**
Adjustment of ceasing classification as non-current assets held-for-sale	2,518	**—**
Adjustment items (costs)	¥29,039	**¥7,536**

Restructuring costs for the year ended March 31, 2012 include costs of closing down of the Hofu Factory in the "Domestic Tobacco Business" and the Hainburg factory in the "International Tobacco Business."
Restructuring costs for the year ended March 31, 2013 include costs of rationalization measures in the "International Tobacco Business" and the dissolution of the processed fishery products business in the "Processed Food Business."

(3) Geographic Information

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

Non-current Assets

Millions of yen

(As of March 31)	2012	2013
Japan	¥ 556,102	**¥ 577,208**
Overseas	1,547,315	**1,819,391**
Consolidated	¥2,103,417	**¥2,396,599**

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

External Revenue

(Years ended March 31)	2012	2013
		Millions of yen
Japan	¥1,051,702	**¥1,089,661**
Overseas	982,123	**1,030,535**
Consolidated	¥2,033,825	**¥2,120,196**

(Note) Revenue is segmented by the sales destination.

(4) Major Customers Information

The "International Tobacco Business" of the Group sells products to the Megapolis Group that engages in distribution and wholesale business in Russia and other countries. The external revenue from the group is ¥236,050 million (11.6% of consolidated revenue) for the year ended March 31, 2012 and ¥268,566 million (12.7% of consolidated revenue) for the year ended March 31, 2013.

7. Business Combination

Acquisition of Gryson NV, V.D.M. Invest, Disprotab S.L. and Gryson Deutschland GmbH (hereinafter collectively referred to as "Gryson")

(1) Summary of Business Combination

On August 14, 2012, the Group acquired 100% of the outstanding shares of Gryson NV, V.D.M. Invest and Disprotab S.L. as well as 50% of the outstanding shares of Gryson Deutschland GmbH. Gryson has established an important presence in the Roll Your Own ("RYO") and Make Your Own ("MYO") market across several European countries including France, Belgium, Luxembourg, Spain and Portugal, as well as in a number of other countries. Through this acquisition, the Group obtained further opportunities to enhance its presence in the growing RYO/MYO market.

(2) Financial Impact on the Group

Since the acquisition date, the acquired business has contributed to consolidated revenue of ¥3,032 million and consolidated operating profit of ¥125 million. Had the business been acquired on January 1, 2012, the Group estimates that total consolidated revenue would have increased by ¥5,627 million to ¥2,125,823 million and total consolidated operating profit would have increased by ¥2,084 million to ¥534,444 million.

(3) Consideration and Detail (Aggregated total of the acquisition)

The consideration was ¥54,857 million and it was paid in cash.

(4) Cash Out for the Acquisition of Subsidiaries (Aggregated total of the acquisition)

	Millions of yen
Cash consideration	**¥54,857**
Cash and cash equivalents in subsidiaries acquired	**(3,525)**
Net cash out for the acquisition of subsidiaries	**¥51,332**

(5) Fair Value of the Assets Acquired and Liabilities Assumed

	Millions of yen
Current assets	**¥10,483**
Non-current assets	**9,696**
Total assets acquired	**¥20,179**
Current liabilities	**(1,106)**
Non-current liabilities	**(4,202)**
Total liabilities assumed	**¥ (5,308)**
Total equity	**¥14,871**
Goodwill	**¥39,986**

Goodwill of ¥39,986 million represents integration synergies including future economic benefits from enhanced business scale in the RYO/MYO market. Transaction costs of ¥71 million were expensed as incurred and recognized in "Selling, general and administrative expenses."

Other Acquisition

In addition to the above, the Group acquired other entities through business combination for the year ended March 31, 2013, which are omitted as they are immaterial both individually and in aggregate.

8. Cash and Cash Equivalents

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

	Millions of yen	
(As of March 31)	2012	**2013**
Cash and deposits	¥108,797	**¥121,753**
Short-term investments	295,943	**20,960**
Total	¥404,740	**¥142,713**

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

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

9. Trade and Other Receivables

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

	Millions of yen	
(As of March 31)	2012	**2013**
Note and Account receivables	¥311,803	**¥367,951**
Other	17,693	**21,470**
Allowance for doubtful accounts	(1,729)	**(1,584)**
Total	¥327,767	**¥387,837**

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

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

10. Inventories

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

	Millions of yen	
(As of March 31)	2012	**2013**
Merchandise and finished goods (Note 1)	¥112,477	**¥133,144**
Leaf tobacco (Note 2)	294,813	**292,043**
Other	39,327	**47,855**
Total	¥446,617	**¥473,042**

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

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

11. Other Financial Assets

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

(As of March 31)	Millions of yen 2012	2013
Derivative assets	¥ 1,941	**¥ 4,077**
Equity securities	39,106	**46,699**
Debt securities	8,835	**15,676**
Time deposits	24,306	**5,347**
Other	34,858	**38,181**
Allowance for doubtful accounts	(14,137)	**(9,096)**
Total	¥ 94,909	**¥100,884**
Current assets	¥ 27,361	**¥ 29,103**
Non-current assets	67,548	**71,781**
Total	¥ 94,909	**¥100,884**

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

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

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

Company name (As of March 31)	Millions of yen 2012	2013
KT&G Corporation	¥16,700	**¥18,609**
Seven & i Holdings Co., Ltd.	2,094	**2,664**
Mizuho Financial Group, Inc.	1,721	**2,545**
Mitsubishi UFJ Financial Group, Inc.	1,447	**2,010**
DOUTOR·NICHIRES Holdings Co., Ltd.	1,437	**1,846**
Mitsubishi Shokuhin Co., Ltd	1,269	**1,772**

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

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

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

(Years ended March 31)	Millions of yen 2012	2013
Fair Value	¥695	**¥38**
Cumulative gain or loss recognized in equity as other comprehensive income (Note)	(89)	**(2)**

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

12. Other Current Assets

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

(As of March 31)	Millions of yen 2012	2013
Prepaid tobacco excise taxes	¥ 87,261	**¥130,348**
Prepaid expenses	10,736	**9,546**
Consumption tax payables	6,702	**10,580**
Other	18,465	**27,384**
Total	¥123,163	**¥177,858**

13. Non-current Assets Held-for-Sale

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

Breakdown of Major Assets and Liabilities

(As of March 31)	Millions of yen 2012	2013
Non-current assets held-for-sale		
Property, plant and equipment	¥ 302	**¥ 112**
Investment property	1,098	**2,482**
Total	¥1,401	**¥2,594**
Liabilities directly associated with non-current assets held-for-sale		
Long-term guarantee deposits	¥ 101	**¥ 101**
Total	¥ 101	**¥ 101**

"Non-current assets held-for-sale" as of March 31, 2012 are mainly rental properties and idle properties which are currently actively marketed for sale. Long-term guarantee deposits related to the rental properties are included in "Liabilities directly associated with non-current assets held-for-sale."

With regard to such assets and assets sold, impairment losses of ¥243 million are recognized in "Selling, general and administrative expenses" in the consolidated statement of income for the year ended March 31, 2012.

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

14. Property, Plant and Equipment

(1) Schedule of Property, Plant and Equipment

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

Millions of yen

Carrying Amount (Years ended March 31)	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of April 1, 2011	¥304,242	¥252,094	¥ 53,887	¥29,101	¥639,324
Individual acquisition	15,207	34,579	22,750	26,417	98,952
Capitalization of borrowing costs (Note)	—	—	—	23	23
Acquisition through business combinations	767	908	21	85	1,781
Transfer to investment property	(5,152)	(18)	(20)	—	(5,191)
Transfer to non-current assets held-for-sale	(966)	(2)	(2)	—	(969)
Depreciation	(14,922)	(48,959)	(18,993)	—	(82,874)
Impairment losses	(2,709)	(2,052)	(78)	—	(4,840)
Reversal of impairment losses	77	5	—	—	82
Sale or disposal	(716)	(4,051)	(445)	(253)	(5,464)
Exchange differences on translation of foreign operations	(6,011)	(11,674)	(1,041)	(1,524)	(20,250)
Other	3,632	18,370	(311)	(22,729)	(1,037)
As of March 31, 2012	293,449	239,199	55,768	31,120	619,536
Individual acquisition	**17,583**	**45,367**	**26,432**	**22,766**	**112,148**
Capitalization of borrowing costs (Note)	**—**	**—**	**—**	**72**	**72**
Acquisition through business combinations	**1,386**	**1,945**	**61**	**—**	**3,391**
Transfer to investment property	**(2,452)**	**(6)**	**(23)**	**—**	**(2,482)**
Transfer to non-current assets held-for-sale	**(384)**	**(0)**	**(6)**	**—**	**(389)**
Depreciation	**(14,759)**	**(44,587)**	**(20,178)**	**—**	**(79,524)**
Impairment losses	**(570)**	**(202)**	**(88)**	**—**	**(860)**
Sale or disposal	**(282)**	**(4,762)**	**(462)**	**(115)**	**(5,621)**
Exchange differences on translation of foreign operations	**9,129**	**14,570**	**1,928**	**1,677**	**27,303**
Other	**4,233**	**19,684**	**1,822**	**(26,998)**	**(1,259)**
As of March 31, 2013	**¥307,332**	**¥271,207**	**¥ 65,256**	**¥28,522**	**¥672,316**

(Note) The capitalization rates calculating the borrowing costs for capitalization are 3.7% for the year ended March 31, 2012 and 3.5 % for the year ended March 31, 2013, respectively.

Millions of yen

Acquisition Cost	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of April 1, 2011	¥617,438	¥690,412	¥152,580	¥29,101	¥1,489,531
As of March 31, 2012	593,988	670,645	155,232	31,120	1,450,985
As of March 31, 2013	**615,682**	**720,165**	**171,351**	**28,522**	**1,535,719**

Millions of yen

Accumulated Depreciation and Accumulated Impairment Losses	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of April 1, 2011	¥313,196	¥438,318	¥ 98,693	¥—	¥850,207
As of March 31, 2012	300,539	431,446	99,464	—	831,449
As of March 31, 2013	**308,350**	**448,958**	**106,095**	**—**	**863,403**

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

	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
				Millions of yen
As of April 1, 2011	¥ 227	¥3,170	¥8,569	¥11,966
As of March 31, 2012	279	2,875	6,749	9,902
As of March 31, 2013	**1,378**	**3,364**	**6,798**	**11,540**

(2) Impairment Losses

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

The Group recognized impairment losses of ¥4,840 million for the year ended March 31, 2012 and ¥860 million for the year ended March 31, 2013 in "Selling, general and administrative expenses" in the consolidated statement of income.

Impairment losses recognized in the year ended March 31, 2012, represent the losses incurred to reduce the carrying amounts to the recoverable amounts of the buildings, structures, machinery and vehicles which were closed down or individually selected for demolition.

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

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

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

FINANCIAL INFORMATION

15. Goodwill and Intangible Assets

(1) Schedule of Goodwill and Intangible Assets

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

Carrying Amount (Years ended March 31)	Goodwill	Trademarks	Software	Other	Total
					Millions of yen
As of April 1, 2011	¥1,176,114	¥286,632	¥18,828	¥24,734	¥1,506,308
Individual acquisition	29	292	5,982	13,347	19,651
Acquisition through business combinations	29,352	6,947	—	—	36,298
Amortization (Note)	—	(21,141)	(7,567)	(5,894)	(34,602)
Impairment losses	—	—	(64)	(0)	(65)
Sale or disposal	(49)	(41)	(92)	(1,195)	(1,377)
Exchange differences on translation of foreign operations	(95,378)	(15,544)	(210)	(176)	(111,309)
Other	(22)	206	883	522	1,589
As of March 31, 2012	1,110,046	257,349	17,760	31,339	1,416,494
Individual acquisition	**3**	**325**	**14,149**	**10,228**	**24,704**
Acquisition through business combinations	**46,509**	**13,240**	**1**	**1**	**59,750**
Amortization (Note)	**—**	**(20,767)**	**(7,721)**	**(5,815)**	**(34,303)**
Impairment losses	**—**	**—**	**(61)**	**(3)**	**(64)**
Sale or disposal	**—**	**—**	**(359)**	**(214)**	**(573)**
Exchange differences on translation of foreign operations	**159,918**	**37,255**	**394**	**310**	**197,877**
Other	**—**	**221**	**7,707**	**(6,524)**	**1,404**
As of March 31, 2013	**¥1,316,476**	**¥287,622**	**¥31,869**	**¥29,321**	**¥1,665,289**

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

Acquisition Cost	Goodwill	Trademarks	Software	Other	Total
					Millions of yen
As of April 1, 2011	¥1,176,201	¥679,127	¥ 94,122	¥75,392	¥2,024,842
As of March 31, 2012	1,110,046	663,875	97,314	86,792	1,958,027
As of March 31, 2013	**1,316,476**	**733,745**	**111,640**	**87,671**	**2,249,531**

Accumulated Amortization and Accumulated Impairment Losses	Goodwill	Trademarks	Software	Other	Total
					Millions of yen
As of April 1, 2011	¥87	¥392,495	¥75,294	¥50,658	¥518,534
As of March 31, 2012	—	406,526	79,553	55,453	541,533
As of March 31, 2013	**—**	**446,122**	**79,770**	**58,350**	**584,242**

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

	Millions of yen
	Software
As of April 1, 2011	¥38
As of March 31, 2012	11
As of March 31, 2013	**5**

(2) Material Goodwill and Intangible Assets

Goodwill and intangible assets recognized in the consolidated statement of financial position are mainly composed of goodwill and trademarks in the JTIH Group. The carrying amounts of goodwill as of March 31, 2012 and 2013 were ¥1,067,544 million and ¥1,273,971 million, respectively. The carrying amounts of trademarks as of March 31, 2012 and 2013 were ¥254,543 million and ¥284,861 million, respectively.

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

The trademarks are amortized using the straight-line method and the remaining amortization period is mainly 14 years.

(3) Impairment Test for Goodwill

For the year ended March 31, 2013, the carrying amount of the majority of goodwill is allocated to the international tobacco cash-generating unit of ¥1,273,971 million (¥1,067,544 million for the year ended March 31, 2012) and the processed food cash-generating unit of ¥25,368 million (¥25,368 million for the year ended March 31, 2012). Details of the result of impairment tests are as follows:

A. International Tobacco Cash-Generating Unit

The recoverable amount is calculated by the value in use based on the three-year business plan that was prepared by reflecting past experiences and external information and that was approved by management. After the three-year business plan, the Group sets a growth rate that decreases gradually from 5.4% in the fourth year (2012: 6.6%) to 4.2% in the ninth year (2012: 4.0%), and the same growth rate as the ninth year from the tenth year as a continued growth rate for inflation.

The discount rate before taxes is 11.9% (2012: 11.8%). The value in use sufficiently exceeds the carrying amount of the cash-generating unit. Therefore, even in cases where the discount rate and growth rate used in calculating the value in use fluctuate within reasonable ranges, the Group assumes that the value in use will not become less than the carrying amount.

B. Processed Food Cash-Generating Unit

The recoverable amount is calculated by the value in use based on the three-year business plan that was prepared by reflecting past experiences and external information and that was approved by management. After the three-year business plan, the Group sets a growth rate that decreases gradually from 3.2% in the fourth year (2012: 3.6%) to 1.1% in the ninth year (2012: 0.3%), and the same growth rate as the ninth year issued from the tenth year as continued growth rate for inflation. The discount rate before taxes is 4.7% (2012: 5.4%). The value in use exceeds the carrying amount. If the discount rate increases by 2.7%, impairment losses would be recognized. In case that growth rate fluctuates within a reasonable range, the Group assumes that the value in use will not become less than the carrying amount.

16. Lease Transactions

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

(1) Present Value of Finance Lease Obligations

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

(As of March 31)	Millions of yen 2012	2013
Not later than 1 year		
Total of future minimum lease payments	¥ 4,161	**¥ 4,590**
Future financial costs	216	**289**
Present value	3,945	**4,301**
Later than 1 year and not later than five years		
Total of future minimum lease payments	7,102	**8,010**
Future financial costs	408	**586**
Present value	6,693	**7,424**
Later than 5 years		
Total of future minimum lease payments	248	**879**
Future financial costs	34	**62**
Present value	215	**817**
Total		
Total of future minimum lease payments	11,511	**13,480**
Future financial costs	659	**937**
Present value	10,853	**12,543**

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

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

(As of March 31)	Millions of yen 2012	2013
Not later than 1 year	¥ 7,706	**¥ 6,624**
Later than 1 year and not later than 5 years	12,821	**12,948**
Later than 5 years	1,384	**5,383**
Total	¥21,912	**¥24,955**

(3) Total of Minimum Lease Payments and Contingent Rents

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

(Years ended March 31)	Millions of yen 2012	2013
Total of minimum lease payments	¥7,863	**¥9,132**
Contingent rents	2,628	**1,056**

17. Investment Property

(1) Schedule of Investment Property

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

(Years ended March 31)	2012	2013
	Millions of yen	
Balance at the beginning of the year	¥ 36,477	**¥ 67,387**
Expenditure after acquisition	367	**525**
Transfer from property, plant and equipment	5,191	**2,482**
Transfer from non-current assets held-for-sale	32,784	**—**
Adjustment from ceasing classification as non-current assets held-for-sale	(2,518)	**—**
Transfer to non-current assets held-for-sale	(1,053)	**(5,491)**
Transfer to property, plant and equipment	(360)	**(493)**
Depreciation	(1,368)	**(2,634)**
Impairment losses	(1,866)	**(2,289)**
Sale or disposal	(340)	**(506)**
Exchange differences on translation of foreign operations	8	**8**
Other	65	**8**
Balance at the end of the year	¥ 67,387	**¥ 58,995**
Acquisition cost at the beginning of the year	¥ 79,922	**¥144,976**
Accumulated depreciation and accumulated impairment losses at the beginning of the year	43,445	**77,589**
Acquisition cost at the end of the year	144,976	**127,493**
Accumulated depreciation and accumulated impairment losses at the end of the year	77,589	**68,498**

(2) Fair Value

The carrying amount and fair value of investment property as of each fiscal year end are as follows:

	Millions of yen			
	2012		**2013**	
(As of March 31)	Carrying amount	Fair value	Carrying amount	Fair value
Investment property	¥67,387	¥177,642	**¥58,995**	**¥145,348**

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

(3) Income and Expenses from Investment Property

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

(Years ended March 31)	2012	2013
	Millions of yen	
Rental income	¥4,395	**¥9,704**
Direct operating expenses	3,476	**6,674**

(4) Impairment Losses

The grouping of investment properties for impairment test is based on the smallest cash-generating unit that independently generates cash inflow. Idle properties are grouped individually.

The Group recognized impairment losses of ¥1,866 million for the year ended March 31, 2012, and ¥2,289 million for the year ended March 31, 2013 in "Selling, general and administrative expenses" in the consolidated statement of income.

Impairment losses recognized for the year ended March 31, 2012 represent the difference between the recoverable amount and the carrying amount of land and buildings as idle properties which were individually selected for demolition.

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

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

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

18. Investments Accounted for Using the Equity Method

Condensed financial information of associates as of each fiscal year end and for each fiscal year is as follows:

Millions of yen

(As of March 31)	2012	2013
Statement of financial position		
Total assets	¥147,592	**¥167,788**
Total liabilities	124,112	**141,483**
Total equity	23,480	**26,306**

Millions of yen

(Years ended March 31)	2012	2013
Statement of income		
Revenue	¥1,415,412	**¥1,359,534**
Expense	1,407,548	**1,352,423**
Profit for the year	7,864	**7,111**

19. Income Taxes

(1) Deferred Tax Assets and Deferred Tax Liabilities

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

For the year ended March 31, 2012

Millions of yen

Deferred Tax Assets	As of April 1, 2011	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of March 31, 2012
Fixed assets (Note 2)	¥ 36,093	¥ 7,216	¥ —	¥ (810)	¥ 42,500
Retirement benefits	105,451	(11,740)	837	(689)	93,859
Carryforward of unused tax losses	53,941	7,572	—	(1,783)	59,731
Other	80,418	(6,122)	10	(1,569)	72,737
Subtotal	275,903	(3,074)	847	(4,850)	268,826
Valuation allowance	(68,877)	3,988	2,256	954	(61,679)
Total	¥207,026	¥ 914	¥3,103	¥(3,896)	¥207,148

Millions of yen

Deferred Tax Liabilities	As of April 1, 2011	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of March 31, 2012
Fixed assets (Note 2)	¥(129,350)	¥ 21,491	¥ —	¥ 70	¥(107,789)
Retirement benefits	(2,379)	(436)	(1,139)	37	(3,917)
Other	(22,421)	(24,273)	(1,628)	2,594	(45,728)
Total	¥(154,150)	¥ (3,217)	¥(2,767)	¥2,701	¥(157,434)

For the year ended March 31, 2013

Millions of yen

Deferred Tax Assets	As of April 1, 2012	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	**As of March 31, 2013**
Fixed assets (Note 2)	¥ 42,500	**¥ (2,036)**	**¥ —**	**¥ 2,612**	**¥ 43,075**
Retirement benefits	93,859	**(5,992)**	**9,333**	**2,234**	**99,434**
Carryforward of unused tax losses	59,731	**2,564**	**—**	**3,277**	**65,572**
Other	72,737	**1,438**	**(107)**	**3,295**	**77,363**
Subtotal	268,826	**(4,026)**	**9,226**	**11,417**	**285,444**
Valuation allowance	(61,679)	**(8,104)**	**(148)**	**(1,899)**	**(71,829)**
Total	¥207,148	**¥(12,129)**	**¥9,079**	**¥ 9,518**	**¥213,615**

Millions of yen

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

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

The deferred tax assets are recognized by taking taxable temporary differences, future taxable profits plan and tax planning into account. The carryforward of unused tax losses, for which the deferred tax assets are not recognized, was ¥42,145 million (including ¥35,615 million, for which the carryforward expires after five years) as of March 31, 2012, and ¥51,621 million (including ¥37,128 million, for which the carryforward expires after five years) as of March 31, 2013. Tax credits, for which the deferred tax assets are not recognized, were ¥3,228 million (including ¥2,593 million, for which the carryforward expires after five years) as of March 31, 2012, and ¥3,601 million (including ¥2,907 million, for which the carryforward expires after five years) as of March 31, 2013.

(2) Income Taxes

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

(Years ended March 31)	2012	2013
	Millions of yen	
Current income taxes	¥110,493	**¥145,434**
Deferred income taxes	2,303	**12,608**
Total income taxes	¥112,795	**¥158,042**

Deferred income taxes increased by ¥3,021 million for the year ended March 31, 2012 and decreased by ¥2,070 million for the year ended March 31, 2013, due to the effect of changes in tax rates in Japan and other countries.

(3) Reconciliation of the Effective Tax Rate

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

The Company is subject mainly to corporate tax, inhabitant tax, and enterprise tax, and the effective statutory tax rate calculated based on these taxes for the year ended March 31, 2012 and 2013 was 40.35% and 37.78%, respectively. In this fiscal year, ended March 31,2013, the tax rate for corporate tax was lowered and special corporate tax for reconstruction was imposed. Foreign subsidiaries are subject to income tax at their locations.

(Years ended March 31)	2012	2013
	%	
Effective statutory tax rate	40.35	**37.78**
Different tax rates applied to foreign subsidiaries	(11.65)	**(9.60)**
Non-deductible expenses	1.38	**1.57**
Losses on valuation of investments in subsidiaries	(7.07)	**–**
Overseas withholding tax	1.06	**1.46**
Valuation allowance	(0.78)	**1.91**
Uncertain tax position on income taxes	2.42	**(0.85)**
Other	(0.17)	**(1.25)**
Average actual tax rate	25.56	**31.02**

20. Trade and Other Payables

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

(As of March 31)	2012	2013
	Millions of yen	
Note and account payables	¥165,427	**¥173,458**
Other payables	71,736	**71,325**
Other	61,500	**67,959**
Total	¥298,663	**¥312,741**

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

21. Bonds and Borrowings (including Other Financial Liabilities)

(1) Breakdown of Financial Liabilities

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

(As of March 31)	Millions of yen 2012	Millions of yen 2013	% Average interest rate (Note 1)	Due
Derivative liabilities	¥ 5,133	**¥ 3,816**	—	—
Short-term borrowings	43,486	**23,847**	9.74	—
Current portion of long-term borrowings	78,219	**20,454**	1.70	—
Current portion of bonds (Note 2)	90,061	**—**	—	—
Long-term borrowings	49,277	**33,163**	0.57	2014–2028
Bonds (Note 2)	230,473	**237,236**	—	—
Other	23,900	**23,577**	—	—
Total	¥520,548	**¥342,094**		
Current liabilities	¥219,805	**¥ 52,851**		
Non-current liabilities	300,743	**289,243**		
Total	¥520,548	**¥342,094**		

(Note 1) The average interest rate is calculated using the interest rate and outstanding balance as of March 31, 2013.

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

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

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

Company (As of March 31)	Name of bond	Date of issuance	Millions of yen 2012	Millions of yen 2013	% Interest rate	Collateral	Date of maturity
Japan Tobacco Inc.	4th Domestic straight bond	July 24, 2007	¥ 59,992 (59,992)	**¥ —**	1.68	Yes	July 24, 2012
Japan Tobacco Inc.	5th Domestic straight bond	June 3, 2009	99,913	**99,953**	1.13	Yes	June 3, 2014
Japan Tobacco Inc.	6th Domestic straight bond	December 9, 2010	40,000	**40,000**	0.53	Yes	December 9, 2015
Japan Tobacco Inc.	7th Domestic straight bond	December 9, 2010	20,000	**20,000**	0.84	Yes	December 8, 2017
Japan Tobacco Inc.	8th Domestic straight bond	December 9, 2010	20,000	**20,000**	1.30	Yes	December 9, 2020
JTI (UK) Finance Plc	Straight bond in GBP	February 6, 2003	29,919 (29,919) [GBP 250 mil.]	**—**	5.75	Non	February 6, 2013
JTI (UK) Finance Plc	Straight bond in EUR	October 2, 2006	50,359 [EUR 500 mil.]	**57,283 [EUR 500 mil.]**	4.50	Non	April 2, 2014
Other bonds			350 (150)	**— (—)**			
Total			¥320,534 (90,061)	**¥237,236 (—)**			

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

(2) Assets Pledged as Collateral for Liabilities

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

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

Assets Pledged as Collateral

(As of March 31)	2012	2013
	Millions of yen	
Land, buildings, and structures	¥ 9,231	**¥6,149**
Machinery and vehicles	571	**—**
Other	998	**24**
Total	¥10,800	**¥6,173**

Corresponding Debts

(As of March 31)	2012	2013
	Millions of yen	
Short-term borrowings	¥ 130	**¥ 20**
Current portion of long-term borrowings	901	**275**
Long-term borrowings	1,311	**1,072**
Other	350	**—**
Total	¥2,692	**¥1,367**

22. Provisions

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

For the year ended March 31, 2012

Millions of yen

	Asset retirement provisions	Restructuring provisions	Provisions for sales rebates	Other provisions	Total
As of April 1, 2011	¥1,357	¥ 1,078	¥ 3,458	¥2,802	¥ 8,696
Provisions	288	4,217	3,938	2,565	11,008
Interest cost associated with passage of time	17	—	—	—	17
Provisions used	(2)	(4,406)	(3,384)	(965)	(8,757)
Provisions reversed	—	(205)	(74)	(238)	(518)
Exchange differences on translation of foreign operations	—	(67)	—	(245)	(312)
As of March 31, 2012	¥1,660	¥ 618	¥ 3,938	¥3,919	¥10,135
Current liabilities	¥ 2	¥ 612	¥ 3,938	¥1,135	¥ 5,686
Non-current liabilities	1,659	6	—	2,784	4,448
Total	¥1,660	¥ 618	¥ 3,938	¥3,919	¥10,135

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Millions of yen

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

A. Asset Retirement Provisions

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

B. Restructuring Provisions

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

C. Provisions for Sales Rebates

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

23. Other Liabilities

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

Millions of yen

(As of March 31)	2012	2013
Tobacco excise tax payables (Note)	¥240,532	¥285,765
Tobacco special excise tax payables (Note)	15,052	14,473
Tobacco local excise tax payables (Note)	191,377	182,375
Consumption tax payables	83,182	85,388
Bonus to employees	39,739	45,461
Employee's unused paid vacations liabilities	18,560	19,815
Other	94,509	136,255
Total	¥682,952	¥769,531
Current liabilities	¥590,717	¥656,305
Non-current liabilities	92,235	113,226
Total	¥682,952	¥769,531

(Note) Tobacco excise tax payables, tobacco special excise tax payables and tobacco local excise tax payables as of March 31, 2012 and 2013 include those unpaid due to bank holidays at each fiscal year end.

24. Employee Benefits

(1) Employee Retirement Benefits

The Group sponsors funded/unfunded defined benefit plans and defined contribution plans as employee retirement benefit plans. The benefits on defined benefit plans are provided based on conditions, such as points that employees acquired in compensation for each year of service, the payment rate, years of service, average salary in their final year of service before retirement, and others.

Special termination benefits may be provided to employees on their retirement before the usual retirement date under certain circumstances.

A. Schedule of Defined Benefit Obligations

The schedule of the defined benefit obligations is as follows:

			Millions of yen
(Years ended March 31)	Japan	Overseas	Total
As of April 1, 2011	¥236,471	¥278,108	¥514,579
Current service cost	11,455	4,793	16,249
Interest cost	3,878	14,033	17,911
Contributions by plan participants	—	1,000	1,000
Actuarial gains and losses	6,445	4,947	11,392
Benefits paid	(20,467)	(14,058)	(34,525)
Past service cost	51	199	250
Special termination benefits	—	1,991	1,991
Closure of the plans (curtailment or settlement)	—	(52)	(52)
Exchange differences on transition of foreign operations	—	(16,355)	(16,355)
Other	57	313	370
As of March 31, 2012	237,890	274,918	512,808
Current service cost	**12,152**	**5,151**	**17,304**
Interest cost	**3,201**	**12,923**	**16,123**
Contributions by plan participants	**—**	**875**	**875**
Actuarial gains and losses	**23,811**	**42,378**	**66,189**
Benefits paid	**(18,538)**	**(15,906)**	**(34,443)**
Past service cost	**(67)**	**(456)**	**(523)**
Special termination benefits	**—**	**799**	**799**
Closure of the plans (curtailment or settlement)	**—**	**(49)**	**(49)**
Exchange differences on transition of foreign operations	**—**	**44,462**	**44,462**
Other	**49**	**204**	**252**
As of March 31, 2013	**¥258,498**	**¥365,299**	**¥623,797**

B. Schedule of Plan Assets

The schedule of the plan assets is as follows:

(Years ended March 31)	Japan	Overseas	Total
			Millions of yen
As of April 1, 2011	¥96,440	¥210,726	¥307,166
Expected return on plan assets	2,366	11,193	13,559
Actuarial gains and losses	(1,522)	1,119	(404)
Contributions by the employer	3,424	8,299	11,723
Contributions by plan participants	—	1,000	1,000
Benefits paid	(8,539)	(10,653)	(19,193)
Exchange differences on translation of foreign operations	—	(11,789)	(11,789)
Other	—	20	20
As of March 31, 2012	92,168	209,914	302,082
Expected return on plan assets	**2,205**	**8,915**	**11,120**
Actuarial gains and losses	**18,042**	**10,019**	**28,060**
Contributions by the employer	**3,115**	**9,204**	**12,319**
Contributions by plan participants	**—**	**875**	**875**
Benefits paid	**(7,996)**	**(10,845)**	**(18,842)**
Exchange differences on translation of foreign operations	**—**	**34,897**	**34,897**
Other	**56**	**1,857**	**1,914**
As of March 31, 2013	**¥107,590**	**¥264,835**	**¥372,425**

The Group plans to pay contributions of ¥12,930 million in the year ending March 31, 2014.

C. Reconciliation of Defined Benefit Obligations and Plan Assets

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

As of March 31, 2012

			Millions of yen
			2012
	Japan	Overseas	Total
Funded defined benefit obligations	¥107,451	¥ 208,727	¥ 316,178
Plan assets	(92,168)	(209,914)	(302,082)
Subtotal	15,283	(1,187)	14,096
Unfunded defined benefit obligations	130,439	66,191	196,630
Unrecognized past service cost	—	129	129
Net amount of liabilities and assets recognized in consolidated statement of financial position	¥145,722	¥ 65,133	¥ 210,855
Retirement benefit liabilities	¥145,722	¥ 79,504	¥ 225,226
Retirement benefit assets	—	(14,371)	(14,371)
Net amount of liabilities and assets recognized in consolidated statement of financial position	¥145,722	¥ 65,133	¥ 210,855

As of March 31, 2013

	Millions of yen		
	2013		
	Japan	Overseas	Total
Funded defined benefit obligations	¥ 120,505	¥ 275,539	¥ 396,044
Plan assets	(107,590)	(264,835)	(372,425)
Subtotal	12,915	10,704	23,619
Unfunded defined benefit obligations	137,993	89,760	227,753
Unrecognized past service cost	—	84	84
Net amount of liabilities and assets recognized in consolidated statement of financial position	¥ 150,908	¥ 100,548	¥ 251,456
Retirement benefit liabilities	¥ 150,912	¥ 115,369	¥ 266,281
Retirement benefit assets	(4)	(14,821)	(14,825)
Net amount of liabilities and assets recognized in consolidated statement of financial position	¥ 150,908	¥ 100,548	¥ 251,456

D. Major Breakdown of Plan Assets

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

	%					
	Japan		Overseas		Total	
(As of March 31)	2012	2013	2012	2013	2012	2013
Equities	33.4	16.4	38.9	41.1	37.2	34.0
Bonds	21.7	21.2	50.3	46.2	41.6	39.0
Real estate	—	—	1.6	1.6	1.1	1.1
General account of life insurance companies	44.3	44.6	—	—	13.5	12.9
Other	0.6	17.7	9.2	11.1	6.6	13.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

(Note) The specified assumed interest rate and principal for the general account of life insurance companies is guaranteed by the life insurance companies.

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

(Japan)

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

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

(Overseas)

The investment strategy for the foreign subsidiaries' funded pension plans is decided locally by the trustee of the plan or management according to local legislation. The Company's objective for the foreign subsidiaries' funded pension plans is to achieve a return on assets in excess of the movement in the value of the defined benefit obligation, while man- aging risk relative to the obligation.

Plan assets have significant allocations to liability matching bonds and the remaining assets are invested to target long term growth, predominantly in equities.

E. Matters Related for Actuarial Assumptions

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

	2012		2013	%
(As of March 31)	Japan	Overseas	Japan	Overseas
Discount rate	1.4	2.5–5.5	**1.0**	**1.5–4.4**
Expected long-term return on plan assets	2.5	2.8–4.4	**—**	**—**
Inflation rate	—	1.5–3.1	**—**	**1.5–2.9**

(Note) The valuation of defined benefit obligations reflects a judgment on uncertain future events. The sensitivities of defined benefit obligations due to changes in major assumptions as of each fiscal year end are as follows. Each of these sensitivities assumes that other variables remain fixed; however, in fact, they do not always change independently. Negative figures show a decrease in pension plan obligations, while positive figures show an increase.

		2012		2013	Millions of yen
(As of March 31)	Change in assumptions	Japan	Overseas	Japan	Overseas
Discount rate	Increase by 0.5%	¥ (9,438)	¥(17,195)	**¥(10,223)**	**¥ (24,121)**
	Decrease by 0.5%	10,153	19,130	**11,022**	**27,001**
Inflation rate	Increase by 0.5%	—	12,547	**—**	**18,082**
	Decrease by 0.5%	—	(11,340)	**—**	**(17,726)**

F. Experience Adjustments Based on Results of Defined Benefit Obligations and Plan Assets

Experience adjustments based on results of defined benefit obligations and plan assets as of each fiscal year end are as follows:

As of March 31, 2011

			Millions of yen 2011
	Japan	Overseas	Total
Defined benefit obligations	¥ 236,471	¥ 278,108	¥ 514,579
Plan assets	(96,440)	(210,726)	(307,166)
Undefined benefit obligations	¥ 140,031	¥ 67,381	¥ 207,412
Adjustment based on actual results (Defined benefit obligations)	¥ 5,264	¥ (1,274)	¥ 3,990
Adjustment based on actual results (Plan assets)	524	(8,183)	(7,659)

As of March 31, 2012

			Millions of yen 2012
	Japan	Overseas	Total
Defined benefit obligations	¥237,890	¥ 274,918	¥ 512,808
Plan assets	(92,168)	(209,914)	(302,082)
Undefined benefit obligations	¥145,722	¥ 65,004	¥ 210,726
Adjustment based on actual results (Defined benefit obligations)	¥ (235)	¥ (7,509)	¥ (7,744)
Adjustment based on actual results (Plan assets)	1,522	(1,119)	404

As of March 31, 2013

			Millions of yen **2013**
	Japan	Overseas	Total
Defined benefit obligations	**¥ 258,498**	**¥ 365,299**	**¥ 623,797**
Plan assets	**(107,590)**	**(264,835)**	**(372,425)**
Undefined benefit obligations	**¥ 150,908**	**¥ 100,464**	**¥ 251,372**
Adjustment based on actual results (Defined benefit obligations)	**¥ 13,902**	**¥ 5,431**	**¥ 19,333**
Adjustment based on actual results (Plan assets)	**(18,042)**	**(10,019)**	**(28,060)**

(Note) The experience adjustments are the effects of differences between the previous actuarial assumptions and what has actually occurred of the actuarial gains and losses for each fiscal year.

G. Profit and Loss Related to Retirement Benefits

The profit and loss related to retirement benefits for each fiscal year are as follows:

For the year ended March 31, 2012

	Millions of yen		
	2012		
	Japan	Overseas	Total
Current service cost	¥11,455	¥ 4,793	¥ 16,249
Interest cost (Note 1)	3,878	14,033	17,911
Expected return on plan assets (Note 1)	(2,366)	(11,193)	(13,559)
Past service cost recognized in the year	51	179	231
Special termination benefits	—	1,991	1,991
Losses or gains on closure of the plans (curtailment or settlement)	—	(52)	(52)
Total	¥13,018	¥ 9,752	¥ 22,770
Actual return on plan assets	¥ (843)	¥(12,312)	¥(13,155)

For the year ended March 31, 2013

	Millions of yen		
	2013		
	Japan	Overseas	Total
Current service cost	**¥ 12,152**	**¥ 5,151**	**¥ 17,304**
Interest cost (Note 1)	**3,201**	**12,923**	**16,123**
Expected return on plan assets (Note 1)	**(2,205)**	**(8,915)**	**(11,120)**
Past service cost recognized in the year	**(67)**	**(515)**	**(581)**
Special termination benefits	**—**	**799**	**799**
Losses or gains on closure of the plans (curtailment or settlement)	**—**	**(49)**	**(49)**
Total	**¥ 13,081**	**¥ 9,394**	**¥ 22,475**
Actual return on plan assets	**¥(20,247)**	**¥(18,937)**	**¥(39,184)**

(Note 1) The net amount of interest cost and the expected return on plan assets are included in "Financial costs." Other expenses are included in "Cost of sales" and "Selling, general and administrative expenses."

(Note 2) The cost of the required contributions to the defined contribution pension plans is ¥5,506 million for the year ended March 31, 2012 and ¥4,959 million for the year ended March 31, 2013. This cost is not included in the above.

(2) Obligation of Mutual Pension Benefits

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

A. Schedule of Mutual Pension Benefits Obligations

The schedule of mutual pension benefits obligations is as follows:

	Millions of yen	
(Years ended March 31)	2012	**2013**
Balance at the beginning of the year	¥97,577	**¥89,794**
Interest cost (Note 1)	1,171	**718**
Actuarial gains and losses	583	**(529)**
Benefits paid	(9,536)	**(8,891)**
Past service cost (Note 2)	—	**(4,279)**
Balance at the end of the year	¥89,794	**¥76,814**

(Note 1) The interest cost is included and presented in "Financial costs."

(Note 2) "The Act for Partial Revision of the Employees' Pension Insurance Act, etc. for unifying employees' pension insurance systems," (Law No. 63 in 2012), was promulgated on August 22, 2012 and the liabilities included in retirement benefit liabilities are expected to decrease in the future, due to the fact that the pension costs for the mutual assistance association that the Company is obligated to bear are expected to decrease. As a result, past service cost relating to this revision is recognized in the year ended March 31, 2013.

B. Matters Related to Actuarial Assumptions

The actuarial assumptions for each fiscal year are as follows:

	%	
(As of March 31)	2012	**2013**
Discount rate	0.8	**0.6**

(Note) The valuation of obligation of mutual pension benefits reflects a judgment on future uncertain events. The sensitivities of mutual pension benefits obligations due to changes in major assumptions as of each fiscal year end are as follows. Negative figures show a decrease in obligation of mutual pension benefits, while positive figures show an increase.

		Millions of yen	
		2012	**2013**
(As of March 31)	Change in assumptions	Effect of the change	Effect of the change
Discount rate	Increase by 0.5%	¥(2,863)	**¥(2,372)**
	Decrease by 0.5%	2,963	**2,501**

(3) Schedule of Actuarial Gains and Losses included in "Other comprehensive income" in the consolidated statement of comprehensive income

Actuarial gains and losses included in "Other comprehensive income" in the consolidated statement of comprehensive income for each fiscal year are as follows:

	Millions of yen	
(Years ended March 31)	2012	**2013**
Balance at the beginning of the year (cumulative total)	¥(34,461)	**¥(45,131)**
Accrued during the year	(10,669)	**(28,200)**
Balance at the end of the year (cumulative total)	¥(45,131)	**¥(73,331)**

(4) Other Employee Benefits Expense

The employee benefits expense other than employees' retirement benefits and mutual pension benefits that are included in the consolidated statement of income for each fiscal year are as follows:

	Millions of yen	
(Years ended March 31)	2012	**2013**
Remuneration and salary	¥213,412	**¥215,369**
Bonus to employees	62,590	**69,161**
Legal welfare expenses	37,075	**39,982**
Welfare expenses	22,194	**22,662**
Termination benefits	3,270	**2,737**

25. Equity and Other Equity Items

(1) Share Capital and Capital Surplus

A. Authorized Shares

The number of authorized shares as of March 31, 2012 and 2013 is 40,000 and 8,000,000 thousand ordinary shares, respectively.

B. Fully Paid Issued Shares

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

	Thousands of shares	Millions of yen	
(Years ended March 31)	Number of ordinary issued shares	Share capital	Capital surplus
As of April 1, 2011	10,000	¥ 100,000	¥ 736,410
Increase (Decrease)	—	—	—
As of March 31, 2012	10,000	100,000	736,410
Increase (Decrease) (Note 2)	**1,990,000**	**—**	**1**
As of March 31, 2013	**2,000,000**	**¥100,000**	**¥736,411**

(Note 1) The shares issued by the Company are non-par value ordinary shares that have no restriction on any content of rights.
(Note 2) The number of ordinary shares issued increased by 1,990,000 thousand shares for the year ended March 31, 2013 due to the 200-for-one share split conducted, with basis date of June 30, 2012 and effective date of July 1, 2012.

(2) Treasury Shares

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

(Years ended March 31)	Thousands of shares Number of shares	Millions of yen Amount
As of April 1, 2011	479	¥ 94,574
Increase (Decrease)	—	—
As of March 31, 2012	479	94,574
Increase (Decrease) (Notes 2, 3)	**182,032**	**249,999**
As of March 31, 2013	**182,510**	**¥344,573**

(Note 1) The Company adopts share option plans and utilizes treasury shares for delivery of shares due to its exercise. Contract conditions and amount are described in "34. Share-Based Payments."

(Note 2) The number of treasury shares purchased based on the resolution made by the Board of Directors was 86,806 thousand shares and the total purchase cost was ¥250,000 million for the year ended March 31, 2013 including 80,071 thousand shares that were acquired from the Minister of Finance in Japan for ¥230,606 million. The number of shares delivered upon exercise of share option is 1 thousand shares for the year ended March 31, 2013.

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

(3) Other Components of Equity

A. Subscription rights to shares

The Company adopts share option plans and issues subscription rights to shares based on the Companies Act. Contract conditions and amount, are described in "34. Share-based Payments."

B. Exchange differences on translation of foreign operations

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

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

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

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

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

E. Actuarial gains (losses) on defined benefit retirement plans

Actuarial gains (losses) are the effects of differences between the actuarial assumptions at the beginning of the year and what has actually occurred, and the effects of changes in actuarial assumptions. Actuarial gains (losses) are fully recognized when occurred as other comprehensive income and are transferred immediately from other components of equity to retained earnings.

26. Dividends

Dividends paid for each fiscal year are as follows:

For the year ended March 31, 2012

	2012				
	Class of shares	Millions of yen Total dividends	Yen Dividends per share	Basis date	Effective date
(Resolution)					
Annual Shareholders Meeting (June 24, 2011)	Ordinary shares	¥38,086	¥4,000	March 31, 2011	June 27, 2011
Board of Directors (October 31, 2011)	Ordinary shares	38,086	4,000	September 30, 2011	December 1, 2011

For the year ended March 31, 2013

	2013				
	Class of shares	Millions of yen Total dividends	Yen Dividends per share	Basis date	Effective date
(Resolution)					
Annual Shareholders Meeting (June 22, 2012)	**Ordinary shares**	**¥57,129**	**¥6,000**	**March 31, 2012**	**June 25, 2012**
Board of Directors (October 30, 2012)	**Ordinary shares**	**57,129**	**30**	**September 30, 2012**	**November 30, 2012**

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

Assuming the share split coming into effect at the beginning of the year ended March 31, 2012 (April 1, 2011), dividends per share resolved at the Annual Shareholders' Meeting on June 24, 2011, the Board of Directors' Meeting on October 31, 2011, and Annual Shareholders' Meeting on June 22, 2012, would have been ¥20, ¥20 and ¥30, respectively.

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

For the year ended March 31, 2012

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

For the year ended March 31, 2013

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

27. Revenue

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

		Millions of yen
(Years ended March 31)	2012	**2013**
Gross turnover	¥ 6,610,757	**¥ 6,673,222**
Tobacco excise taxes and agency transaction amount	(4,576,932)	**(4,553,027)**
Revenue	¥ 2,033,825	**¥ 2,120,196**

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

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

28. Other Operating Income

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

		Millions of yen
(Years ended March 31)	2012	**2013**
Gains on sale of property, plant and equipment, intangible assets and investment properties (Note 1, 2)	¥30,134	**¥35,195**
Other (Note 2)	18,378	**6,970**
Total	¥48,512	**¥42,165**

(Note 1) Mainly from sales of old factory site, warehouse and company housing.

(Note 2) The amount of restructuring income included in each account for each fiscal year is as follows:

		Millions of yen
(Years ended March 31)	2012	**2013**
Gains on sale of property, plant and equipment, intangible assets and investment properties	¥29,368	**¥34,229**
Other	564	**5**
Total	¥29,932	**¥34,234**

29. Selling, General and Administrative Expenses

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

(Years ended March 31)	2012	2013
		Millions of yen
Advertising expenses	¥ 21,530	**¥ 20,566**
Promotion expenses	128,007	**137,480**
Shipping, warehousing expenses	27,920	**27,092**
Commission	40,963	**41,157**
Employee benefits expenses (Note 2)	235,060	**241,420**
Research and development expenses (Note 1)	51,461	**56,860**
Depreciation and amortization	58,550	**59,092**
Impairment losses on other than financial assets (Note 2)	7,013	**3,213**
Losses on sale and disposal of property, plant and equipment, intangible assets, and investment property (Note 2)	11,454	**9,265**
Cooperation fee for terminating leaf tobacco farming	12,469	**4**
Other (Note 2)	138,743	**137,235**
Total	¥733,169	**¥733,385**

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

(Years ended March 31)	2012	2013
		Millions of yen
Employee benefits expenses	¥ 4,651	**¥3,835**
Impairment losses on other than financial assets	5,837	**3,076**
Losses on sale and disposal of property, plant and equipment, intangible assets, and investment property	3,342	**1,258**
Other	222	**1,197**
Total	¥14,052	**¥9,366**

30. Financial Income and Financial Costs

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

Financial Income

(Years ended March 31)	2012	2013
		Millions of yen
Dividend income		
Financial assets measured at fair value through other comprehensive income	¥1,280	**¥1,365**
Interest income		
Financial assets measured at amortized cost		
Cash and deposits, and bonds	2,366	**3,772**
Other	1,958	**356**
Total	¥5,603	**¥5,493**

Financial Costs

(Years ended March 31)	2012	2013
		Millions of yen
Interest expenses		
Financial liabilities measured at amortized cost		
Bonds and borrowings (Note 2)	¥13,962	**¥ 9,688**
Other	415	**446**
Foreign exchange losses (Note 1)	2,738	**11,285**
Employee benefits expenses (Note 3)	5,523	**5,721**
Other	791	**1,153**
Total	¥23,429	**¥28,292**

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

31. Other Comprehensive Income

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

For the year ended March 31, 2012

	Millions of yen				
	2012				
	Amount arising	Reclassification adjustments	Before tax effects	Tax effects	Net of tax effects
Exchange differences on translation of foreign operations	¥(130,331)	¥ —	¥(130,331)	¥ —	¥(130,331)
Net gain (loss) on derivatives designated as cash flow hedges	(556)	317	(239)	73	(166)
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	6,248	—	6,248	(1,498)	4,750
Actual gains (losses) on defined benefit retirement plans	(12,379)	—	(12,379)	1,709	(10,669)
Total	¥(137,017)	¥317	¥(136,700)	¥ 284	¥(136,416)

For the year ended March 31, 2013

	Millions of yen				
	2013				
	Amount arising	Reclassification adjustments	Before tax effects	Tax effects	Net of tax effects
Exchange differences on translation of foreign operations	**¥216,140**	**¥ (22)**	**¥216,118**	**¥ —**	**¥216,118**
Net gain (loss) on derivatives designated as cash flow hedges	**4,102**	**(3,914)**	**188**	**(66)**	**121**
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	**7,344**	**—**	**7,344**	**(2,545)**	**4,799**
Actual gains (losses) on defined benefit retirement plans	**(37,600)**	**—**	**(37,600)**	**9,400**	**(28,200)**
Total	**¥189,986**	**¥(3,936)**	**¥186,050**	**¥ 6,789**	**¥192,838**

32. Earnings per Share

(1) Basis of Calculating Basic Earnings per Share

A. Profit Attributable to Ordinary Shareholders of the Parent Company

(Years ended March 31)	2012	2013
	Millions of yen	
Profit attributable to owners of the parent company	¥320,883	**¥343,612**
Profit not attributable to ordinary shareholders of the parent company	—	**—**
Profit used for calculation of basic earnings per share	¥320,883	**¥343,612**

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

(Years ended March 31)	2012	2013
	Thousands of shares	
Weighted-average number of shares during the year	1,904,295	**1,897,636**

(2) Basis of Calculating Diluted Earnings per Share

A. Profit Attributable to Diluted Ordinary Shareholders

(Years ended March 31)	2012	2013
	Millions of yen	
Profit used for calculation of basic earnings per share	¥320,883	**¥343,612**
Adjustment	—	**—**
Profit used for calculation of diluted earnings per share	¥320,883	**¥343,612**

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

(Years ended March 31)	2012	2013
	Thousands of shares	
Weighted-average number of ordinary shares during the year	1,904,295	**1,897,636**
Increased number of ordinary shares under subscription rights to shares	745	**918**
Weighted-average number of diluted ordinary shares during the year	1,905,040	**1,898,553**

(3) Adjusted Diluted Earnings per Share

(Years ended March 31)	2012	2013
	Millions of yen	
Profit used for calculation of adjusted diluted earnings per share	¥320,883	**¥343,612**
Adjustment items (income)	(29,932)	**(34,234)**
Adjustment items (costs)	29,039	**7,536**
Adjustments on income taxes and non-controlling interests	2,025	**12,772**
Adjustments on income taxes related to losses on valuation of investments in subsidiaries	(31,207)	**—**
Adjusted profit for the year	¥290,808	**¥329,687**
Adjusted diluted earnings per share (yen)	¥ 152.65	**¥ 173.65**

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

33. Non-cash Transactions

Significant Non-cash Transactions

The amount of assets acquired under finance leases was ¥2,977 million for the year ended March 31, 2012 and ¥4,756 million for the year ended March 31, 2013, respectively.

34. Share-Based Payments

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

The outline of the share option plan is as follows:

(1) Share Option Contract Conditions

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

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

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

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

(2) Changes in the Number of Share Options

Shares

			2012			**2013**
(Years ended March 31)	Directors	Executive Officers	Total	Directors	Executive Officers	Total
Balance at the beginning of the year	1,524	1,557	3,081	**1,875**	**2,244**	**4,119**
Effect of share splits	—	—	—	**373,125**	**446,556**	**819,681**
Granted	514	524	1,038	**65,600**	**80,200**	**145,800**
Exercised	—	—	—	**—**	**(600)**	**(600)**
Transfer	(163)	163	—	**(116,200)**	**116,200**	**—**
Balance at the end of the year	1,875	2,244	4,119	**324,400**	**644,600**	**969,000**
Exercisable balance at the end of the year	—	430	430	**—**	**138,200**	**138,200**

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

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

(Note 3) Share options were granted to 8 directors and 15 executive officers for the year ended March 31, 2012, and 7 directors and 17 executive officers for the year ended March 31, 2013. "Transfer" included in the "Changes in the Number of Share Options" represents the number of share options for persons granted whose management position changed during the year.

(Note 4) The weighted-average fair value per share of share options granted during the year was ¥277,947 for the year ended March 31, 2012 and ¥1,600 for the year ended March 31, 2013.

(Note 5) The weighted-average share price of share options at the time of exercise during the period was ¥2,924 for the year ended March 31, 2013. No share options were exercised for the year ended March 31, 2012.

(Note 6) The weighted-average remaining contract year of unexercised share options at the end of the year was 27.8 years for the year ended March 31, 2012 and 27.3 years for the year ended March 31, 2013.

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

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

A. Valuation Model

Black-Scholes Model

B. Main Assumptions and Estimation

(Years ended March 31)	2012	2013
Share price	¥367,000	**¥2,238**
Volatility of share price (Note 1)	35.5%	**36.0%**
Estimated remaining period (Note 2)	15 years	**15 years**
Estimated dividends (Note 3)	¥6,800/share	**¥50/share**
Risk free interest rate (Note 4)	1.48%	**1.30%**

(Note 1) Calculated based on daily share prices quoted for the past 15 years.
(Note 2) With difficulty in reasonable estimation due to insufficient data, the remaining period is estimated based on the assumption that share option rights would be exercised at a midpoint of exercise period.
(Note 3) Based on the latest dividends paid.
(Note 4) The yield of government bonds for a period of the expected remaining period.

(4) Share-Based Payments Expenses

The cost for share options included in "Selling, general and administrative expenses" in the consolidated statement of income is ¥265 million for the year ended March 31, 2012 and ¥247 million for the year ended March 31, 2013.

35. Financial Instruments

(1) Capital Management

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

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

In order to achieve sustainable growth, the Group understands that financing capacities sufficient enough to make agile business investments when there are opportunities, such as the acquisition of external resources for business growth are required. For that reason, the Group aims to maintain a well-balanced capital structure by ensuring sound and flexible financial conditions for future business investment as well as an appropriate return on equity.

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

Millions of yen

(As of March 31)	2012	2013
Interest-bearing debt	¥ 502,368	**¥ 327,242**
Cash and cash equivalents	(404,740)	**(142,713)**
Net interest-bearing debt	97,628	**184,530**
Capital (equity attributable to owners of the parent company)	1,634,050	**1,806,125**

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

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

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

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

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

(2) Financial Risk Management

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

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

(3) Credit Risk

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

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

In principle, the Group sets credit lines or transaction conditions with respect to trade receivables for counterparties based on the Credit Management Guidelines in order to control the credit risk relating to counterparties. In addition, the receivable balances of counterparties with high credit risk are monitored. The Treasury Division of the Company regularly monitors the status of the occurrence and collection of bad debts, and reports them to the Executive Committee of the Company. There is no overconcentrated credit risk for a single customer.

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

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

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

As of March 31, 2012

	Millions of yen				
	2012				
		Amount past due			
	Total	Within 30 days	Over 30 days, within 60 days	Over 60 days, within 90 days	Over 90 days
Trade and other receivables	¥2,635	¥2,376	¥60	¥8	¥191
Other financial assets	285	—	—	—	285

As of March 31, 2013

	Millions of yen				
	2013				
		Amount past due			
	Total	Within 30 days	Over 30 days, within 60 days	Over 60 days, within 90 days	Over 90 days
Trade and other receivables	**¥6,709**	**¥6,494**	**¥120**	**¥20**	**¥ 76**
Other financial assets	**351**	**—**	**—**	**—**	**351**

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

	Millions of yen	
(Years ended March 31)	2012	**2013**
Balance at the beginning of the year	¥26,322	**¥15,866**
Addition	514	**1,444**
Decrease (intended use)	(8,795)	**(6,016)**
Decrease (reversal)	(2,120)	**(922)**
Other	(55)	**309**
Balance at the end of the year	¥15,866	**¥10,681**

(4) Liquidity Risk

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

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

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

As of March 31, 2012

Millions of yen

	2012							
	Carrying amount	Contractual cash flow	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Non-derivative financial liabilities								
Trade and other payables	¥298,663	¥298,663	¥298,663	¥ —	¥ —	¥ —	¥ —	¥ —
Short-term borrowings	43,486	43,486	43,486	—	—	—	—	—
Current portion of long-term borrowings	78,219	78,219	78,219	—	—	—	—	—
Long-term borrowings	49,277	49,277	—	20,593	1,103	27,158	23	401
Current portion of bonds	90,061	90,109	90,109	—	—	—	—	—
Bonds	230,473	230,583	—	100	150,483	40,000	—	40,000
Subtotal	790,179	790,337	510,477	20,693	151,586	67,158	23	40,401
Derivative financial liabilities (Note)								
Foreign exchange forward contract	1,630	1,630	1,630	—	—	—	—	—
Interest rate swap	152	152	48	38	37	28	—	—
Cross currency swap	3,350	2,472	(47)	(94)	(200)	2,813	—	—
Subtotal	5,133	4,254	1,632	(56)	(163)	2,841	—	—
Total	¥795,311	¥794,591	¥512,109	¥20,637	¥151,423	¥69,998	¥23	¥40,401

(Note) Figure in parentheses ( ) represents the amount of the cash receipt.

As of March 31, 2013

Millions of yen

	2013							
	Carrying amount	Contractual cash flow	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Non-derivative financial liabilities								
Trade and other payables	**¥312,741**	**¥312,741**	**¥312,741**	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥ —**
Short-term borrowings	**23,847**	**23,847**	**23,847**	**—**	**—**	**—**	**—**	**—**
Current portion of long-term borrowings	**20,454**	**20,454**	**20,454**	**—**	**—**	**—**	**—**	**—**
Long-term borrowings	**33,163**	**33,163**	**—**	**1,217**	**31,145**	**107**	**109**	**584**
Bonds	**237,236**	**237,298**	**—**	**157,298**	**40,000**	**—**	**20,000**	**20,000**
Subtotal	**627,441**	**627,504**	**357,042**	**158,515**	**71,145**	**107**	**20,109**	**20,584**
Derivative financial liabilities								
Foreign exchange forward contract	**3,614**	**3,614**	**3,614**	**—**	**—**	**—**	**—**	**—**
Interest rate swap	**202**	**200**	**83**	**66**	**50**	**—**	**—**	**—**
Subtotal	**3,816**	**3,814**	**3,698**	**66**	**50**	**—**	**—**	**—**
Total	**¥631,258**	**¥631,317**	**¥360,740**	**¥158,582**	**¥71,195**	**¥107**	**¥20,109**	**¥20,584**

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

(As of March 31)	2012	2013
		Millions of yen
Total committed line of credit	¥513,525	**¥444,597**
Withdrawing	76,933	**–**
Unused balance	¥436,592	**¥444,597**

(5) Foreign Exchange Risk

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

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

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

(iii) The risk that the profit or loss of the Group is influenced by foreign exchange fluctuation when profit or loss denominated in each functional currency of the Group is translated into Japanese yen and consolidated. The Group hedges against risk (i) using derivatives or foreign currency-denominated interest-bearing debts when future cash flow is projected or when receivables and payables are fixed.

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

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

The breakdown of currency derivatives is follows:

Derivative transactions to which hedge accounting is not applied

Millions of yen

	2012			2013		
(As of March 31)	Contract amount	Over one year	Fair value	Contract amount	Over one year	Fair value
Foreign exchange forward contract						
Buying	¥ 87,143	¥—	¥(1,227)	**¥318,342**	**¥—**	**¥ 2,298**
Selling	35,091	—	350	**157,921**	**—**	**(2,585)**
Total	¥122,235	¥—	¥ (877)	**¥476,263**	**¥—**	**¥ (287)**

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

Bonds and borrowings that are designated as hedging instruments are as follows:

Millions of yen

	2012		2013	
(As of March 31)	Carrying amount	Due	Carrying amount	Due
Bonds in EUR	¥50,359	2014	**¥50,995**	**2014**
Borrowings in EUR	13,226	2012	**–**	**–**
Borrowings in GBP	48,592	2012	**–**	**–**

Foreign Exchange Sensitivity Analysis

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

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

(As of March 31)	2012	2013
		Millions of yen
Profit before income taxes	¥1,178	**¥(118)**

(6) Interest Rate Risk

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

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

The descriptions of interest rate derivatives are as follows:

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

Millions of yen

			2012			2013
(As of March 31)	Contract amount	Over one year	Fair value	Contract amount	Over one year	Fair value
Interest rate swap						
Fixed rate receipt and floating rate payment	¥29,959	¥ —	¥1,187	**¥ —**	**¥ —**	**¥ —**
Floating rate receipt and fixed rate payment	1,814	1,814	(150)	**2,063**	**2,063**	**(202)**
Interest rate cap						
Buying	29,959	—	0	**—**	**—**	**—**
Total	¥61,732	¥1,814	¥1,037	**¥ 2,063**	**¥2,063**	**¥(202)**

(ii) Derivative transactions to which hedge accounting is applied

Millions of yen

			2012			2013
(As of March 31)	Contract amount	Over one year	Fair value (Note)	Contract amount	Over one year	Fair value (Note)
Interest rate swap						
Floating rate receipt and fixed rate payment	¥ 198	¥ 58	¥ (2)	**¥ 58**	**¥ —**	**¥ (0)**
Cross currency swap						
Floating rate receipt and fixed rate payment	30,000	30,000	(3,350)	**30,000**	**30,000**	**750**
Total	¥30,198	¥30,058	¥(3,352)	**¥30,058**	**¥30,000**	**¥749**

(Note) Recognized at fair value in the consolidated statement of financial position by application of cash flow hedge.

Interest Rate Sensitivity Analysis

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

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

Millions of yen

(As of March 31)	2012	2013
Profit before income taxes	¥1,061	**¥458**

(7) Market Price Fluctuation Risk

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

(8) Fair Value of Financial Instruments

The carrying amount and fair value of financial instruments as of each fiscal year end are as follows:

Millions of yen

		2012		2013
(As of March 31)	Carrying amount	Fair Value	Carrying amount	Fair Value
Long-term borrowings (Note)	¥127,496	¥127,844	**¥ 53,617**	**¥ 53,624**
Bonds (Note)	320,534	328,767	**237,236**	**245,334**

(Note) Current portion is included.

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

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

The fair value of bonds issued by the Group is based on the market price for those having market prices, and based on the present value that is obtained by discounting the total of principal and interest by the interest rate, for which the remaining period and credit risk of such bonds are taken into consideration.

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

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

As of March 31, 2012

	Millions of yen			
	2012			
	Level 1	Level 2	Level 3	Total
Derivative assets	¥ —	¥1,941	¥ —	¥ 1,941
Equity securities	35,712	—	3,394	39,106
Other	71	—	945	1,016
Total	¥35,783	¥1,941	¥4,339	¥42,063
Derivative liabilities	¥ —	¥5,133	¥ —	¥ 5,133
Total	¥ —	¥5,133	¥ —	¥ 5,133

As of March 31, 2013

	Millions of yen			
	2013			
	Level 1	Level 2	Level 3	Total
Derivative assets	**¥ —**	**¥4,077**	**¥ —**	**¥ 4,077**
Equity securities	**43,052**	**—**	**3,646**	**46,699**
Other	**120**	**—**	**978**	**1,098**
Total	**¥43,172**	**¥4,077**	**¥4,625**	**¥51,874**
Derivative liabilities	**¥ —**	**¥3,816**	**¥ —**	**¥ 3,816**
Total	**¥ —**	**¥3,816**	**¥ —**	**¥ 3,816**

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

	Millions of yen	
(Years ended March 31)	2012	**2013**
Balance at the beginning of the year	¥4,530	**¥4,339**
Total gain (loss)		
Profit or loss (Note 1)	(337)	**36**
Other comprehensive income (Note 2)	333	**231**
Purchases	20	**42**
Sales	(206)	**(24)**
Balance at the end of the year	¥4,339	**¥4,625**

(Note 1) Gains and losses included in profit or loss for the year ended March 31, 2012 and 2013 are related to financial assets measured at fair value through profit or loss as of the fiscal year end date. These gains and losses are included in "Financial income" and "Financial costs."

(Note 2) Gains and losses included in other comprehensive income for the year ended March 31, 2012 and 2013 are related to financial assets measured at fair value through other comprehensive income as of the fiscal year end date. These gains and losses are included in "Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income."

36. Related Parties

Based on the Japan Tobacco Inc. Act, the Japanese government shall hold more than one-third of all of the shares issued by the Company (excluding the type of shares, for which it is stipulated that voting rights may not be exercised on any matters that can be resolved by Annual Shareholders Meeting). As of March 31, 2013, the Japanese government held 33.35% of all outstanding shares of the Company.

(1) Related-Party Transactions

Related-party transactions are conducted under the same conditions as regular business transactions. The details of acquisition of treasury shares are described in "25. Equity and Other Equity Items."

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

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

Millions of yen

(Years ended March 31)	2012	2013
Remuneration and bonuses	¥762	**¥880**
Share-based payments	133	**114**
Total	¥895	**¥994**

FINANCIAL INFORMATION

37. Commitments

(1) Commitments for the Acquisition of Assets

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

Millions of yen

(As of March 31)	2012	2013
Acquisition of property, plant and equipment	¥32,541	**¥78,802**
Acquisition of intangible assets	8,183	**2,108**
Total	¥40,724	**¥80,909**

(2) Procurement of Domestic Leaf Tobacco

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

38. Contingencies

Contingent Liabilities

The Company and some of its subsidiaries are defendants in lawsuits. Provisions are not accounted for in matters it is not practiable to reasonably estimate the final outcomes. The Company believes that our allegations on these lawsuits are based on substantial evidence and implement the system for response to action with the assistance of external lawyers.

(1) Smoking and Health Related Litigation

The Company and some of its subsidiaries become defendants in lawsuits filed by plaintiffs seeking damages for harm allegedly caused by smoking, the marketing of tobacco products, or exposure to tobacco smoke. As of March 31, 2013, there were a total of 28 smoking and health related cases pending in which one or more members of the Group were named as a defendant or for which the Company may have certain indemnity obligations pursuant to the agreement for the Company's acquisition of RJR Nabisco Inc.'s overseas (non-U.S.) tobacco operations.

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

a. Individual Claim

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

South Africa Individual Claim (Joselowitz):

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

In addition, there are eight individual cases (some of which are stayed pending a ruling in one of the eight cases) brought against the Company's subsidiary in Ireland, and one individual case brought against the Company in Japan.

b. Class Actions

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

Canada Quebec Class Action (Cecilia Letourneau):

This class action was brought in September 1998 against three Canadian tobacco manufacturers including JTI-Macdonald Corp. (hereinafter referred to as "JTI-Mac"), the Company's Canadian subsidiary. Plaintiffs are seeking compensatory and punitive damages for class members of approximately ¥1,648.6 billion (CAD 17.8 billion) without specifying any individual amount or percentages among the defendants. The class was certified by the court in February 2005. The trial commenced in March 2012. The defendants filed a third-party claim against the government of Canada seeking contribution and indemnity on the grounds that the Canadian government was highly involved in the tobacco industry in respect of smoking and health related matters. The Court of First Instance denied the government of Canada's motion to dismiss such third-party claim in February 2012. The Court of Appeal thereafter granted the government of Canada's appeal of the decision of the Court of First Instance in November 2012. The defendants did not appeal that decision, which dismissed the government of Canada as a defendant in the case.

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

This class action was brought in November 1998 against three Canadian tobacco manufacturers including JTI-Mac. Plaintiffs are seeking compensatory and punitive damages for class members of approximately ¥476.7 billion (CAD 5.1 billion) without specifying any individual amount or percentages among the defendants. The class was certified by the court in February 2005. The trial commenced in March 2012. The defendants filed a third-party claim against the government of Canada seeking contribution and indemnity on the grounds that the Canadian government was highly involved in the tobacco industry in respect of smoking and health related matters. The Court of First Instance denied the government of Canada's motion to dismiss such third-party claim in February 2012. The Court of Appeal thereafter granted the government of Canada's appeal of the decision of the Court of First Instance in November 2012. The defendants did not appeal that decision, which dismissed the government of Canada as a defendant in the case.

Canada Saskatchewan Class Action (Adams):

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

Canada Manitoba Class Action (Kunta):

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

Canada Nova Scotia Class Action (Semple):

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

Canada British Columbia Class Action (Bourassa):

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

Canada British Columbia Class Action (McDermid):
This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2010. Plaintiffs are seeking unspecified compensatory and punitive damages for class members. The preliminary motions are pending. The case is currently dormant.
Canada Ontario Class Action (Jacklin):
This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2012. Plaintiffs are seeking unspecified compensatory and punitive damages for class members. The class action has been dormant since the date it was served on defendants.

c. Health-Care Cost Recovery Litigation

There are nine ongoing health-care cost recovery cases in Canada pending against the Company's subsidiary and indemnitees brought by the Provinces of British Columbia, New Brunswick, Ontario, Newfoundland and Labrador, Manitoba, Quebec, Alberta, Saskatchewan and Prince Edward Island. These provinces filed lawsuits under their own provincial legislation which was enacted exclusively for the purpose of authorizing the provincial government to file a direct action against tobacco manufacturers to recoup the health-care costs the government has incurred and will incur, resulting from "tobacco related wrongs."
Canada British Columbia Health-Care Cost Recovery Litigation:
This health-care cost recovery litigation was filed by the Province of British Columbia in January 2001 against tobacco industry members including JTI-Mac and the Company's indemnitees based on its provincial legislation, the "Tobacco Damages and Health-Care Costs Recovery Act." The claim amount is unspecified. In 2001, several defendants challenged the legislation's constitutionality, which was ultimately rejected by the Supreme Court of Canada in September 2005. The action remains pending in the first instance. The defendants further filed a third-party claim against the government of Canada seeking contribution and indemnity on the grounds that the Canadian government was highly involved in the tobacco industry in respect of smoking and health related matters. In July 2011, the Supreme Court of Canada ultimately dismissed the defendants' third-party claim against the government of Canada. The pre-trial discovery process is ongoing. A trial date is not yet scheduled.
Canada New Brunswick Health-Care Cost Recovery Litigation:
This health-care cost recovery litigation was filed by the Province of New Brunswick in March 2008 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The pre-trial discovery process is ongoing. A trial date is not yet scheduled.
Canada Ontario Health-Care Cost Recovery Litigation:
This health-care cost recovery litigation was filed by the Province of Ontario in September 2009 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The statement of claim in this case contains allegations of joint and several liabilities among all the defendants but does not specify any individual amount or percentages within the total claimed amount of ¥4,629.0 billion (CAD 50.0 billion). The pre-trial process is ongoing. A trial date is not yet scheduled.
Canada Newfoundland and Labrador Health-Care Cost Recovery Litigation:
This health-care cost recovery litigation was filed by the Province of Newfoundland and Labrador in February 2011 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The pre-trial process is ongoing. A trial date is not yet scheduled.
Canada Manitoba Health-Care Cost Recovery Litigation:
This health-care cost recovery litigation was filed by the Province of Manitoba in May 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The pre-trial process is ongoing. A trial date is not yet scheduled.
Canada Quebec Health-Care Cost Recovery Litigation:
This health-care cost recovery litigation was filed by the Province of Quebec in June 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The statement of claim in this case contains allegations of joint and several liabilities among all the defendants but does not specify any individual amount or percentages, within the total amount of the claim ¥5,615.7 billion (CAD 60.7 billion). The pre-trial process is ongoing. A trial date is not yet scheduled.
Canada Alberta Health-Care Cost Recovery Litigation:
This health-care cost recovery litigation was filed by the Province of Alberta in June 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on the legislation similar to that introduced in the Province of British Columbia. The statement of claim in this case contains allegations of joint and several liabilities among all the defendants but does not specify any individual amount or percentages, within the total claimed amount of at least ¥925.8 billion (CAD 10.0 billion). The pre-trial process is ongoing. A trial date is not yet scheduled.
Canada Saskatchewan Health-Care Cost Recovery Litigation:
This health-care cost recovery litigation was filed by the Province of Saskatchewan in June 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The pre-trial process is ongoing. A trial date is not yet scheduled.
Canada Prince Edward Island Health-Care Cost Recovery Litigation:
This health-care cost recovery litigation was filed by the Province of Prince Edward Island in September 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The pre-trial process is ongoing. A trial date is not yet scheduled.
In addition, there is 1 ongoing health-care cost recovery case pending against the Company's subsidiaries in Spain.

(2) Other Litigation

The Company and some of its subsidiaries are also named as defendants in other litigation such as commercial and tax disputes. One major case is pending:

Commercial Litigation

Japan Compensatory Damages Claim:

In February 2010, a former President & CEO of Katokichi Co., Ltd. (renamed as TableMark Co., Ltd. after acquisition by the Company) filed a claim against TableMark Co., Ltd. and its subsidiary seeking damages allegedly incurred by the plaintiff from an asset purchase agreement between the plaintiff and Katokichi Co., Ltd and a joint and several guarantee provided by the plaintiff. The plaintiff argues the invalidity of the asset purchase agreement.

(Note) The amount of damages sought denominated in foreign currencies is translated into Japanese yen at the rates of 31 March 2013.

39. Subsequent Events

No items to report

Consolidated Supplementary Information

A. Quarterly Information for the Year ended March 31, 2013

Millions of yen

	Q1 From April 1, 2012 to June 30, 2012	Q2 From April 1, 2012 to September 30, 2012	Q3 From April 1, 2012 to December 31, 2012	2013 From April 1, 2012 to March 31, 2013
Revenue	¥512,108	¥1,057,391	¥1,608,399	¥2,120,196
Profit before income taxes for the period (year)	124,391	252,106	392,042	509,560
Profit for the period (year)	86,406	171,836	268,633	351,518
Basic earnings per share for the period (year) (yen)	44.38	88.62	138.48	181.07

	Q1 From April 1, 2012 to June 30, 2012	Q2 From July 1, 2012 to September 30, 2012	Q3 From October 1, 2012 to December 31, 2012	Q4 From January 1, 2013 to March 31, 2013
Basic earnings per share for the quarter (yen)	¥44.38	¥44.24	¥49.85	¥42.57

(Note 1) Quarterly information from the second quarter to the fourth quarter is provided based on the "Cumulative differences method."

(Note 2) The Company conducted the 200-for-one share split, with basis date of June 30, 2012 and effective date of July 1, 2012. Basic earnings per share are calculated assuming that the share split was conducted at the beginning of the year ended March 31, 2013.

B. Significant Lawsuits

The significant lawsuits of the Group are as stated in "38. Contingencies" in the notes to consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

Deloitte.

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To the Board of Directors of Japan Tobacco Inc.:

We have audited the accompanying consolidated statement of financial position of Japan Tobacco Inc. and its consolidated subsidiaries as of March 31, 2013, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Japan Tobacco Inc. and its consolidated subsidiaries as of March 31, 2013, and the consolidated results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte Touche Tohmatsu LLC

June 21, 2013

Member of
Deloitte Touche Tohmatsu Limited