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

Securities Code: 2914
May 30, 2014

To Our Shareholders

Mitsuomi Koizumi
President, Chief Executive Officer and
Representative Director
Japan Tobacco Inc.
2-1, Toranomon 2-chome, Minato-ku, Tokyo

NOTICE OF CONVOCATION OF

THE 29TH ORDINARY GENERAL MEETING OF SHAREHOLDERS

You are cordially invited to attend the 29th ordinary general meeting of shareholders of Japan Tobacco Inc. ("JT" or the "Company") to be held as set forth below.

If you cannot attend the meeting, you may exercise your voting rights in written form or by electromagnetic means including the Internet. Please see the "Reference Documents for the General Meeting of Shareholders" hereinafter described and exercise your voting rights by 6:00 p.m., on Monday, June 23, 2014, by returning to us by that time the Voting Rights Exercise Form enclosed herewith indicating whether you are for or against each of the items, or by accessing the web-site designated by us for the exercise of voting rights (http://www.evote.jp/).

Particulars

1. **Date and Time of the Meeting:** Tuesday June 24, 2014 at 10:00 a.m.
2. **Place of the Meeting:** Tokyo Prince Hotel
   3-1, Shibakoen 3-chome, Minato-ku, Tokyo
3. **Purpose of the Meeting:**

Matters to be Reported:

1. Report on the Business Report, the Consolidated Financial Statements, and the Accounting Auditors' Report and JT's Audit & Supervisory Board Report on the Consolidated Financial Statements for the 29th Business Term (From April 1, 2013 to March 31, 2014)
2. Report on the Non-Consolidated Financial Statements for the 29th Business Term (From April 1, 2013 to March 31, 2014)

Matters to be Resolved:

Company's Proposals (Item 1 to Item 4)
Item 1: Distribution of Surplus
Item 2: Partial Amendments to the Articles of Incorporation
Item 3: Election of Eight (8) Directors
Item 4: Election of One (1) Substitute Audit & Supervisory Board Member
Shareholder's Proposals (Item 5 to Item 9)
Item 5: Dividend Proposal
Item 6: Share Buy-back
Item 7: Partial Amendments to the Articles of Incorporation
Item 8: Cancellation of All Existing Treasury Shares
Item 9: Partial Amendments to the Articles of Incorporation

4. Other Decisions on the Convocation of the Meeting

(1) If the voting right is exercised both by return of the Voting Rights Exercise Form and via the Internet, only the exercise of the voting right via the Internet shall be valid.

(2) If the voting right is exercised more than once via the Internet, only the last exercise of the voting right shall be valid.

Information on Matters Posted on JT's Web-site

1. Notes to Consolidated and Non-Consolidated Financial Statements are posted on our web-site (http://www.jti.co.jp/) in accordance with laws and regulations, and the provision in Article 17 of the Articles of Incorporation. Therefore, they are not included in this Notice of Convocation of the 29th Ordinary General Meeting of Shareholders.

   In addition to documents stated in the reference documents attached to the Notice of Convocation of the 29th Ordinary General Meeting of Shareholders, Notes to Consolidated and Non-Consolidated Financial Statements posted on the Company's web-site are included in Consolidated and Non-Consolidated Financial Statements audited by Audit & Supervisory Board Members and the Accounting Auditors in the course of preparing Audit Report and Accounting Auditors' Report respectively.

2. If there is any amendment to the "Reference Documents for the General Meeting of Shareholders," Business Report (available in Japanese), or Non-Consolidated and Consolidated Financial Statements (available in Japanese), it will be published on our web-site (http://www.jti.co.jp/).

JT's web-site ▶ http://www.jti.co.jp/

* For those attending, please bring this Notice of Convocation of the 29th Ordinary General Meeting of Shareholders with you.
* In case an agent attends the meeting, please present a proxy together with the Voting Rights Exercise Form at the reception desk on arrival at the meeting.
  Only one other shareholder who can exercise the voting rights at the 29th Ordinary General Meeting of Shareholders is supposed to be eligible to serve as your agent.
* Please note that the meeting will be conducted in Japanese only. An interpreter, including a sign language interpreter, may accompany you. If you would like to have an interpreter accompany you, please tell so at the reception desk. It is also possible for us to arrange a Japanese sign language interpreter for you. If you are in need of this service, please inquire us in writing by June 17 (your letter of inquiry must reach us by this date).
* It is expected to be crowded immediately before the meeting begins. If meeting room No.1 becomes full, you will be ushered to meeting room No.2. We ask that you come to the meeting at your earliest convenience.

Instructions for Exercising Your Voting Rights

Exercise of voting rights at the Company's General Meeting of Shareholders is shareholders' important right. Please by all means exercise your voting rights.

Relation between Item 1, company's proposal, and Item 5, shareholder's proposal:
Item 5 "Dividend Proposal," which is a shareholder's proposal, is a counter proposal against Item 1 "Distribution of Surplus," which is the Company's proposal. Therefore, <u>Item 1 and Item 5 are incompatible. In addition, if there is no indication of for or against on each proposal, it shall be deemed that you have voted "for" the Company's proposal and "against" the shareholder's proposal.</u> Accordingly, please note that, <u>in cases where you exercise your voting rights to vote for both Item 1 and Item 5 in written form or by electromagnetic means, or to vote neither for nor against Item 1 and to vote for Item 5</u> in written form, <u>the exercise of the voting rights concerning Item 1 and Item 5 will be invalid.</u>

There are three methods to exercise your voting rights as indicated below.

A.	In case of attending the meeting	Please present the Voting Rights Exercise Form at the reception desk on arrival at the meeting. (Not required to place a seal.)
B.	In case of exercising the Voting Rights by post	Please post the Voting Rights Exercise Form indicating whether you are for or against each of the items so as to be returned to us by 6:00 p.m., on Monday, June 23, 2014.
C.	In case of exercising the Voting Rights via the Internet	See the next page.

To institutional investors	JT participates in the voting rights exercise platform operated and administered by ICJ, Inc.

Instructions for Exercise of the Voting Rights via the Internet

For the exercise of the voting rights via the Internet, please access the designated web-site for the exercise of the voting rights (“Voting Rights Exercise Web-site”), and exercise your voting rights after confirming the items below.

If you have any inquiries, please contact “Inquiries on systems, etc. (Help Desk)” provided below.

For those attending, procedures for exercising your voting rights by post (return of the Voting Rights Exercise Form) or via the Internet are unnecessary.

Particulars

1. Voting Rights Exercise Web-site

Voting Rights Exercise Web-site	▶	http://www.evote.jp/

(1)The exercise of the voting rights via the Internet is available only by accessing the Voting Rights Exercise Web-site from your computer or smartphone. (However, you will not be able to access the web-site from 2:00 a.m. to 5:00 a.m. each day during the exercise period.)

(2)If you use firewalls, etc. for the Internet connection, antivirus programs or a proxy server, you may not be able to access the web-site depending on your Internet environment.

(3)The exercise of the voting rights via the Internet is only available until 6:00 p.m. on Monday June 23, 2014. We appreciate it if you exercise your voting rights at your earliest convenience.

2. Exercise of the Voting Rights via the Internet

(1) On the Voting Rights Exercise Web-site, please indicate whether you are for or against each of the items following the directions on the web-site using the “Log-in ID” and “Temporary Password” described in the Voting Rights Exercise Form.

(2) In order to prevent unauthorized access (web spoofing) or alteration of the voting by non-shareholders, you will be asked to change your “Temporary Password” on the Voting Rights Exercise Web-site.

(3) JT will notify you of the new “Log-in ID” and “Temporary Password” at each convocation of the General Meeting of Shareholders.

3. In the Event Voting Rights Are Exercised More than Once

(1) If the voting right is exercised both by return of the Voting Rights Exercise Form and via the Internet, only the exercise of the voting right via the Internet shall be valid.

(2) If the voting right is exercised more than once via the Internet, only the last exercise of the voting right shall be valid.

4. Fees Incurred When Accessing the Voting Rights Exercise Web-site

Each shareholder shall bear any fees for accessing the Voting Rights Exercise Web-site (Internet provider connection fees, communications fees, etc.).

If you have any inquiries, please contact "Help Desk" shown below.

Inquiries on systems, etc.	Mitsubishi UFJ Trust and Banking Corporation Corporate Agency Division Help Desk Tel: 0120-173-027 (Japanese-language only) (Business hours: 9:00 to 21:00, Toll-free)

REFERENCE DOCUMENTS
FOR THE GENERAL MEETING OF SHAREHOLDERS

Company's Proposals (Item 1 to Item 4)

<u>Company's Proposal</u>

Item 1: Distribution of Surplus

The year-end dividends on shares of Common Stock for the 29th Business Term are proposed to be paid with a consolidated dividend payout ratio at 40.8%, meeting the target of 40%, which was announced as a target of the Business Plan 2013 at the beginning of the term, as follows.

(1) Type of assets to be paid as dividends:

Cash

(2) Allotment of assets to be paid as dividends and their aggregate amount:

¥50 per share of Common Stock of JT　　　　Aggregate amount: ¥90,877,400,600

Together with the interim dividends of ¥46 per share paid in November 2013, the annual dividends for the 29th Business Term will be ¥96 per share, a ¥28 increase year-on-year.

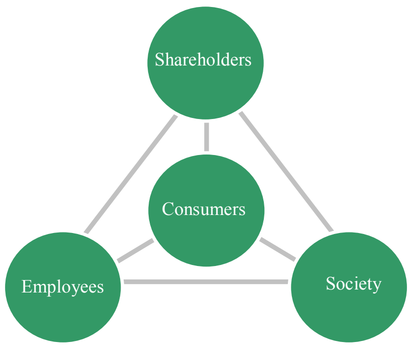
(3) Effective date for distribution of surplus:

June 25, 2014

Reference: JT's basic view on allocation of management resources

The Company prioritizes business investments for sustainable future profit growth in the mid- to long-term, in line with these management principles, and seeks to improve the attractiveness of our shareholder returns at the same time by benchmarking global FMCG (*1) companies in a variety of sectors.

In the Business Plan 2014, the Company set out targets for the adjusted operating profit (*2) growth rate (at constant rates of exchange), the consolidated dividend payout ratio and the adjusted EPS (*3) growth rate (at constant rates of exchange) as follows.



Management Principle
We will balance the interests of consumers, shareholders, employees and wider society, and fulfill our responsibilities towards them, aiming to exceed their expectations.

Group Profit Target

Adjusted Operating Profit Growth Rate (at constant rates of exchange)	Mid to high single-digit (*4) annual average growth rate (*5) over the mid- to long-term

Shareholder Return Target

Consolidated Dividend Payout Ratio	In order to be on par with global players in the FMCG business, aim for at least 50%. Aim for 50% in the fiscal year ending December 31, 2015.
Adjusted EPS Growth Rate (at constant rates of exchange)	High single-digit (*6) annual average growth rate (*5) over the mid- to long-term

*1 FMCG: Fast Moving Consumer Goods (daily consumer goods)

*2 Effective the fiscal year ending December 31, 2014, the profit target measurement has been changed to adjusted operating profit (at constant rates of exchange). Adjusted operating profit is calculated by deducting amortization of intangible assets associated with acquisitions and adjustment items (income and costs) from operating profit (loss). Adjustment items (income and costs) are impairment losses on goodwill, and restructuring-related income and costs.

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

3 Adjusted EPS = (Profit or loss attributable to owners of the parent company ± adjustment items (income and costs) ± tax and minority interests adjustments) / (weighted-average common shares + increased number of ordinary shares under subscription rights to shares)

*Adjustment items (income and costs): Impairment losses on goodwill ± restructuring income and costs ± others

*4 mid to high single-digit: mid to high single-digit-percentage

*5 On a comparable basis under the assumption that the fiscal year is 12 months from January to December

*6 high single-digit: high single-digit-percentage

Company's Proposal

Item 2: Partial Amendments to the Articles of Incorporation

1. Reasons for Amendments

While the fiscal year of the Company begins on April 1 every year and ends on March 31 of the following year, the meeting of the Board of Directors held on January 30, 2014 decided to change it to cover the twelve months from January 1 to December 31 from the fiscal year 2015 for the purpose of strengthening and enhancing the efficiency of the Company's financial reporting and management systems across the Group. It also ensures timely and appropriate disclosure of management information to further enhance transparency of management by unifying the accounting period with its international consolidated subsidiaries.

Pursuant to this decision, necessary amendments are to be made to Articles 13 (Record Date), 15 (Convocation), 32 (Business Year), 33 (Year-End Dividends), and 34 (Interim Dividends) of the Company's current Articles of Incorporation.

In addition, as the 30th Business Term will cover the nine months from April 1, 2014 to December 31, 2014 as a result of this change in the business year, supplementary provisions are also to be established as a transitional measure.

2. Proposed amendments

Proposed amendments are as follows.

Current Articles of Incorporation	Proposed Amendments
(Record Date) Article 13: The Company shall deem any shareholder whose name appears in the Shareholder Registry as of <u>March 31st</u> of a year to be the shareholder who is entitled to exercise his/her rights in the Ordinary General Meeting of Shareholders of each respective business year.	(Record Date) Article 13: The Company shall deem any shareholder whose name appears in the Shareholder Registry as of <u>December 31st</u> of a year to be the shareholder who is entitled to exercise his/her rights in the Ordinary General Meeting of Shareholders of each respective business year.
(Convocation) Article 15: The Ordinary General Meeting of Shareholders of the Company shall be convened in <u>June</u> of every year and the extraordinary General Meeting of Shareholders may be convened at any time when deemed necessary by the President pursuant to the resolution of the Board of Directors.	(Convocation) Article 15: The Ordinary General Meeting of Shareholders of the Company shall be convened in <u>March</u> of every year and the extraordinary General Meeting of Shareholders may be convened at any time when deemed necessary by the President pursuant to the resolution of the Board of Directors.
(Business Year) Article 32: The business year of the Company shall commence on <u>April 1st</u> and end on <u>March 31st</u> <u>of the ensuing year</u>	(Business Year) Article 32: The business year of the Company shall commence on <u>January 1st</u> and end on <u>December 31st</u>.

(Underlined parts denote amendments)

Current Articles of Incorporation	Proposed Amendments
(Year-End Dividends) Article 33: The Company shall, by the resolution of the General Meeting of Shareholders, pay monetary dividends of its retained earnings (hereinafter referred to as “Year-End Dividends”) to the shareholders or registered pledgees of shares who are recorded in the Shareholder Registry as of March 31st of every year.	(Year-End Dividends) Article 33: The Company shall, by the resolution of the General Meeting of Shareholders, pay monetary dividends of its retained earnings (hereinafter referred to as “Year-End Dividends”) to the shareholders or registered pledgees of shares who are recorded in the Shareholder Registry as of December 31st of every year.
(Interim Dividends) Article 34: The Company may, by the resolution of the Board of Directors, pay dividends of its retained earnings as prescribed in Article 454, Paragraph 5 of the Companies Act (hereinafter referred to as “Interim Dividends”) to the shareholders or registered pledgees of shares who are recorded in the Shareholder Registry as of September 30th of every year.	(Interim Dividends) Article 34: The Company may, by the resolution of the Board of Directors, pay dividends of its retained earnings as prescribed in Article 454, Paragraph 5 of the Companies Act (hereinafter referred to as “Interim Dividends”) to the shareholders or registered pledgees of shares who are recorded in the Shareholder Registry as of June 30th of every year.
SUPPLEMENTARY PROVISIONS	SUPPLEMENTARY PROVISIONS
(Newly established)	Article 5: Notwithstanding the provision of Article 32 (Business Year), the Company’s 30th business year shall commence on April 1st, 2014 and end on December 31st, 2014.
(Newly established)	Article 6: Notwithstanding the provision of Article 34 (Interim Dividends), the Company’s record date for interim dividends of the Company’s 30th business year shall be September 30th, 2014. This article and the preceding article shall be deleted after the 30th business year.

Company's Proposal

Item 3: Election of Eight (8) Directors

The terms of office of all nine (9) present Directors will expire at the conclusion of this ordinary general meeting of shareholders. Accordingly, the election of eight (8) Directors is proposed.

The candidates for the office of Director are as follows:

Candidate Number			
1	Yasutake Tango	(Born March 21, 1951)	Number of the Company's Shares Held 0

Newly appointed

Brief Personal History, Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company

April 1974	Entered Ministry of Finance
October 2006	Director-General of the Financial Bureau
July 2007	Deputy Vice Minister
July 2008	Director-General of the Budget Bureau
July 2009	Administrative Vice Minister
July 2010	Retired from the office of Administrative Vice Minister
December 2010	Corporate Auditor, The Yomiuri Shimbun Holdings
December 2012	Special Advisor to the Cabinet

Candidate number			
2	Mitsuomi Koizumi	(Born April 15, 1957)	Number of the Company's Shares Held 22,700

Reappointed

Brief Personal History, Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company

April 1981	Joined the Company (Japan Tobacco and Salt Public Corporation)
June 2001	Vice President of Corporate Planning Division
June 2003	Senior Vice President, and Head of Human Resources and Labor Relations Group
June 2004	Senior Vice President, and Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters
June 2006	Executive Vice President, and Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters
June 2007	Member of the Board, Executive Vice President, and Head of Marketing & Sales General Division, Tobacco Business Headquarters
July 2007	Member of the Board, Executive Vice President, and Chief Marketing & Sales Officer, Tobacco Business Headquarters
June 2009	Representative Director, Executive Deputy President, and President, Tobacco Business Headquarters
June 2012	President, Chief Executive Officer and Representative Director (Current Position)

Candidate Number			
3	Yasushi Shingai	(Born January 11, 1956)	Number of the Company's Shares Held 22,400

Reappointed

Brief Personal History, Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company

April 1980	Joined the Company (Japan Tobacco and Salt Public Corporation)
July 2001	Vice President of Financial Planning Division
June 2004	Senior Vice President, Head of Finance Group
July 2004	Senior Vice President, Chief Financial Officer
June 2005	Member of the Board, Senior Vice President, and Chief Financial Officer
June 2006	Member of the Board
	Executive Vice President, JT International S.A.
June 2011	Executive Deputy President, Representative Director, Assistant to CEO in Strategy, HR, Legal and Food Business
June 2012	Executive Deputy President, Representative Director, Assistant to CEO in Compliance, Strategy, HR, General Administration, Legal, and Operation Review & Business Assurance
	(Current Position)

Candidate Number			
4	Noriaki Okubo	(Born May 22, 1959)	Number of the Company's Shares Held 9,600

Reappointed

Brief Personal History, Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company

April 1983	Joined the Company (Japan Tobacco and Salt Public Corporation)
April 2000	Vice President of Business Development Dept., Pharmaceutical Division
June 2002	Vice President of Business Planning Dept., Pharmaceutical Division
June 2004	Member of the Board, Senior Vice President, and President, Pharmaceutical Business
June 2006	Member of the Board, Executive Vice President, and President, Pharmaceutical Business
June 2009	Member of the Board, Senior Executive Vice President, and President, Pharmaceutical Business
June 2012	Executive Deputy President, Representative Director, Assistant to CEO in Pharmaceutical and Food Business
June 2013	Executive Deputy President, Representative Director, Assistant to CEO in Pharmaceutical, Beverage and Processed Food Business
	(Current Position)

Candidate Number			
5	Akira Saeki	(Born August 25, 1960)	Number of the Company's Shares Held 13, 800

Reappointed

Brief Personal History, Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company

April 1985	Joined the Company
June 2005	Vice President of Corporate Strategy Division
June 2007	Senior Vice President, Head of Tobacco Business Planning Division, Tobacco Business
June 2008	Senior Vice President, Head of Tobacco Business Planning Division, Tobacco Business and Chief External Affairs Planning Officer
June 2010	Executive Vice President, Head of Tobacco Business Planning Division, Tobacco Business
June 2012	Executive Deputy President, Representative Director, and President, Tobacco Business (Current Position)

(Significant Concurrent Positions outside the Company)

Chairman, JT International Group Holding B.V.

Candidate Number			
6	Hideki Miyazaki	(Born January 22, 1958)	Number of the Company's Shares Held 10, 600

Reappointed

Brief Personal History, Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company

April 1980	Joined Nomura Securities Co., Ltd.
July 2005	Senior Manager of Accounting Division of the Company
January 2006	Deputy Chief Financial Officer
June 2008	Senior Vice President, and Chief Financial Officer
June 2010	Executive Vice President, and Chief Financial Officer
June 2012	Executive Deputy President, Representative Director, Assistant to CEO in CSR, Finance and Communications (Current Position)

Candidate Number		Number of the Company's Shares Held	0
		Number of years as director (at the conclusion of this ordinary general meeting of shareholders)	2
7	Motoyuki Oka (Born September 15, 1943)	Attendance at meetings of the Board of Directors	Attended 13 out of 15 meetings held

Reappointed

Candidate for Outside Director

Independent Director

Brief Personal History, Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company

April 1966	Joined Sumitomo Corporation
June 1994	Director, Sumitomo Corporation
April 1998	Managing Director, Sumitomo Corporation
April 2001	Senior Managing Director, Sumitomo Corporation
June 2001	President and CEO, Sumitomo Corporation
June 2007	Chairman of the Board of Directors, Sumitomo Corporation
June 2012	Adviser, Sumitomo Corporation (Current Position)
June 2012	Outside Director of the Company (Current Position)

(Significant Concurrent Positions outside the Company)

Outside Director, NEC Corporation

Reasons for becoming a candidate

The election of Motoyuki Oka is proposed in anticipation that his abundant experience in the management of global firms and his wide range of insight will be reflected into our company's management. We asked for his participation in the election in hopes of independent and fair supervision of business operations.

Candidate Number				
			Number of the Company's Shares Held	0
			Number of years as director (at the conclusion of this ordinary general meeting of shareholders)	2
8	Main Kohda	(Born April 25, 1951)	Attendance at meetings of the Board of Directors	Attended 14 out of 15 meetings held

Reappointed

Candidate for Outside Director

Independent Director

Brief Personal History, Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company

September 1995	Started independently as Novelist (Current Position)
January 2003	Member of Financial System Council, Ministry of Finance Japan
April 2004	Visiting professor, Faculty of Economics, Shiga University
March 2005	Member of the Council for Transport Policy, Ministry of Land, Infrastructure, Transport and Tourism
November 2006	Member of the Tax Commission, Cabinet Office, Government of Japan
June 2010	Member of the Board of Governors, Japan Broadcasting Corporation
June 2012	Outside Director of the Company (Current Position)

(Significant Concurrent Positions outside the Company)

Novelist

Outside Director, LIXIL Group Corporation

Reasons for becoming a candidate

The election of Main Kohda is proposed in anticipation that her abundant insight into international finance, extensive experiences from being a university professor and member of governmental advisory bodies, etc. and deep insight and objective standpoint she obtained while being a novelist will be reflected onto the management of the Company. We asked for her participation in the election in hopes of independent and fair supervision of business operations.

(Notes)

1. No conflict of interest exists between the Company and the above candidates.
2. The Company has entered into agreements with both Motoyuki Oka and Main Kohda to limit their liabilities stipulated in Article 423, Paragraph 1 of the Companies Act to the extent permitted by the laws and ordinances. Should their election be approved, the Company intends to extend the respective agreements.
3. The Company has designated Motoyuki Oka and Main Kohda as independent directors as prescribed by the Tokyo Stock Exchange, Inc. and intends to designate both of them as such again, should their election be approved.

Company’s Proposal

Item 4: Election of One (1) Substitute Audit & Supervisory Board Member

In preparation against a situation where the number of Outside Auditors falls below the statutory required number, the election of one (1) Substitute Audit & Supervisory Board Member is proposed.

The Audit & Supervisory Board has approved this proposition.

The candidate for the office of Substitute Audit & Supervisory Board Member is as follows:

Michio Masaki

(Born February 20, 1961) Number of the Company’s Shares Held 0

Brief Personal History, Positions in the Company, and Significant Concurrent Positions outside the Company

April 1987	Judicial Apprentice
April 1989	Appointed as Public Prosecutor
July 2003	Head of Takasaki Branch, Maebashi District Public Prosecutors Office
April 2004	Registered as Attorney at Law City-Yuwa Partners (Current Position)

(Significant Concurrent Positions outside the Company)

Attorney at Law, City-Yuwa Partners

Outside Director, Hamai Co., Ltd.

Reasons for candidacy as a Substitute Outside Auditor and reasons why the candidate is considered capable of performing the duties as an Outside Auditor even if he lacks experience of participation in corporate management except as an outside director.

He is deemed able to perform the duties as the Company’s Outside Auditor based on his abundant experience and extensive insight in the legal circles.

(Notes) 1. No conflict of interest exists between the Company and the above candidate.

2. Should Mr. Michio Masaki assume the position of Audit & Supervisory Board Member, the Company intends to enter into an agreement with him to limit his liabilities stipulated in Article 423, Paragraph 1 of the Companies Act to the extent permitted by the laws and ordinances.

3. Mr. Michio Masaki satisfies the requirements of an independent auditor prescribed by the Tokyo Stock Exchange, Inc.

Shareholder’s Proposals (Item 5 to Item 9)

The proposals from Item 5 to Item 9 were made by a shareholder.

The Board of Directors’ general view on the shareholder’s proposals

The Board of Directors is opposed to all five proposals from the proposing shareholder.

The Board of Directors believes that it is in the best interests of all shareholders to achieve sustainable profit growth in the mid- to long-term through business investments for future profit growth and to increase the Company’s value thereby.

The proposing shareholder has made substantially the same proposals regarding the return to shareholders and cancellation of treasury shares as those that were rejected at the General Meeting for Shareholders in the last two years. In addition, the proposing shareholder has proposed an amendment to the Articles of Incorporation for the purpose of the more active use of stock options.

The proposed cash return to shareholders is against the Company’s management principle, as the proposal is based on the premise that a return to shareholders should be a priority. In addition, it is focused on the short-term, as it significantly exceeds the amount of cash flow generated by the business and would require the Company to engage in additional financial borrowing from a third party. Thus, in the event that these shareholder proposals were approved, it would become an obstacle to making business investments for future profit growth and increasing the Company’s value through sustainable profit growth in the mid- to long-term.

Furthermore, given a legal restriction on the issuance of new shares under the relevant provisions of the Japan Tobacco, Inc. Act (“JT Act”), the Company believes that it is important to maintain flexibility to use treasury shares as a substitute for the issuance of new shares and to ensure the flexibility of operations, rather than cancelling all of the treasury shares. Therefore, the Board of Directors believes that decisions on capital strategy, including cancellation of treasury shares, should be entrusted to the Board of Directors. This will ensure adaptability and flexibility to respond to a changing operating environment, and will lead to an increase in the Company’s value through sustainable profit growth in the mid- to long-term.

In addition, the remuneration of the Company’s Directors and Executive Officers, including stock options granted to them as remuneration, is determined through an appropriate process, and the Board of Directors believes that the remuneration is set at an appropriate level. It is deliberated on by the Remuneration Advisory Committee—which is comprised of the Chairman of the Board and four (4) independent Directors and Corporate Auditors— by benchmarking the remuneration level of a group of major Japanese manufacturers of similar size and profit level conducting business overseas. As shown by the Company‘s steady and continuous profit growth, the remuneration system for the Company‘s Executives, including stock options, has worked well as an incentive for improving the Company’s value in the mid- to long-term.

Further still, the proposal regarding the stock option plan is inappropriate since it may affect such capital strategy as the issuance of new shares for the purpose of financing, beyond the directors’ remuneration.

Therefore, the Board of Directors believes that decisions on the remuneration policy for the Company‘s Executives should be entrusted to the Board of Directors.

The Board of Directors recommends all shareholders of the Company to oppose all of the shareholder’s proposals.

The five proposals made by the shareholder and reasons for such proposals which are stated as presented, together with the Board of Directors' view on each of them, are as follows.

Shareholder Proposal

Item 5: Dividend Proposal

1. Proposal

The year-end dividends on shares of Common Stock for the 29th fiscal year shall be paid in the amount of JPY150 per share of Common Stock.

2. Reason for Proposal

The Company has sufficient cash and retained earnings to pay a higher dividend. The Company has on average returned 31% of its earnings to shareholders as dividends in the last three years which is a substantially lower dividend payout ratio compared to its international competitors. The Company's competitors, British American Tobacco and Philip Morris International, pay 65% of their earnings to shareholders while their net debt to EBITDA ratio is approximately 1.5x. The Company will have sufficient net cash this year to afford a dividend payout ratio which is HIGHER than its competitors.

The Board of Directors' view on Item 5

The Board of Directors is opposed to this proposal.

The Board of Directors has prioritized business investments for sustainable profit growth in the mid- to long-term, while at the same time pursuing a competitive level of return to shareholders in comparison to global FMCG players. (*1)

The Company has achieved a compound annual EBITDA growth rate of 7.0% during the fiscal years 2000 to 2013 through business investments which include the acquisitions of RJR International and Gallaher. In the International Tobacco Business that we have focused on in particular so far, the Company has achieved a compound annual US dollar based EBITDA growth rate of 22.3% (*2) during the period.

In the Business Plan 2013 announced in April 2013, the Board of Directors set out a target rate for the adjusted EBITDA growth rate (*3) (at constant FX) of 6.1% and a consolidated dividend payout ratio of 40% in the fiscal year 2013. The Company has achieved an adjusted EBITDA growth rate (at constant FX) of 7.5%, far exceeding the target rate. The Board of Directors considers it appropriate to continue such profit growth through business investments.

Further, the Company has steadily enhanced the amount of return to shareholders with a compound annual growth rate of 28.9% in dividend per share during the past five years through profit growth and a continuous increase in the dividend payout ratio.

The dividend per share at the end of the fiscal year 2013 is expected to be ¥50 according to the Company's proposal Item 1. As a result, a total dividend per share for the fiscal year is expected to be ¥96, and a consolidated dividend payout ratio is expected to be 40.8%, which exceeds 40% as the target rate set forth in the Business Plan announced in April 2013.

In the Business Plan 2014 announced on April 25, the Board of Directors expects the amount of dividend per share for the fiscal year 2014 to be 100 yen, increasing the dividend per share from the fiscal year 2013, while the fiscal year 2014 is a transitional period covering only 9 months from April to December 2014. The target rate for the consolidated dividend payout ratio has been set out at 50% for the fiscal year 2015 (from January to December 2015), which is comparable to other global FMCG players in terms of an annual consolidated dividend payout ratio. The Company continues to steadily enhance the amount of return to shareholders.

In the meantime, in the event that the shareholder's proposal for return were approved, the total amount of the annual dividend per share in the fiscal year 2013 would be ¥196 (including the interim dividend), which amounts to a total dividend of ¥356.2 billion, or a consolidated dividend payout ratio of 83.2%. At the end of the fiscal year 2013, the amount of the Company's net debt, which is calculated by subtracting cash and cash equivalents from debt with interest, was ¥122.7 billion. Taking the unstable circumstances of capital markets into consideration, the Board of Directors believes that the significantly high return as stated in the proposal, which would require the Company to engage in additional financial borrowing from a third party, is short-term focused harming financial stability and flexibility, and would restrict business investments for future profit growth, resulting in loss of business competitiveness and a decrease in the Company's value in the mid- to long-term.

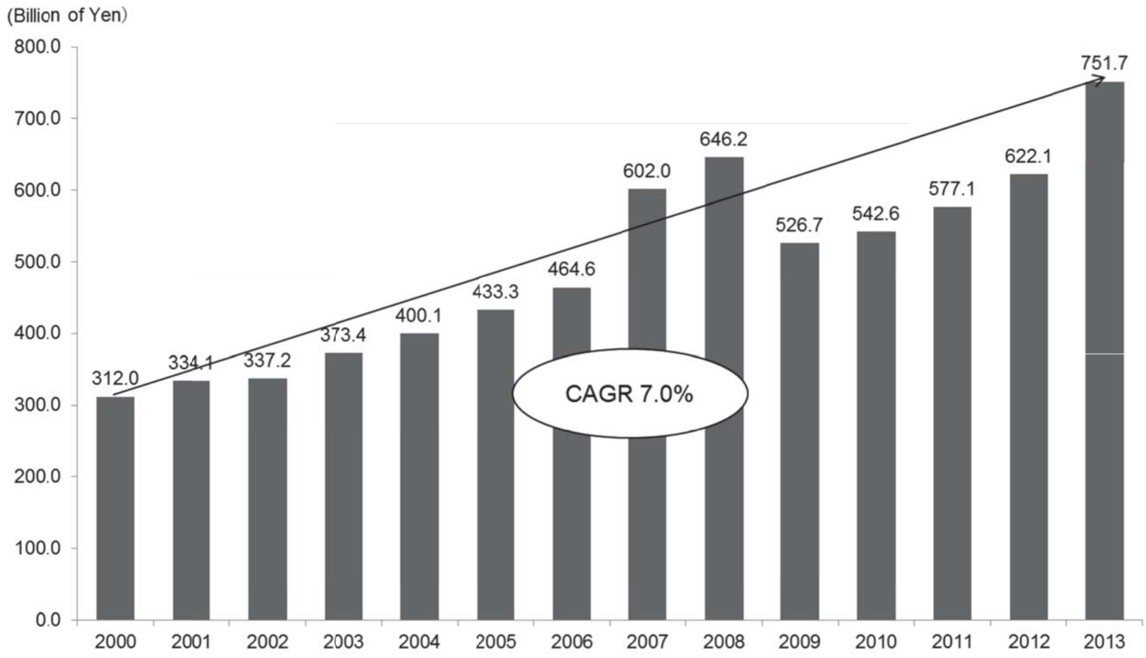
*1 FMCG: Fast Moving Consumer Goods

*2 2000-2009: Based on US-GAAP, 2010-2013: IFRS basis

*3 Adjusted EBITDA = Operating profit + depreciation and amortization ± adjustment items (income and costs)

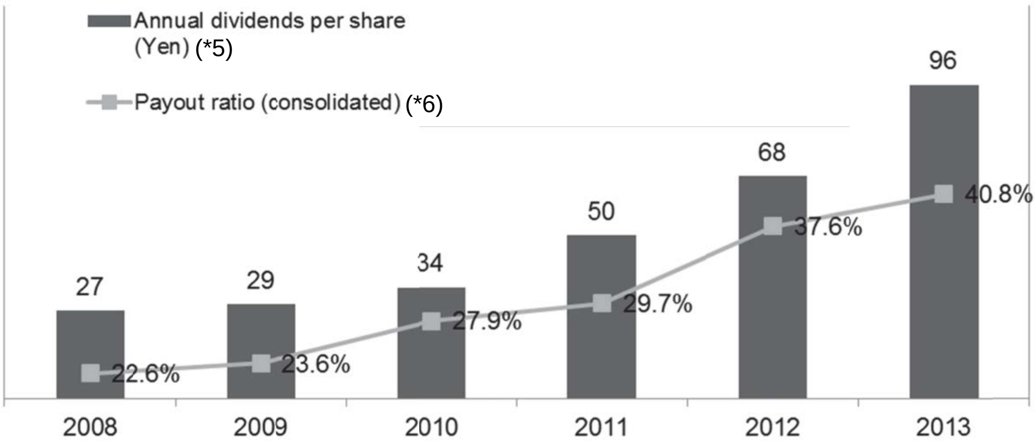
Adjustment items (income and costs): Impairment losses on goodwill ± restructuring income and costs ± others

Reference: Adjusted EBITDA growth



***4 FY2000-FY2010: EBITDA (J-GAPP basis), FY2011-: Adjusted EBITDA (IFRS basis)**

Reference: Dividend payment per share and consolidated dividend payout ratio



*5 A 200 for 1 share split was effectuated as of July 1, 2012. The above numbers are calculated on the assumption that the share split was retroactively effective.

*6 Consolidated dividend payout ratio for FY2010 and prior fiscal years are calculated in JGAAP based on earning before goodwill amortization. FY2011 and fiscal years thereafter are calculated in IFRS.

Shareholder Proposal

Item 6: Share Buy-back

1. Proposal

Pursuant to Article 156 .1 of the Companies Act, the Company will acquire its shares of Common Stock in exchange for cash as follows:

- Shares to be acquired: 200,000,000;
- Maximum aggregate amount of consideration: JPY800,000,000,000 (the "Proposed Amount"); provided that, if the aggregate amount for acquisition as permitted under the Companies Act (the "Distributable Amount" as set forth in Article 461 of the Companies Act) is less than the Proposed Amount, it shall be reduced to such amount as permitted under the Companies Act; and
- Period for the acquisition: Within 1 year from the end of this Ordinary General Meeting for Shareholders

2. Reason for Proposal

The capital structure of the Company is underleveraged and the shares are undervalued. The Company should use its cash resources to buy back shares and then to raise its dividend payout in line with its international peers. This will ensure the Board delivers on its pledge to prioritize the return of profits to shareholders and to deliver a competitive shareholder return with balance sheet leverage closer to its competitors.

The Board of Directors' view on Item 6

The Board of Directors is opposed to this proposal.

The Board of Directors has prioritized business investments for sustainable profit growth in the mid- to long-term, and is also pursuing a competitive level of return to shareholders in comparison to global FMCG players.

Considering that the amount of the Company's net debt at the end of the fiscal year 2013 was ¥122.7 billion, and the average amount of free cash flow per annum over the last three years was over ¥320.0 billion, the Company would be required to engage in additional financial borrowing of the same amount from a third party in order to implement the share buy-back of ¥800 billion as stated in the proposal. The proposal, which far exceeds the amount of cash flow generated by the business, is short-term focused harming financial stability and flexibility, and would become an obstacle to making business investments for future profit growth, resulting in loss of business competitiveness and a decrease in the Company's value in the mid- to long-term.

Regarding possible future share repurchases, the Board of Directors will determine this in a timely and appropriate manner in accordance with the operating environment from the perspective of properly managing the adjusted EPS (*7) growth rate that is set as the key performance indicator relating to return to shareholders.

*7 Adjusted EPS = (Profit or loss attributable to owners of the parent company ± adjustment items (income and costs) ± tax and minority interests adjustments) / (weighted-average common shares + increased number of ordinary shares under subscription rights to shares) Adjustment items (income and costs): Impairment losses on goodwill ± restructuring income and costs ± others

<u>Shareholder Proposal</u>

Item 7: Partial Amendment to the Articles of Incorporation

1. Proposal

The following new provision will be added as Article 19-2 in Chapter 3 “General Meeting for Shareholders” of the Articles of Incorporation:

Article 19-2 The general meeting for shareholders can resolve the matters in respect of cancellation of treasury shares including the class and the number of shares to be cancelled, in addition to the matters set forth in the Companies Act.

2. Reason for Proposal

The Company has been holding treasury shares without using them properly or cancelling them. If the treasury shares are to be allocated to the public or particular third parties, the interest of the existing shareholders will be significantly damaged.

In order to protect the interest of the shareholders, the general meeting for shareholders should have the authority to resolve matters in respect of cancellation of treasury shares by its resolution.

<u>The Board of Directors’ view on Item 7</u>

The Board of Directors is opposed to this proposal.

Under the JT Act, the Company has a legal restriction on the issuance of new shares pursuant to the provision that requires the approval of the Minister of Finance and the provision that stipulates the obligation of the government to hold one-third or more of the total number of the issued shares of the Company. (*8) (*9)

Treasury shares can be utilized in a capital strategy as a substitute for the issuance of new shares. The Board of Directors believes that, considering the legal restriction on the Company as stated above, it is important to maintain flexibility to use treasury shares and to ensure the flexibility of operations, rather than cancelling all of the treasury shares.

The Board of Directors intends to use treasury shares if it determines that the Company can realize profit growth in the mid- to long-term and it will be in the best interests of all shareholders. The Board of Directors believes that decisions on capital strategy, including cancellation of treasury shares, should be entrusted to the Board of Directors, and that this will facilitate flexible operations in accordance with a changing operating environment, leading to an increase of the Company’s value through sustainable profit growth in the mid- to long-term.

*8 The total number of the issued shares is calculated without the number of shares for which it is provided that the voting rights may not be exercised in connection with all matters to be resolved at the shareholder’s meeting.

*9 The percentage held by the Minister of Finance is 33.35% as of March 31, 2014.

Shareholder Proposal

Item 8: Cancellation of all existing Treasury Shares

1. Proposal

Based on the amendment of the Articles of Incorporation in Item 7, we propose the following:

All the treasury shares owned by the Company shall be cancelled.

2. Reason for Proposal

The Company has no need to hold shares in treasury. Cancelling shares also ensures that the benefits of repurchasing shares are fully obtained. If the treasury shares are to be allocated to the public or particular third parties, the interest of the existing shareholders will be significantly damaged.

The Board of Directors' view on Item 8

The Board of Directors is opposed to this proposal.

As stated in our view on Item 7 above, the Company has a legal restriction on the issuance of new shares under the relevant provisions of the JT Act. The Board of Directors believes that it is important to maintain flexibility to use treasury shares as a substitute for the issuance of new shares and to ensure the flexibility of operations, rather than cancelling all of the treasury shares.

Therefore, at this time, the Board of Directors will not consider cancelling all of the treasury shares, since it would limit the Company's flexible capital strategy.

The figures concerning return to shareholders, such as the consolidated dividend payout ratio and EPS, are calculated excluding the treasury shares in accordance with accounting standards, and cancellation of the treasury shares will not affect these figures used as an index showing the level of return to shareholders.

Shareholder Proposal

Item 9: Partial Amendment to the Articles of Incorporation

1. Proposal

The following new provision will be added as Article 19-3 in Chapter 3 "Shareholders' Meeting" of the Articles of Incorporation:

Article 19-3 The shareholders' meeting can resolve the matters in respect of share warrants including issuance and allocation of the share warrants, in addition to the matters set forth in the Companies Act of Japan.

2. Reason of Proposal

The Company should use the stock option plan more actively, in order to align the Directors and Executive Officers with shareholders and to attract and retain key management talent and incentivize the attainment of corporate targets medium and long term. At this point in time the Company's stock option plan is insignificant compared to British American Tobacco and Philip Morris International. Stock options granted to 7 directors and 17 executive officers at the Company totaled less than JPY300mn last year which compares poorly with BAT where the top 3 executive directors received around £5mn (approx. JPY 865 million) in performance related pay in 2012 and over $40mn (approx. JPY 4 billion) at PMI. In order to facilitate the active use of the stock option plan, the Articles of Incorporation should be amended so that the shareholders can resolve the matters, such as making awards of stock options under the existing stock option scheme, adopting additional long term management incentive plans and making awards under such long term management incentive plans.

The Board of Directors' view on Item 9

The Board of Directors is opposed to this proposal.

The remuneration of the Company's Directors and Executive Officers, including stock options granted to them as remuneration, is determined through an appropriate process, and the Board of Directors believes that the remuneration is set at an appropriate level. It is deliberated on by the Remuneration Advisory Committee—which is comprised of the Chairman of the Board, two (2) independent outside Directors, and two (2) independent outside Corporate Auditors—by benchmarking the remuneration level of a group of major Japanese manufacturers of similar size and profit level conducting business overseas. In addition, as shown by the results of the Company's steady and continuous profit growth, the remuneration system and its level for the Company's Executives, including stock options, has worked well to secure excellent human resources, and as an incentive for improving the Company's value in the mid- to long-term.

On the other hand, a plan involving such a significantly high amount of stock options as proposed is likely to encourage the pursuit of short-term profit, resulting in a loss of competitiveness in the mid- to long-term.

The proposal is aimed at broadening the Company's stock option plan to a great extent by comparing it to those of competitors in Europe and the United States. The content of the proposal itself will, however, also affect such capital strategy as the issuance of new shares for the purpose of financing, beyond the issuance of share warrants used as a stock option plan, and therefore it is inappropriate.

Therefore, the Board of Directors believes that decisions on the remuneration system for the Company's Executives including stock options should be entrusted to the Board of Directors.

[Reference: Process of determining the remuneration for the Company's Executives]

The Company has established a Remuneration Advisory Committee consisting of five (5) members, the Chairman of the Board, two (2) independent outside Directors, and two (2) independent outside Corporate Auditors. It is a voluntary advisory committee for the Board of Directors in order to enhance the objectivity and transparency of the remuneration system for the Company's Executives including the stock option plan.

With respect to the policy, system, and calculation method of the remuneration of Directors and Executive Officers, the Remuneration Advisory Committee responds to requests for advice, deliberates and provides recommendations, and monitors the status of remuneration for the Company's Executives.

Based on the recommendations of the Remuneration Advisory Committee, the basic concepts for remuneration for the Company's Executives are as follows:

- It shall be at an adequate level to secure excellent human resources;
- It shall be linked to performance as a motive to achieve targets;
- It shall be linked to the corporate value in the mid- to long-term; and
- It shall be objectively determined based on a quantitative framework resulting in transparency.

Based on these concepts, the remuneration for the Company's Executives is comprised of three (3) components: (i) monthly "base remuneration"; (ii) "executive bonus" reflecting the performance on a single-year basis; and (iii) stock options as remuneration which are linked to the corporate value in the mid- to long-term.(*)

When setting the level of the remuneration for the Company's Executives, the Remuneration Advisory Committee takes into account independent research concerning the remuneration of corporate management and by benchmarking the remuneration level of a group of major Japanese manufacturers of similar size and profit level conducting business overseas. Based on the opinions of the Remuneration Advisory Committee, to the extent of the upper limit of remuneration resolved at the 22nd General Shareholders Meeting in June 2007 (the aggregate amount for all directors is limited to 870,000,000 JPY per year, and to 190,000,000 JPY per year for all auditors; the maximum amount of stock options as compensation is limited to 800 options and 200,000,000 JPY per year), the remuneration for Directors and Executive Officers is determined by resolution of the Board of Directors, and that for Corporate Auditors is determined by consultation with the Corporate Auditors.

*Stock options as remuneration of the Company provide share warrants which are linked to the share price as a part of the remuneration, instead of paying it all in cash. The stock option as remuneration is different from simple stock options (the right to purchase shares at a pre-determined price), and works as an incentive to improve the corporate value in the mid- to long-term.

[Attached Documents]

Business Report

(For this fiscal year from April 1, 2013 to March 31, 2014)

I. Matters Concerning Present State of the Corporate Group (the JT Group)

1. Overview and results of operations

General summary
Revenue

Revenue increased by ¥279.6 billion or 13.2%, from the previous fiscal year to ¥2,399.8 billion. This was mainly the result of favorable pricing exceeding the decline in total shipment volume in the international tobacco business and depreciation in the yen.

Operating profit, adjusted EBITDA and profit attributable to owners of the parent company

Operating profit rose by ¥116.0 billion, or 21.8%, from the previous fiscal year to ¥648.3 billion. This was mainly the results of favorable pricing in the international tobacco business and depreciation in the yen. Adjusted EBITDA(Note 1) rose by ¥129.8 billion, or 20.9% from the previous fiscal year to ¥751.7 billion. Adjusted EBITDA (constant rates of exchange)(Note 2) grew by 7.5% from the previous fiscal year.

Profit attributable to owners of the parent company increased by ¥84.4 billion, or 24.6%, from the previous fiscal year to ¥428.0 billion due to an increase in operating profit.

(Notes) 1. In order to provide useful comparative information on our performance, adjusted EBITDA presented is operating profit (loss) less depreciation and amortization and adjustment items (income and costs). Adjustment items (income and costs) are impairment losses on goodwill, and restructuring-related income and costs.

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

Review of operations by business segment

Domestic Tobacco Business

	[Billions of yen]	Change [%]
Revenue	710.3	3.4
Core revenue(Note 1)	676.2	3.4
Adjusted EBITDA	302.1	7.4

In the current fiscal year, JT worked to further enhance brand equity, particularly for Mevius and other focus brands. These efforts included launching three products in the “Mevius Premium Menthol Option” lineup, which feature the “aroma-changing capsule.” Our total market share for the current fiscal year was strong mainly as a result of vigorous sales promotions, rising to 61.0% from 59.6% for the previous fiscal year.

Total sales volume for domestic cigarettes increased by 3.9 billion cigarettes from the previous fiscal year to 120.1 billion cigarettes(Note 2), an increase of 3.3%, exceeding a 0.9% increase in total demand. This partly reflected increased market share and the impact of a rush in demand ahead of a consumption tax hike in April 2014.

Core revenue(Note 2) increased by ¥22.2 billion, or 3.4%, from the previous fiscal year to ¥676.2 billion as a result of increase in the sales volume. Domestic cigarette revenue per 1,000 cigarettes was ¥5,485.

Adjusted EBITDA increased by ¥20.8 billion, or 7.4%, from the previous fiscal year to ¥302.1 billion, despite an increase in costs associated with the weaker yen.

(Notes) 1. Core revenue in the domestic tobacco business is calculated by deducting revenue pertaining to imported tobacco delivery charges, among others, from the revenue.

2. In addition to the figure stated above, during the current fiscal year, 3.4 billion cigarettes were sold at duty-free shops in Japan, as well as at markets in China, Hong Kong and Macau that are under the control of JT's China Division (this amount was 3.1 billion cigarettes in the previous fiscal year).

International Tobacco Business

	[Billions of yen]	Change [%]
Revenue	1,270.0	25.7
Core revenue(Note 1)	1,200.7	27.3
Adjusted EBITDA	451.6	31.6

Among GFBs(Note 2) in the current fiscal year, shipment volumes of Winston grew in Russia and Caucasus, while shipment volumes of LD increased in Kazakhstan and Hungary. Even so, as a result of a decrease in total demand, mainly in Russia and Europe, and negative effects from inventory adjustments in several markets, overall shipment volume was at the same level as the previous fiscal year. Furthermore, total shipment volume including GFBs decreased by 20.2 billion cigarettes, or 4.6%, from the previous fiscal year to 416.4 billion cigarettes, despite continued market share growth in key markets excluding Russia and the effects of the acquisition of Gryson NV, a major RYO/MYO(Note 3) tobacco company.

Because the decline in shipment volume was exceeded by favorable pricing, dollar-based core revenue increased by $457 million, or 3.9%, from the previous fiscal year to $12,273 million. In addition, adjusted EBITDA increased by $323 million, or 7.5%, from the previous fiscal year to $4,623 million, even with factors such as increased investment in promotion.

As a result of the effects of a weaker yen when making conversions to that currency, yen-based core revenue increased by ¥257.6 billion, or 27.3%, from the previous fiscal year to ¥1,200.7 billion, and adjusted EBITDA increased by ¥108.4 billion, or 31.6%, from the previous fiscal year to ¥451.6 billion.

(Notes) 1. Core revenue in the international tobacco business is calculated by deducting revenue pertaining to distribution business and contract manufacturing, among others, from the revenue.

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

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

* In the fiscal year ended March 31, 2014, the exchange rates of major currencies against the U.S. dollar were as follows.

Foreign exchange rate per U.S. dollar	28th term FY2012	29th term FY2013
Yen	79.81 yen	97.73 yen
Ruble	31.07 rubles	31.84 rubles
Pounds sterling	0.63 pounds sterling	0.64 pounds sterling
Euro	0.78 euros	0.75 euros

Pharmaceutical Business

	[Billions of yen]	Change [%]
Revenue	64.4	21.2
Adjusted EBITDA	(5.4)	Negative ¥12.7 billion in the previous fiscal year

In the pharmaceutical business, we strived to establish a stronger profit platform by having rapid and efficient market launches of compounds in late phases of clinical development and maximizing the value of each product. The number of compounds developed in-house that are under clinical development is now 9 as a result of JTT-251, a type-2 diabetes drug, newly proceeding to the clinical stage.

In the current fiscal year, anti-HIV drug "Stribild® Combination Tablets" was put on sale in Japan by subsidiary Torii Pharmaceutical Co., Ltd. in May 2013. Riona® Tablets 250mg, a hyperphosphatemia treatment, will also be put on sale by Torii Pharmaceutical in May following the acquisition in January 2014 of approval to manufacture and market the drug in Japan. Torii Pharmaceutical, also obtained approval in January 2014 to manufacture and market CEDARTOLEN® SUBLINGUAL DROP - Japanese Cedar Pollen, a sublingual immunotherapy drug for Japanese cedar pollinosis in Japan.

As for original JT compounds that have been out-licensed, in November 2013, Gilead Sciences, Inc. obtained marketing approval from the European Medicines Agency (EMA) for anti-HIV drug Vitekta™ (JTK-303). Gilead Sciences has also submitted marketing applications for the drug to the US Food and Drug Administration (FDA). In addition, marketing approval for an MEK inhibitor compound (trametinib) for melanoma was obtained by GlaxoSmithKline, the licensee, from the US FDA in May 2013. The compound was launched in the US as "Mekinist" in June. A marketing application for the compound has also been submitted by the company to the EMA.

Revenue in the current fiscal year increased by ¥11.3 billion, or 21.2%, from the previous fiscal year to ¥64.4 billion, mainly due to the increased sales of products of Torii Pharmaceutical Co., Ltd. including REMITCH® CAPSULES, an oral antipruritus drug for hemodialysis patients, and Truvada® Tablets, an anti-HIV drug, which enjoyed temporarily heightened demand ahead of the consumption tax hike in April 2014, as well as an increase in milestone revenue related to progress in development of an original JT compound that has been out-licensed and an increase in royalty income accompanying sales expansion. Adjusted EBITDA improved by ¥7.3 billion to negative ¥5.4 billion (compared to negative ¥12.7 billion in the previous fiscal year) mainly due to the increase in revenue.

Beverage Business

	[Billions of yen]	Change [%]
Revenue	184.5	(0.5)
Adjusted EBITDA	8.7	(30.2)

In the beverage business, we continued working to strengthen our flagship coffee brand “Roots” and to grow our sales network primarily through Japan Beverage Holdings Inc., a Group company that operates vending machines. In conjunction with our efforts to steadily grow the business through these initiatives, we are implementing initiatives to bolster its profitability.

In the current fiscal year, we launched “AROMA STAGE” based on the concepts of “aroma” and “strength,” and launched renewals of bottle can products including “Aroma Black” in our flagship coffee brand “Roots,” and actively implemented product launches including renewing the long-selling “Momono Tennen Sui” series.

Revenue in the current fiscal year decreased by ¥1.0 billion, or 0.5%, from the previous fiscal year to ¥184.5 billion, due to a decline in revenue from vending machines despite an increase in sales volume of JT’s products. Adjusted EBITDA decreased by ¥3.7 billion, or 30.2%, from the previous fiscal year to ¥8.7 billion. This was mainly due to increased investments for efforts to further strengthen high-quality vending machine operations and enhance our brands, in addition to the decrease in revenue.

Processed Food Business

	[Billions of yen]	Change [%]
Revenue	156.9	(7.0)
Adjusted EBITDA	7.5	1.5

With Group company TableMark Co., Ltd. taking a central role, the processed food business is primarily engaged in business concerning frozen and room temperature processed food, mainly staple food products such as frozen noodles, frozen rice, packed rice and baked frozen bread, bakery chain outlets in the Tokyo metropolitan area, and seasonings including yeast extracts and oyster sauce. In the processed food business, we make every effort to produce strong staple food products with established market shares and work to improve cost competitiveness, thus striving to improve profitability.

In the current fiscal year, we worked to expand product sales with an emphasis on staple food products. Specifically, we implemented vigorous sales promotions mainly by launching 57 new products and 28 renewed products in the areas of frozen home-use products and room temperature home-use products. These included “Tannen-jikomi Authentic Sanuki Udon Noodles,” for which the production method of authentic sanuki udon noodles is faithfully reproduced, the “Zeitaku Zanmai Series” of noodles with ready-made sauce featuring plenty of premium ingredients, and the “Cool Noodles Series,” with which chilled noodles can be prepared simply using the microwave oven.

Revenue in the current fiscal year decreased by ¥11.8 billion, or 7.0%, from the previous fiscal year to ¥156.9 billion, despite sales growth in staple food products, mainly due to a decrease in the processed fishery products business, from which we withdrew in December 2012. If the impact of our withdrawal from the processed fishery products business is excluded, revenue increased by ¥4.3 billion year on year. There was a year-on-year increase in adjusted EBITDA of ¥0.1 billion, or 1.5%, to ¥7.5 billion, mainly due to growth in sales of staple food products, despite the impact of a rise in cost prices in line with the yen’s depreciation.

2. Status of capital expenditures

In this fiscal year, we made capital expenditures totaling ¥156.2 billion.

In the domestic tobacco business, we spent ¥49.1 billion, mainly on measures to streamline manufacturing processes; strengthen our ability to respond flexibly to supply and demand fluctuations with regard to an increasingly diverse range of products; and develop new products. In the international tobacco business, we invested ¥78.5 billion mainly for improvements in product specifications in addition to improvement, maintenance and renewals of production capability. In the pharmaceutical business, we spent ¥3.9 billion on enhancing and strengthening research and development structures and the like. In the beverage business, we invested ¥14.6 billion for maintenance and renewals of vending machines. In the processed food business, we invested ¥4.9 billion in improvement, maintenance and renewals of production capability.

Please note that our own capital was allocated for capital expenditures.

* Capital expenditures includes land; building and structures; machinery and vehicles; and other property, plant and equipment, as well as goodwill, right of trademark, software and other intangible assets, necessary for production improvements at factories and other facilities, strengthening competitiveness and executing business in a variety of fields.

3. Status of financing

The Company issued U.S. Dollar Denominated Senior Notes (with Statutory Preferential Right) valued at US$ 500 million on July 23, 2013 for the purpose of appropriating it to refinance short-term debts.

4. Business transfers, absorption-type company split or incorporation-type company split

No items to report.

5. Business transfers from other companies

No items to report.

6. Succession of rights and obligations relating to other entities’ business as a result of absorption-type merger or company split

No items to report.

7. Acquisition or disposal of shares, other equities or subscription rights to shares of other companies

No items to report.

8. Trends in assets and operating results

(1) Trends in assets and operating results of the JT Group

	26th term FY2010	27th term FY2011	28th term FY2012	29th term FY2013
Revenue (Millions of yen)	2,059,365	2,033,825	2,120,196	2,399,841
Profit before income taxes (Millions of yen)	385,242	441,355	509,355	636,203
Profit attributable to owners of the parent company (Millions of yen)	243,315	320,883	343,596	427,987
Basic earnings per share (Yen)	25,414	33,701	181.07	235.48
Total assets (Millions of yen)	3,655,201	3,667,007	3,852,567	4,611,444
Total equity (Millions of yen)	1,601,311	1,714,626	1,892,431	2,596,091

(Notes) 1. Although the consolidated financial statements of the JT Group are prepared based on IFRS effective from the 27th term, the figures for the 26th term are shown based on IFRS.

2. JT conducted a share split at a ratio of 200 to 1 with July 1, 2012 as effective date. Consequently, basic earnings per share are calculated on the assumption that this share split was conducted at the beginning of the 28th term.

3. Financial figures for the 28th term are retrospectively adjusted by applying IAS 19 (revised in June, 2011) — Employee Benefits — in accordance with transitional provisions.

(2) Trends in assets and non-consolidated operating results of JT

	26th term FY2010	27th term FY2011	28th term FY2012	29th term FY2013
Net sales (Millions of yen)	749,252	734,902	781,067	809,967
Ordinary income (Millions of yen)	182,819	198,071	210,568	230,900
Net income (Millions of yen)	32,216	142,726	149,773	168,779
Net income per share (Yen)	3,365	14,990	78.93	92.86
Total assets (Millions of yen)	2,879,354	3,016,651	2,784,914	2,732,637
Net assets (Millions of yen)	1,854,401	1,924,739	1,714,529	1,734,379

(Notes) 1. The figures were prepared based on Japanese GAAP.

2. Effective from the 27th term, the JT Group changed its accounting policy to a method that excludes the amount equivalent to tobacco excise taxes from net sales and cost of sales, in order to disclose the actual conditions of the business more properly. As a result, this accounting policy change is retrospectively applied to the figures presented for the 26th term.

3. JT conducted a share split at a ratio of 200 to 1, with July 1, 2012 as effective date. Consequently, net income per share is calculated on the assumption that this share split was conducted at the beginning of the 28th term.

9. Issues to be addressed

(1) Basic management policy

Our management principles are based on the pursuit of the “4S” model (“S” is for satisfaction). The model requires us to fulfill our responsibility towards four classes of stakeholders—consumers, shareholders, employees and society, with a particular emphasis on consumers—in a well-balanced and high level manner ensuring satisfaction for all of them.

We created our vision and mission based on the “4S” model. Our vision is to become a company committed to global growth by providing diversified value that is uniquely available from JT Group. Our mission is to create, develop and nurture our unique brands to win consumer trust, while understanding and respecting the environment and the diversity of societies and individuals.

In order to accomplish, we have set “The JT Group Way” as code of conduct which all of the JT Group members should follow. The JT Group Way requires that we: fulfill the expectations of our consumers and behave responsibly; strive for quality in everything we do through continuous improvement; and leverage diversity across the JT Group.

The JT Group has attained sustainable profit growth and will continue to do so through the pursuit of the “4S” model. Since attaining sustainable profit growth requires us to continue to provide new value and satisfaction to consumers, we believe it is essential to steadily make business investments for future mid- to long-term profit growth.

We believe that the pursuit of the “4S” model will lead to a consistent increase in corporate value in the mid to long term and therefore that it is the best approach to serve the interests of all stakeholders.

(2) Mid- to long-term management strategy and issues

The JT Group formulated its business plan, a three-year plan that is renewed each year on a rolling basis in order to speed up the Group's ability to respond appropriately to unexpected changes in accordance with its recognition that strengthening its "adaptability to a changing environment" is an important theme. Through the plan, the Group intends to carry on strategies that have hitherto been implemented for the Group's long-term vision of becoming a "Company committed to global growth that provides consumers diversified value uniquely available from JT" while also taking them to a higher level.

In the "Business Plan 2013," in accordance with the "4S" model concept, which constitutes the JT Group's management principles, the Group stated its intention to carry out mid- to long-term allocation of management resources with a high priority attached to business investment that contributes to sustainable mid- to long-term profit growth.

"Business Plan 2013" Targets

- Adjusted EBITDA growth rate (at constant rates of exchange): Mid to high single-digit annual average growth rate over the mid to long term.
- Consolidated dividend payout ratio(Note 1): In order to be on par with global players in the FMCG(Note 2) business, aim for 40% in the fiscal year ended March 31, 2014, and 50% in the fiscal year ending December 31, 2015.
- Adjusted EPS(Note 3) growth rate (at constant rates of exchange): High single-digit annual average growth rate over the mid to long term.

In the fiscal year ended March 31, 2014, the adjusted EBITDA growth rate (at constant rates of exchange) was 7.5% over the fiscal year ended March 31, 2013, reflecting strong momentum in the international tobacco business. The consolidated dividend payout ratio is forecast to be 40.8% for the fiscal year ended March 31, 2014. The Group achieved an adjusted EPS growth rate (at constant rates of exchange) of 15.7% over the fiscal year ended March 31, 2013.

In the "Business Plan 2014," which has been formulated in accordance with the Group's rolling business plan schedule, the Group has maintained its commitment to achieving sustainable profit growth through business investment.

"Business Plan 2014" Targets(Note 4)

- Adjusted operating profit(Note 5) growth rate (at constant rates of exchange): Mid to high single-digit annual average growth rate over the mid to long term.
- Consolidated dividend payout ratio: In order to be on par with global players in the FMCG business, aim for at least 50%. Aim for 50% in the fiscal year ending December 31, 2015.
- Adjusted EPS growth rate (at constant rates of exchange): High single-digit annual average growth rate over the mid to long term.

The mid- to long-term targets and roles for each business are as follows.

- Tobacco Business: Grow adjusted EBITDA at mid to high single-digit rate per annum over the mid to long term as the core business and profit growth engine of the JT Group
  - Domestic: Highly competitive platform of profitability
  - International: Strengthen its role as the Group's profit growth engine
- Pharmaceutical Business: Strive to establish stronger profit platform through value maximization of each product and promotion of R&D on next-generation strategic products
- Beverage Business: Strengthen the business base for future growth in order to make profit contribution to the JT Group

• Processed Food Business: Strive to achieve operating profit margin on par with industry average and aim to make profit contribution to the JT Group

In order to achieve the consolidated mid- to long-term profit targets, our strategic focus across all businesses is to achieve quality top line growth by striving in accordance with each target and role. For each business, our strategic focus is to improve cost competitiveness and business foundations that support these efforts, thereby achieving sustainable profit growth.
We will work to strengthen our CSR initiatives further with an emphasis on the pursuit of high-level, well-balanced stakeholder satisfaction based on the "4S" model, which constitutes JT's management principles.

We think that the business environment surrounding the JT Group will continue to change on the global scale and at a faster rate. In order to respond to the various changes that may happen in the future, we will continue to strive for sustained growth in the mid to long term and steadily actualizing shareholder returns, based on the "4S" model and through consistent business investment and an "adaptability to a changing environment."

(Notes) 1. Consolidated dividend payout ratio is obtained by dividing annual dividend per share by basic earnings per share.

2. Fast Moving Consumer Goods (daily consumer durables)

3. Adjusted EPS = (Profit or loss attributable to owners of the parent company ± adjustment items (income and costs)* ± tax and minority interests adjustments) / (weighted-average common shares + increased number of ordinary shares under subscription rights to shares)
* Adjustment items (income and costs): Impairment losses on goodwill ± restructuring income and costs ± others

4. The fiscal year ending December 31, 2014, is a 9-month period from April to December. The business plan for this period is calculated on the assumption that it is a 12-month perdiod from January to December.

5. Profit target has been changed to adjusted operating profit (at constant rates of exchange) in 2014. Operating profit (loss) less amortization of acquired intangible assets associated with acquisitions and adjusted items (income and costs) is disclosed as adjusted operating profit. Adjustment items (income and costs) are impairment losses on goodwill, restructuring-related income and costs.

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

10. Main business contents

Business segment	Main business
Domestic Tobacco Business	Manufacture and sale of tobacco products, mainly Mevius and Seven Star
International Tobacco Business	Manufacture and sale of tobacco products, mainly Winston and Camel
Pharmaceutical Business	Research and development, manufacture and sale of prescription drugs
Beverage Business	Manufacture and sale of beverages
Processed Food Business	Manufacture and sale of frozen and room temperature processed foods, bakery products and seasonings

11. Status of important subsidiaries

Company name	Capital	Equity ownership (%)	Main business
TS Network Co., Ltd.	(Millions of yen) 460	74.5	Distribution of tobacco products
Japan Filter Technology Co., Ltd.	(Millions of yen) 461	87.6	Manufacture and sale of filters for tobacco products
JT International S.A.	(Thousand of CHF) 1,215,425	(100.0)	Manufacture and sale of tobacco products
Gallaher Ltd.	(Thousand of GBP) 172,495	(100.0)	Manufacture and sale of tobacco products
Torii Pharmaceutical Co., Ltd.	(Millions of yen) 5,190	53.5	Manufacture and sale of prescription drugs
JT Beverage Inc.	(Millions of yen) 90	100.0	Sale of beverages
Japan Beverage Holdings Inc.	(Millions of yen) 500	70.5	Sale of beverages by vending machine
TableMark Co., Ltd.	(Millions of yen) 47,503	100.0	Manufacture and sale of processed foods

(Notes) 1. Figures in parentheses in the "Equity ownership" column indicate indirect holding rates.

2. There were 218 consolidated subsidiaries in this fiscal year, including 8 above-mentioned important subsidiaries, as well as 13 affiliates accounted for by the equity method. In addition, consolidated revenue for this fiscal year amounted to ¥2,399.8 billion (up 13.2% year on year) with consolidated profit attributable to owners of the parent company at ¥428.0 billion (up 24.6% year on year).

3. With an effective date of April 1, 2014, TableMark Co., Ltd. conducted a company split in which TableMark Co., Ltd. is the company conducting business operations and TableMark Holdings Co., Ltd. is a pure holding company.

12. Major lenders

Lender	Outstanding balance (Millions of yen)
Mizuho Bank, Ltd.	33,967

13. Major sales offices and factories

(1) JT

Headquarters: 2-1, Toranomon 2-chome, Minato-ku, Tokyo, Japan

Sales Office: Hokkaido (Hokkaido), Sendai (Miyagi), Tokyo (Tokyo), Nagoya (Aichi), Osaka (Osaka), Hiroshima (Hiroshima), Shikoku (Kagawa), Fukuoka (Fukuoka), and other 17 sales offices

Factories: Kita-Kanto (Tochigi), Tokai (Shizuoka), Kansai (Kyoto), Kyushu (Fukuoka), and other 5 factories

Laboratories: Leaf Tobacco Research Center (Tochigi), Tobacco Science Research Center (Kanagawa), and Central Pharmaceutical Research Institute (Osaka)

(2) Subsidiaries

TS Network Co., Ltd. (Tokyo)

Japan Filter Technology Co., Ltd. (Tokyo)

JT International S.A. (Switzerland)

Gallaher Ltd. (U.K.)

Torii Pharmaceutical Co., Ltd. (Tokyo)

JT Beverage Inc. (Tokyo)

Japan Beverage Holdings Inc. (Tokyo)

TableMark Co., Ltd. (Tokyo)

(Note) Text in parentheses shows the location of head office.

14. Status of employees

(1) Employees of the JT Group

Business segment	Number of employees (Person)
Domestic Tobacco Business	11,022
International Tobacco Business	26,731
Pharmaceutical Business	1,787
Beverage Business	5,035
Processed Food Business	6,096
Common company-wide services within JT	892
Total	51,563

(Notes) 1. The above number of employees indicates the number of working employees.

2. The number of employees in foreign subsidiaries in which the fiscal year end date falls on December 31 is calculated using the number of employees as of December 31, 2013.

(2) Employees of JT

Male/Female	Number of employees (Person)	Year on year increase (decrease) (Person)	Average age (Year old)	Average years of service (Year)
Male	7,693	(180)	44.6	23.0
Female	1,081	29	38.3	16.2
Total or average	8,774	(151)	43.8	22.2

(Note) The above number of employees indicates the number of working employees.

II. Matters Concerning Shares of JT

1. Total number of shares authorized: 8,000,000,000 shares

2. Total number of shares issued: 2,000,000,000 shares

(Including treasury stock 182,451,988 shares)

3. Number of shareholders: 134,059

4. Major shareholders

Name of shareholders	Number of shares held (Share)	Equity ownership (%)
The Minister of Finance	666,930,000	36.69
Japan Trustee Services Bank, Ltd. (Trust Account)	52,139,400	2.87
The Master Trust Bank of Japan, Ltd. (Trust Account)	52,011,700	2.86
State Street Bank and Trust Company	45,227,166	2.49
State Street Bank and Trust Company	34,629,271	1.91
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	33,800,000	1.86
HSBC BANK PLC A/C THE CHILDRENS INVESTMENT MASTER FUND	26,179,000	1.44
JPMorgan Chase Bank 380072	23,623,035	1.30
State Street Bank and Trust Company 505223	21,446,146	1.18
CREDIT SUISSE SECURITIES (USA) LLC SPCL. FOR EXCL. BEN	19,041,903	1.05

(Note) Equity ownership is calculated after deducting treasury stock (182,451,988 shares).

III. Matters Concerning Subscription Rights to Shares

1. Total number and others of subscription rights to shares as of March 31, 2014

(1) Total number of subscription rights to shares:

5,054 units

(2) Class and number of shares to be delivered upon exercise of subscription rights to shares:

Ordinary shares 1,010,800 shares

(200 share per subscription right to shares)

2. Status of subscription rights to shares held by Directors and Auditors of JT as of March 31, 2014

(1) Class and number of shares to be delivered upon exercise of subscription rights to shares:

Ordinary shares 351,000 shares

(200 share per subscription right to shares)

(2) Value of property to be contributed when subscription rights to shares are exercised

¥1 per share

(3) Assignment of subscription rights to shares

The approval of the Board of Directors is required for the assignment of subscription rights to shares.

(4) Conditions for exercising subscription rights to shares

Subscription rights to shares holder may exercise his/her subscription rights to shares only if he/she loses his/her all position as Director, Auditor and Executive Officer *(sikkoyakuin)*.

(5) Status of ownership by Directors and Auditors of JT

Category	Year granted	Payment due upon allotment of subscription rights to shares	Exercise period of subscription rights to shares	Number of units	Number of shareholders
Director	FY2007	¥581,269 per unit	From January 9, 2008 to January 8, 2038	80	5
	FY2008	¥285,904 per unit	From October 7, 2008 to October 6, 2038	127	6
	FY2009	¥197,517 per unit	From October 14, 2009 to October 13, 2039	326	6
	FY2010	¥198,386 per unit	From October 5, 2010 to October 4, 2040	278	6
	FY2011	¥277,947 per unit	From October 4, 2011 to October 3, 2041	390	7
	FY2012	¥320,000 per unit	From October 10, 2012 to October 9, 2042	344	7
	FY2013	¥513,400 per unit	From October 8, 2013 to October 7, 2043	210	7

(Note) Outside Directors are not included in the above category of “Director.”

3. **Status of subscription rights to shares granted to employees of JT from April 1, 2013 to March 31, 2014**

(1) Class and number of shares to be delivered upon exercise of subscription rights to shares:

Ordinary shares 58,000 shares

(200 share per subscription right to shares)

(2) Payment due upon allotment of subscription rights to shares

¥513,400 per share

(3) Value of property to be contributed when subscription rights to shares are exercised

¥1 per share

(4) Exercise period of subscription rights to shares

From October 8, 2013 to October 7, 2043

(5) Assignment of subscription rights to shares

The approval of the Board of Directors is required for the assignment of subscription rights to shares.

(6) Conditions for exercising subscription rights to shares

Subscription rights to shares holder may exercise his/her subscription rights to shares only if he/she loses his/her all position as Director, Auditor and Executive Officer *(sikkoyakuin)*.

(7) Status of granting to employees of JT

290 subscription rights to shares were granted to 19 Executive Officers *(sikkoyakuin)* (excluding persons serving as Directors) of JT.

IV. Matters Concerning Directors and Auditors of JT

1. Directors and Auditors

Position	Name	Responsibility	Significant concurrent positions outside the Company
Chairman of the Board	Hiroshi Kimura		Asahi Glass Co., Ltd. Independent Director
President, Chief Executive Officer and Representative Director	Mitsuomi Koizumi		
Representative Director and Executive Deputy President	Yasushi Shingai	Assistant to CEO in Compliance, Strategy, HR, General Administration, Legal and Operational Review & Business Assurance	
Representative Director and Executive Deputy President	Noriaki Okubo	Assistant to CEO in Pharmaceutical Business, Beverage Business and Processed Food Business	
Representative Director and Executive Deputy President	Akira Saeki	President, Tobacco Business	JT International Group Holding B.V. Chairman
Member of the Board and Executive Deputy President	Hideki Miyazaki	Assistant to CEO in CSR, Finance and Communications	
Member of the Board*	Masamichi Terabatake		JT International S.A. Executive Vice President
Member of the Board	Motoyuki Oka		NEC Corporation Outside Director
Member of the Board	Main Kohda		Novelist LIXIL Group Corporation Outside Director
Audit & Supervisory Board Member	Futoshi Nakamura		
Audit & Supervisory Board Member*	Tomotaka Kojima		
Audit & Supervisory Board Member	Koichi Ueda		Koichi Ueda Law Office Attorney at Law Japan Racing Association Member of the Board of Governors
Audit & Supervisory Board Member	Yoshinori Imai		

(Notes) 1. Members of the Board Motoyuki Oka and Main Kohda are Outside Directors.
2. Auditors Koichi Ueda and Yoshinori Imai are Outside Auditors.

3. Members of the Board, Motoyuki Oka and Main Kohda, and Auditors, Koichi Ueda and Yoshinori Imai, were designated as independent officers (directors and auditors) as prescribed by the Tokyo Stock Exchange, Inc.
4. Auditor Futoshi Nakamura and Auditor Tomotaka Kojima have relevant knowledge about financing and accounting as they were the Senior Manager of the Accounting Division of JT and Deputy Head of Finance Group of JT, respectively.
5. The asterisk * denotes Members of the Board and Auditors who have assumed their offices on June 21, 2013.
6. Members of the Board Mutsuo Iwai and Auditor Hisao Tateishi resigned on June 21, 2013.

2. Remunerations for Directors and Auditors

(1) Total remunerations for Directors and Auditors

Category	Directors		Auditors		Total	
	Number to be paid (Person)	Amount to be paid (Millions of yen)	Number to be paid (Person)	Amount to be paid (Millions of yen)	Number to be paid (Person)	Amount to be paid (Millions of yen)
Basic remuneration	10	349	5	96	15	445
Directors' bonus	5	111	-	-	5	111
Stock option grants	7	108	-	-	7	108
Total	-	568	-	96	-	664

(Notes) 1. For Directors' bonuses, the amounts planned to be paid are shown.
2. For stock option grants, the total amounts granted during this fiscal year are shown.

(2) Policy concerning the remuneration amount for Directors and Auditors or the remuneration calculation method thereof and the method of determining the policy

The Company has the Compensation Advisory Panel in place as a non-statutory advisory body to the Board of Directors in order to increase objectivity and transparency regarding the remuneration of Directors and Auditors. The Compensation Advisory Panel, which holds meetings several times a year, holds deliberations and makes reports in accordance with its advice on such matters as the Company's policy, system and calculation method regarding remuneration for its Directors and Executive Officers *(sikkoyakuin)*, and monitors the status of remuneration for Directors and Auditors at the Company. The Compensation Advisory Panel currently consists of five members: the Chairman of the Board, who has the role of the panel's chairman, and two Outside Directors and two Outside Auditors.

Outside members of Compensation Advisory Panel

Outside Director Motoyuki Oka
Outside Director Main Kohda
Outside Auditor Koichi Ueda
Outside Auditor Yoshinori Imai

In light of reports by the Compensation Advisory Panel, JT's basic concept of remuneration for Directors and Auditors is as follows:

- Setting the remuneration at a level sufficient to secure personnel with superior capabilities
- Linking the remuneration to business performance so as to motivate Directors and Auditors to enhance performance
- Linking the remuneration to mid- and long-term corporate value
- Ensuring transparency based on an objective point of view and quantitative schemes

In accordance with the above concept, the remuneration for Directors and Auditors is made of three components. In addition to the monthly "basic remuneration," there is a "directors' bonus," which reflects the Company's business performance in the relevant fiscal year, and a "stock option," which is linked to the mid- and long- term corporate value of JT. The said "stock option" was introduced in 2007 as remuneration that is linked to the mid- and long-term corporate value, thereby providing an incentive towards increasing shareholder value.

The composition of the remuneration for Directors is as follows:

For Directors who also serve as Executive Officers *(sikkoyakuin)*, remuneration consists of the "basic remuneration," the "directors' bonus," and the "stock option" because they are required to achieve results by executing their duties on a daily basis. If the "directors' bonus" is paid at the standard amount, the sum of this bonus and the "stock option" is set to be equivalent to slightly less than 80% of the "basic remuneration" for President and Executive Deputy President, and approximately 70% for other Directors.

Directors (excluding Outside Directors) who do not serve as Executive Officers *(sikkoyakuin)* receive remuneration that consists of the "basic remuneration" and the "stock option" since they are required to make decisions on company-wide management strategies and fulfill supervisory functions to enhance corporate value.

Remuneration for Outside Directors, which is not linked to business performance with the purpose of maintaining their independence, is composed of "basic remuneration" only.

In the light of the role of Auditors, which is primarily to conduct audits on legal compliance, their remuneration consists solely of the "basic remuneration."

The upper limit of remuneration for the Company's Directors and Auditors, which was approved at the 22nd Ordinary General Meeting of Shareholders (held in June 2007), is ¥870 million per year for all Directors and ¥190 million per year for all Auditors. In addition, the upper limit of "stock option" that may be granted to Directors separately to the remuneration mentioned above is 800 units and ¥200 million per year. This was also approved at the 22nd Ordinary General Meeting of Shareholders. The number of units allocated for each term, including the number allocated to Executive Officers *(sikkoyakuin)* who are not also Directors, is decided by resolution of the Board of Directors.

The amounts of remunerations for Directors and Auditors are determined by resolution of the Board of Directors in the case of remuneration for Directors, and through discussions among the Auditors in the case of remunerations for Auditors, within the approved upper limits, in light of deliberations by the Compensation Advisory Panel. These processes are carried out after benchmarking of levels of remuneration at major Japanese manufacturers that operate globally, and whose size and profits are at similar levels to those of the Company, is undertaken based on third-party research into remuneration for corporate executives.

3. Matters concerning Outside Directors and Outside Auditors

(1) Significant concurrent positions outside the Company

<table>
<tr><th>Category</th><th>Name</th><th>Organizations where concurrent positions are held</th><th>Position</th></tr>
<tr><td rowspan="3">Director</td><td>Motoyuki Oka</td><td>NEC Corporation</td><td>Outside Director</td></tr>
<tr><td rowspan="2">Main Kohda</td><td>Novelist</td><td></td></tr>
<tr><td>LIXIL Group Corporation</td><td>Outside Director</td></tr>
<tr><td rowspan="2">Auditor</td><td rowspan="2">Koichi Ueda</td><td>Koichi Ueda Law Office</td><td>Attorney at Law</td></tr>
<tr><td>Japan Racing Association</td><td>Member of the Board of Governors</td></tr>
</table>

(Note) There are no special relationships to be mentioned between the above organizations in which concurrent positions are held and JT.

(2) Major activities during this fiscal year

Category	Name	Status of main activities
Director	Motoyuki Oka	Attended 13 out of 15 meetings of the Board of Directors held during this fiscal year. Mr. Oka asked questions and made remarks where necessary at these meetings, as a director.
	Main Kohda	Attended 14 out of 15 meetings of the Board of Directors held during this fiscal year. Ms. Kohda asked questions and made remarks where necessary at these meetings, as a director.
Auditor	Koichi Ueda	Attended all 15 meetings of the Board of Directors, as well as all 16 meetings of the Audit Board held during this fiscal year. Mr. Ueda asked questions and made remarks where necessary at these meetings, as an auditor.
	Yoshinori Imai	Attended 14 out of 15 meetings of the Board of Directors, as well as all 16 meetings of the Audit Board held during this fiscal year. Mr. Imai asked questions and made remarks where necessary at these meetings, as an auditor.

(3) Outline of limited liability agreements

The Company has entered into agreements with each of its Outside Directors and Outside Auditors with respect to the liability set forth in Article 423, paragraph 1 of the Companies Act, by which the liability for damages of each of them is limited to the minimum amount set forth in Article 425, paragraph 1 of the same Act, provided they perform their duties without knowledge of such damages and without gross negligence.

(4) Total amount of remunerations

Category	Outside Director		Outside Auditor		Total	
	Number to be paid (Person)	Amount to be paid (Millions of yen)	Number to be paid (Person)	Amount to be paid (Millions of yen)	Number to be paid (Person)	Amount to be paid (Millions of yen)
Basic remuneration	2	30	3	33	5	63

V. Matters Relating to Independent Auditor

1. Name of Independent Auditor: Deloitte Touche Tohmatsu LLC

2. Fees for Independent Auditor relating to this fiscal year

(1) Fees for Independent Auditor relating to this fiscal year of JT

i)	Fees for audit attestation based on Article 2, paragraph 1 of the Certified Public Accountants Act:	¥317 million
ii)	Fees for tasks other than audit attestation based on Article 2, paragraph 1 of the Certified Public Accountants Act:	¥12 million

(2) Amount of cash and other financial benefits to be paid by JT and its subsidiaries:

¥482 million

(Notes)
1. Fees paid under the terms of the audit contract concluded between Deloitte Touche Tohmatsu LLC and JT in relation to audit attestation based on the Companies Act and the Financial Instruments and Exchange Act are not clearly classified and, since they cannot be effectively classified, their total is indicated in the amount in "i)" above.
2. JT retain Deloitte Touche Tohmatsu LLC for tasks other than audit attestation based on Article 2, Paragraph 1 of the Certified Public Accountants Act, which consist of the preparation of comfort letters for bond issuing, and for which a consideration is paid to the same.
3. Among the important subsidiaries of JT, JT International S.A. and Gallaher Ltd. are audited by Deloitte & Touche LLP. None of these subsidiaries are audited by Deloitte Touche Tohmatsu LLC, the Independent Auditor of JT.

3. Policy on dismissal or non-reappointment of Independent Auditor

In the case that an Independent Auditor is adjudged to fall within any of the items listed in Article 340, paragraph 1 of the Companies Act, the Board of Auditors, with the agreement of all of the Auditors, shall dismiss the Independent Auditor. Additionally, apart from the above, should an incident occur casting serious doubt on the ability of the Independent Auditor to continue to perform its duties, after securing the agreement of the Board of Auditors, or in accordance with a request from the Board of Auditors, the Board of Directors shall submit a proposal to the General Meeting of Shareholders that the Independent Auditor should be dismissed or should not be reappointed.

VI. Overview of the Resolutions on the Development of Systems Necessary to Ensure the Properness of Operations

The Board of Directors has resolved with regard to the development of systems necessary to ensure that the execution of the duties by the Directors complies with the laws and regulations and the Articles of Incorporation, and other systems necessary to ensure the properness of operations of a stock company as follows:

(1) Systems to ensure that Directors and employees perform their duties in accordance with laws, regulations and JT's Articles of Incorporation

i) Compliance system

JT has established Code of Conduct based on regulations concerning the compliance system in order to ensure that Directors and employees comply with laws and regulations, JT's Articles of Incorporation, the social norms, etc., and set up a JT Group Compliance Committee as an organization responsible for ensuring thorough compliance. This committee, headed by JT's Chairman, includes outside experts among its members and reports directly to the Board of Directors.

JT appoints an Executive Officer *(sikkoyakuin)* in charge of compliance with overseeing the Compliance Office in an effort to establish and promote a company-wide, cross-sectional system and shed light on issues.

The Compliance Office distributes to all Directors and employees the "JT Group Code of Conduct", which explains the Code of Conduct and enhances the effectiveness of the compliance system by enlightening Directors and employees about compliance through various compliance education programs.

(Internal reporting system)

JT establishes a counter where employees may report any conduct they have detected which is suspected to breach laws and regulations. The Compliance Office is charged with investigating reported cases, establishing necessary measures and implementing company-wide precautions to prevent recurrences after holding consultations with the departments and divisions concerned. Matters of particular importance shall be referred to the JT Group Compliance Committee for deliberation.

(System for excluding anti-social elements)

JT is resolved to fight against, not to comply with, an unreasonable demand and not to have any relations with anti-social elements.

With the General Administration Division at JT's headquarters assuming the responsibility for supervising efforts to exclude anti-social elements, JT cooperates with police, lawyers and other relevant organizations and parties to gather and share information in order to deal with such elements in an organized way.

In addition, the "prohibition of involvement with anti-social elements" has been provided for in the "JT Group Code of Conduct" and fully communicated to all officers and employees. At the same time, an awareness raising program for excluding antisocial elements is to be consistently administered for all officers and employees, including those working for its affiliates, by providing relevant training as necessary.

ii) System to ensure the reliability of financial reporting

JT has in place and operates an internal control system relating to financial reporting in accordance with the Financial Instruments and Exchange Act. JT strives to maintain and improve the reliability of its financial reporting by allocating a sufficient level of staff to the task of evaluating and reporting financial results.

iii) Internal audit system

The Operational Review and Business Assurance Division oversees the internal audit system and examines and evaluates systems for supervising and managing the overall operations and the status of business execution from the viewpoints of legality and rationality, in order to protect JT's assets and improve management efficiency.

(2) Procedures and arrangements for storage and management of information on the performance of duties by the Directors

i) Storage and management of minutes

JT makes sure to properly stores and manages the minutes of General Meetings of Shareholders and meetings of the Board of Directors, in line with laws and regulations.

Moreover, concerning the minutes of meetings of the Executive Committee, JT makes sure to properly stores and manages documents in accordance with internal rules on Executive Committee, etc.

ii) Storage and management of other information

Information on important matters relating to business execution and decision-making are stored and managed by the relevant departments and divisions as specified by the "Responsibilities/Authorities Allocation Rules", in accordance with rules on the supervision of the processes of decision-making, procurement and accounting.

(3) Rules on management of risk of loss and procedures/arrangements for other matters

i) System to evaluate and manage risk of loss under normal circumstances

JT has established internal policies, rules and manuals for the management of risk of loss relating to monetary and financial affairs, and ensures that relevant reports are made to the Executive Committee on a quarterly basis via Chief Financial Officer.

With regard to identifying and reporting the risk of loss relating to other affairs, in accordance with authority delegated to each department and division as per the Responsibilities/Authorities Allocation Rules, responsible departments and divisions take on a supervisory role creating all types of committees to conduct proper management and, depending on the level of importance, report risks to the Executive Committee or refer them to same for deliberation.

JT has assigned sufficient staff to the Operational Review and Business Assurance Division, which functions as JT's internal audit organization. This division examines and evaluates the internal control systems of JT and the JT Group companies in light of the level of importance and the risks involved from an objective viewpoint that is independent of the organizations responsible for business execution, and reports its findings and presents proposals to the President, as well as reports to the Board of Directors.

ii) Preparedness for possible emergencies

JT has produced a manual for crisis management and disaster response. In the event of an emergency or a disaster, JT is ready to establish an emergency project system under the supervision of the Corporate Strategy Division, and make prompt and proper responses under the leadership of senior management and through close cooperation between the relevant departments and divisions. Events to which a response has been made and the details of such events shall be reported to the Board of Directors on a quarterly basis.

(4) System to ensure that Directors perform their duties efficiently

i) Board of Directors

The Board of Directors meets once a month in principle and on more occasions as necessary, in order to make decisions with regard to the matters specified by laws and regulations and other important matters and to supervise business execution.

The Board of Directors receives reports from Directors on the status of business execution at least once every three months.

ii) Proper delegation of authority and system of responsibilities

The Executive Committee, comprising JT's President and other members appointed by the President, discusses important management issues, particularly management policy and basic plans regarding overall business operations of JT, in addition to matters to be referred to the Board of Directors.

Executive Officers *(sikkoyakuin)* appointed by the Board of Directors execute business properly by exercising the authority delegated to them in their respective areas in accordance with a company-wide business strategy decided by the Board.

In order to manage business operations in ways that contribute to the business efficiency and flexibility of JT, basic matters concerning JT's organization and allocation of duties are specified by internal rules on and the roles of each department are specified.

In order to enable prompt decision-making, the departments and divisions responsible for business execution are specified by the "Responsibilities/Authorities Allocation Rules."

(5) Systems necessary to ensure the properness of operations in the business group which consists of a stock company, its parent company and subsidiaries

i) Mission of the JT Group

The JT Group has set itself the mission of creating, developing and nurturing its unique brands to win consumer trust, while understanding and respecting the environment and the diversity of societies and individuals, and there is a group-wide consensus on the mission.

ii) Group management

The JT Group has specified the functions and rules common for all group companies based on a group management policy to effectuate group management that optimizes the operations of the entire JT Group as a whole.

JT has put in place systems for compliance (including the internal reporting system), internal audits, financial affairs management, etc. in cooperation with the JT Group companies.

(6) System for employees assisting Auditors in their duties in the event such employees were requested by Auditors

i) Establishment of Auditor's Office

JT has created an Auditor's Office as an organization supporting the Auditors in performing their duties.

ii) Allocation of staff

JT has allocated sufficient staff to the Auditor's Office. In addition, JT makes sure to review and reform the staffing structure as necessary based on consultations with the Audit Board.

(7) Matters relating to the independence of employees mentioned in “(6)” above from Directors

i) Management of employees affiliated with the Auditor’s Office

The evaluation of the Manager of the Auditor’s Office is made by the Audit Board and the evaluation of the other employees assigned to the Auditor’s Office is made by the Manager of the Auditor’s Office based on the advice of the Audit Board. The transfer and discipline of employees assigned to the Auditor’s Office is to be deliberated in advance with the Audit Board.

ii) Prohibition of concurrent assignments

Employees assigned to the Auditor’s Office shall not be designated in other concurrent positions relating to business execution of JT.

(8) System for reporting by Directors or employees to the Audit Board and Auditors and other systems for reporting to the Audit Board and Auditors

i) Reporting to the Audit Board

When Directors and Executive Officers *(sikkoyakuin)* detect any matter that may cause substantial damage to JT, they are due to report it to the Audit Board. Moreover, when Directors and employees detect any evidence of malfeasance in financial documents or serious breaches of laws or regulations or JT’s Articles of Incorporation, they are due to report them to the Audit Board, along with other relevant matters that could affect JT’s management.

ii) Attendance at important meetings

Auditors are allowed to attend not only meetings of the Board of Directors but also other important meetings.

When Directors and employees are asked by Auditors to compile important documents for their perusal, to accept field audits and to submit reports, they shall respond in a prompt and appropriate manner.

(9) Other systems to ensure effective auditing by Auditors

i) Cooperation with audits and auditing expenses

Directors are due to cooperate with audits effectuated by Auditors and establish a budget for covering audit-related expenses so as to secure the effectiveness of audits.

ii) Coordination between the Operational Review and Business Assurance Division and Compliance Office and the Auditors

The Operational Review and Business Assurance Division and the Compliance Office maintain cooperation with Auditors by exchanging information.

* All figures contained in this Business Report are rounded to the nearest unit.