[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 31, 2012

To Our Shareholders

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

NOTICE OF CONVOCATION OF THE 27TH ORDINARY GENERAL MEETING OF SHAREHOLDERS

You are cordially invited to attend the 27th 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 Thursday, June 21, 2012, 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:** Friday, June 22, 2012, 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 Board of Company Auditors Report on the Consolidated Financial Statements for the 27th Business Term (From April 1, 2011 to March 31, 2012)
2. Report on the Non-Consolidated Financial Statements for the 27th Business Term (From April 1, 2011 to March 31, 2012)

Matters to be Resolved:

Company's Proposals (Item 1 to Item 4)
Item 1: Appropriation of Surplus
Item 2: Partial Amendments to the Articles of Incorporation
Item 3: Election of Nine (9) Directors
Item 4: Election of One (1) Company Auditor
Shareholder's Proposals (Item 5 to Item 8)
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

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.

[Instructions for Exercising Your Voting Rights]

1. Exercise of the Voting Rights by post:

Please indicate whether you are for or against each of the items on the Voting Rights Exercise Form enclosed herewith and return it to us.

2. Exercise of the Voting Rights via the Internet:

Please access the designated web-site for the exercise of voting rights (http://www.evote.jp/) from your computer or smartphone and 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 enclosed herewith. You are requested to refer to "Direction for Exercise of the Voting Rights via the Internet" (Japanese only).

3. JT participates in the electromagnetic voting rights exercise system (Voting Rights Exercise Platform) operated and administered by ICJ, Inc.

4. Relation between Item 1 and Item 5

Item 1 and Item 5 are incompatible. Accordingly, please note that, in cases where you exercise your voting rights to vote for both Item 1 and Item 5 in written form or by electromagnetic means, the exercise of the voting rights concerning Item 1 and Item 5 will be invalid.

[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 14 of the Articles of Incorporation. Therefore, they are not included in this Notice of Convocation of the 27th Ordinary General Meeting of Shareholders.

In addition to documents stated in the reference documents attached to the Notice of Convocation of the 27th 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 Company Auditors 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 (Japanese only), or Non-Consolidated and Consolidated Financial Statements (Japanese only), it will be published on our web-site (http://www.jti.co.jp/).

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* For those attending, please present the enclosed Voting Rights Exercise Form at the reception desk on arrival at the meeting. Also, please bring this Notice of Convocation of the 27th Ordinary General Meeting of Shareholders with you.
* Please note that the meeting will be conducted in Japanese only without an interpreter.

[Attached Documents]

Business Report

(For this fiscal year from April 1, 2011 to March 31, 2012)

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

1. Overview and results of operations

(1) JT-11 medium-term management plan (fiscal 2010 to fiscal 2012)

JT and its group companies (the “JT Group” or the “Group”) formulated mid-term plan (‘JT-11’) for the three-year period from the fiscal year ended March 31, 2010 to the fiscal year ended March 31, 2012 to carry on the strategies the Group had promoted before the period and take them to a higher level, and worked towards the achievement of its long-term vision of becoming a “Company committed to global growth that provides consumers diversified value uniquely available from JT.”

The JT Group achieved the annual-average EBITDA growth rate of 8.6%, which exceeded the group-wide target during the JT-11 period of 5% or more of the annual-average growth (based on the assumption that foreign exchange rates remain the same). This performance was achieved due to the contributions of the Japanese Domestic and International Tobacco Businesses.

The Japanese Domestic Tobacco Business achieved the performance substantially higher than the target to maintain the initially expected EBITDA in the fiscal year ended March 31, 2010, getting through unexpected business environment changes that were beyond the scope of prediction, including considerable tobacco excise tax increases in October 2010 and the occurrence of the Great East Japan Earthquake in 2011. We believe the future profit-growth potential of the business was confirmed as the business realized profit growth despite a substantial decrease in sales volume.

The International Tobacco Business, benefitting from the increase in market share and the growth of GFB(Note), attained a 10% EBITDA growth based on the assumption that foreign exchange rates remain the same, which was the target of JT-11, confirming the business’ continued profit-growth momentum.

The Pharmaceutical Business made efforts to increase and advance compounds in late stage developments and to strengthen our R&D pipeline, and we saw a steady progress such as application of approval of drugs, including single-tablet regimen anti-HIV drug JTK-303, and advancement in the development of a MEK inhibitor as an indication for melanoma.

In the Food Business, the “Roots” flagship brand drove strong and steady results for the beverage business, while the processed food business progressively strengthened its business fundamentals to improve profitability, although the pace to attain success is slow.

(Note) We have identified eight brands which serve as flagships of the brand portfolio, Winston, Camel, Mild Seven, Benson & Hedges, Silk Cut, LD, Sobranie and Glamour, which we collectively call the Global Flagship Brands (GFB).

With regard to dividends, we aimed at a consolidated dividend payout ratio of 30% (after deducting the goodwill amortization effect). We plan to pay out a year-end dividend for the current fiscal year of ¥6,000 per share. Provided that this is approved, the annual dividend per share, including the ¥4,000 interim dividend per share, will be ¥10,000. Net income (after deducting the goodwill amortization effect) became ¥309.9 billion for the fiscal year ended March 31, 2012. Consequently, the consolidated dividend payout ratio (after deducting the goodwill amortization effect) will be on the level of exceeding the target.

*The above financial figures are based on Japanese GAAP, and are unaudited information.

(2) Adoption of IFRS

The JT Group has adopted the International Financial Reporting Standards (IFRS), instead of Japanese GAAP, which was previously adopted, starting with the consolidated financial statements for the fiscal year ended March 31, 2012. The outline of differences between accounting policies under IFRS and Japanese GAAP is shown below.

Reclassification

- Under Japanese GAAP, revenue from transactions of imported tobacco in which TS Network Co., Ltd. is involved as an agency was included in net sales and cost of sales. Under IFRS, however, this is not included in revenue or cost of sales. Certain sales rebates were presented in selling, general and administrative expenses under Japanese GAAP; however, they are presented in revenue as a deduction from revenue under IFRS.

- The Group presented non-operating income, non-operating expenses, extraordinary income, and extraordinary loss under Japanese GAAP. Under IFRS, among such items, the Group presents financial-related items as financial income or financial costs, and other items as cost of sales, other operating income, share of profit on investments accounted for using the equity method, and selling, general, and administrative expenses, etc.

Differences in recognition and measurement

- Under Japanese GAAP, the Group substantially estimated the amortization period of goodwill, and goodwill was amortized over the years estimated; however, it is not amortized under IFRS.

- Under Japanese GAAP, the Group amortized actuarial gains or losses for calculation of retirement benefit liabilities starting with the year following the year in which they were recognized, allocating the amounts over a certain number of years determined based on the employees' average remaining service period. Under IFRS, the Group recognizes all of the actuarial gains or losses as other comprehensive income at the time of occurrence.

- With regard to the depreciation method of property, plant and equipment (excluding leased assets), the Group mainly adopted the declining-balance method under Japanese GAAP; however, it adopts the straight-line method under IFRS.

(3) Business results for the current fiscal year

All of the following financial figures are based on IFRS.

General summary
Revenue

Revenue decreased by ¥25.5 billion, or 1.2%, from the previous fiscal year to ¥2,033.8 billion. This was mainly due to the sales volume decline in the Japanese Domestic Tobacco Business caused by the impact of the earthquake and the tax and price increase, along with the strong yen, despite the favorable pricing in the Japanese Domestic and the International Tobacco Businesses.

Adjusted EBITDA

Operating profit increased by ¥57.9 billion, or 14.4%, from the previous fiscal year to ¥459.2 billion, despite the recording of expenses including compensation payment for leaf tobacco growers voluntarily ceasing cultivation and business restructuring costs in the International Tobacco Business. This was mainly due to the favorable pricing in the Japanese Domestic and the International Tobacco Businesses, an increase in gain on sales of non-current assets, and the absence of a payment for regulatory fine in Canada recorded in the previous fiscal year.

In addition, adjusted EBITDA(Note) which exclude depreciation and amortization, compensation payment for leaf tobacco growers voluntarily ceasing cultivation, business restructuring costs in the International Tobacco Business, gain on sales of non-current assets, etc., increased by ¥55.1 billion, or 10.6%, from the previous fiscal year to ¥577.1 billion.

(Note) As useful information for comparison of the JT Group's performance, adjusted EBITDA is presented, which is obtained by deducting depreciation and amortization, impairment losses on goodwill, and restructuring-related income and costs, from operating profit.

Profit attributable to owners of the parent company

Owing to the increase in operating profit, profit before income taxes increased by ¥56.1 billion, or 14.6%, from the previous fiscal year to ¥441.4 billion. Furthermore, profit attributable to owners of the parent company increased by ¥77.6 billion, or 31.9%, from the previous fiscal year to ¥320.9 billion due to a decrease in income tax expense caused by factors including tax deductions made in the current fiscal year for loss on valuation of stocks of subsidiaries and affiliates recorded on the non-consolidated statement of income for the previous fiscal year.

Review of operations by business segment

Japanese Domestic Tobacco Business

	[Billions of yen]	Change [%]
Revenue	646.2	(2.9)
Adjusted EBITDA	262.3	6.1

Total sales volume for cigarettes during the current fiscal year decreased by 26.2 billion cigarettes, or 19.5%, from the previous fiscal year to 108.4 billion cigarettes(Note 1). This was mainly due to the effects of limited deliveries in terms of the number of brands and delivery volume in the aftermath of the Great East Japan Earthquake and a drop in demand resulting from the tax and price increase of October 2010. Our market share for the current fiscal year was 54.9%, compared with 64.1% for the previous fiscal year. From the second quarter ended September 30, 2011, having put in place a stable supply system, JT made every possible effort to enhance its competitiveness in order to regain market share at an early juncture through efforts such as the active introduction of new products under core brands and the development of effective sales promotions. As a result, market share for the month of March reached 60.0%.

Revenue per 1,000 cigarettes increased by ¥920 to ¥5,502 as a result of the retail price amendment.

As a result of the above, despite the effects of favorable pricing, revenue decreased by ¥19.6 billion, or 2.9%, from the previous fiscal year to ¥646.2 billion, and core revenue(Note 2) decreased by ¥20.2 billion, or 3.2%, from the previous fiscal year to ¥611.9 billion. This mainly reflected the decrease in sales volume.

In addition, despite the decrease in sales volume, adjusted EBITDA increased by ¥15.1 billion, or 6.1%, from the previous fiscal year to ¥262.3 billion, mainly due to the effects of favorable pricing and insurance payouts related to the Great East Japan Earthquake.

(Notes)
1. In addition to the figure stated above, during the fiscal year ended March 31, 2012, 3.7 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.
2. Concerning the tobacco business, we additionally disclose revenue from JT group's tobacco products as "core revenue", as breakdown for revenue. Specifically, the figure for the Japanese Domestic Tobacco Business is presented after deducting imported tobacco delivery charges, among others, included in the revenue from the revenue, while the figure for the

International Tobacco Business is presented after deducting the revenue accounted for in distribution business and contract manufacturing, among others, from the revenue.

International Tobacco Business

	[Billions of yen]	Change [%]
Revenue	966.3	0.3
Adjusted EBITDA	314.8	13.3

Among GFB in the current fiscal year, there was steady growth in shipments of Winston in Russia, Italy and Turkey. LD shipments grew in Russia. As a result, shipment volume of GFB increased by 6.6 billion cigarettes, or 2.6%, from the previous fiscal year to 256.5 billion cigarettes. On the other hand, total shipment volume including GFB decreased by 2.7 billion cigarettes, or 0.6%, from the previous fiscal year to 425.7 billion cigarettes, mainly due to a fall in sales of non-GFB local brands in Russia and industry contraction in Ukraine and Spain.

Although there was a decrease in shipment volume, dollar-based revenue increased by $1,133 million, or 10.3%, from the previous fiscal year to $12,108 million, while dollar-based core revenue increased by $1,098 million or 10.9% from the previous fiscal year to $11,211 million. This was mainly due to the effects of strong pricing and favorable foreign exchange effects on the local currencies of key markets.

Furthermore, adjusted EBITDA increased by $779 million, or 24.6%, from the previous fiscal year to $3,944 million, despite an increase in expenses mainly caused by increases in raw material costs and strengthening of sales promotions. The primary factors for this included the effects of favorable pricing and the absence of a loss from the payment for regulatory fine in Canada recorded in the previous fiscal year.

As a result of the above, despite the effects of a strong yen when making conversions to that currency, revenue increased by ¥2.7 billion or 0.3% from the previous fiscal year, to ¥966.3 billion, core revenue increased by ¥6.8 billion, or 0.8%, from the previous fiscal year to ¥894.6 billion, and adjusted EBITDA increased by ¥36.9 billion, or 13.3%, from the previous fiscal year to ¥314.8 billion.

* The foreign exchange rate in the fiscal year ended March 31, 2012 was ¥79.80 per U.S. dollar, representing a ¥7.99 year-on-year yen appreciation, compared with ¥87.79 per U.S. dollar in the previous fiscal year.

Pharmaceutical Business

	[Billions of yen]	Change [%]
Revenue	47.4	7.5
Adjusted EBITDA	(10.0)	Negative ¥9.8 billion in the previous fiscal year

In the Pharmaceutical Business, our focus is increasing and advancing compounds in late stage developments and enhancing the research and development pipeline. The number of compounds developed in-house that are under clinical development is now 8[Note]. Gilead Sciences, Inc., which is the licensee, has submitted application of approval of drugs, including single-tablet regimen anti-HIV drug JTK-303 to US FDA and EMA, among others.

Revenue in the current fiscal year increased by ¥3.3 billion, or 7.5%, from the previous fiscal year, to ¥47.4 billion mainly due to increased sales at our subsidiary Torii Pharmaceutical Co., Ltd. of products including REMITCH® CAPSULES, an oral antipruritus drug for hemodialysis patients, and Truvada® Tablets, an anti-HIV drug. Adjusted EBITDA was negative ¥10.0 billion (compared to negative ¥9.8 billion in the previous fiscal year) due mainly to an increase in research and development expenses as a result of progress in development.

<Reference> Clinical Development (As of April 26, 2012)

Code	Stage	Key indication	Rights
JTK-303 (elvitegravir)	In preparation for NDA filing of single-tablet regimen containing JTK-303 (Japan)	HIV infection	Gilead Sciences (US) obtained the rights to develop and commercialize this compound worldwide, with the exception of Japan. (In preparation for NDA filing of single-tablet regimen containing JTK-303)
JTT-705 (dalcetrapib)	Phase 2 (Japan)	Dyslipidemia	Roche (Switzerland) obtained the rights to develop and commercialize the compound worldwide, with the exception of Japan. (Development stage by Roche: Phase 3)(Note)
JTT-302	Phase 2 (Overseas)	Dyslipidemia	
JTT-751 (ferric citrate)	Phase 3 (Japan)	Hyperphosphatemia	JT obtained the rights to develop and commercialize this compound in Japan from Keryx Biopharmaceuticals (US). (Developed jointly with Torii)
JTT-851	Phase 2 (Japan) Phase 1 (Overseas)	Type 2 diabetes mellitus	
JTZ-951	Phase 1 (Japan) Phase 1 (Overseas)	Anemia associated with kidney disease	
JTE-051	Phase 1 (Overseas)	Autoimmune/ allergic diseases	
JTE-052	Phase 1 (Japan)	Autoimmune/ allergic diseases	

(Note) On May 7, 2012, Roche announced that it had stopped all development for JTT-705 (dalcetrapib).

Food Business

	[Billions of yen]	Change [%]
Revenue	359.4	(2.2)
Adjusted EBITDA	20.0	12.8

Revenue declined by ¥8.0 billion, or 2.2%, from the previous fiscal year to ¥359.4 billion. This was mainly due to the impact of the closure of part of the processed food business in the previous fiscal year, despite increased sales in the beverage business mainly due to a solid sales performance by our flagship coffee brand “Roots” and an increase due to growth in staple food products (frozen noodles, packed cooked rice, baked frozen bread) in the processed food business.

In addition, adjusted EBITDA increased by ¥2.3 billion, or 12.8%, from the previous fiscal year to ¥20.0 billion. This was mainly due to effects of increased revenue from “Roots” in the beverage business, increased sales in higher-margin staple food products in the processed food business, and steady improvement of the earnings structure including a reduction in fixed costs.

2. Status of capital expenditures

In this fiscal year, we made capital expenditures totaling ¥119.0 billion. In the Japanese Domestic Tobacco Business, we spent ¥56.2 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 ¥39.1 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 Food Business, we invested ¥15.4 billion in developing and enhancing production and sales facilities.

* 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

No items to report.

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

	Japanese GAAP			
	24th term FY2008	25th term FY2009	26th term FY2010	27th term FY2011
Net sales (Millions of yen)	6,832,307	6,134,695	2,432,639	2,547,060
Ordinary income (Millions of yen)	307,586	255,377	313,066	362,728
Net income (Millions of yen)	123,400	138,448	145,366	227,399
Net income per share (Yen)	12,880	14,451	15,184	23,883
Total assets (Millions of yen)	3,879,803	3,872,595	3,544,107	3,472,612
Net assets (Millions of yen)	1,624,288	1,723,278	1,571,751	1,610,535

(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 and 27th terms are shown based on Japanese GAAP to facilitate comparison between the past three terms.
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. Furthermore, JT International S.A. and other foreign subsidiaries apply IFRS effective from the 27th term. As a result, these accounting policy changes are retrospectively applied to the figures for the 26th term.
3. The Japanese GAAP-based figures presented above for the 26th and 27th terms have not been audited by the independent auditors.
4. Figures presented for the 25th term and before are rounded off to the nearest unit.

	IFRS	
	26th term FY2010	27th term FY2011
Revenue (Millions of yen)	2,059,365	2,033,825
Profit before income taxes (Millions of yen)	385,242	441,355
Profit attributable to owners of the parent company (Millions of yen)	243,315	320,883
Basic earnings per share (Yen)	25,414	33,701
Total assets (Millions of yen)	3,655,201	3,667,007

Total equity (Millions of yen)	1,601,311	1,714,626

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

	24th term FY2008	25th term FY2009	26h term FY2010	27h term FY2011
Net sales (Millions of yen)	2,173,552	2,052,654	749,252	734,902
Ordinary income (Millions of yen)	160,200	161,606	182,819	198,071
Net income (Millions of yen)	89,637	107,361	32,216	142,726
Net income per share (Yen)	9,356	11,206	3,365	14,990
Total assets (Millions of yen)	2,857,330	3,027,503	2,879,354	3,016,651
Net assets (Millions of yen)	1,845,443	1,901,759	1,854,401	1,924,739

(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. Figures presented for the 25th term and before are rounded off to the nearest unit.

9. Issues to be addressed

(1) Basic management policy

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. Each employee and officer of the JT Group will continue to increase cash flows and maximize shareholder value in the medium- to long-term by placing customers first and foremost, behaving with sincerity, maintaining high quality standards in every aspect of their work, making continual enhancements, and bringing together the JT Group’s diverse capabilities, and will continue to operate the JT Group in a way that earns the confidence of its various stakeholders.

Furthermore, the “4S Model,” which has been the JT’s management principles, is designed, placing our consumers at the center, to ensure that in all our activities, we satisfy and fulfill our responsibilities towards consumers, shareholders, employees and society at large, while balancing the interests of these key stakeholder groups. In order to realize this, it is important to have sustainable profit growth. For this purpose, JT believes that it is necessary to steadily implement business investment for profit growth in the future, from a medium- to long-term perspective.

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

The JT Group has developed Business plan 2012 which follows on from the mid-term plan (‘JT-11’) over three years ended March 31, 2012. The plan is designed so that the Group can achieve its long-term vision of becoming a “Company committed to global growth that provides consumers diversified value uniquely available from JT.”

During the period of “JT-11”, in the challenging business environment, the Group operated the business aiming to achieve its group-wide target of annual-average EBITDA growth rate of 5% or more (based on the assumption that foreign exchange rates remain the same) from the level announced in 2009, and consolidated dividend payout ratio of 30% in the medium-term (after deducting the goodwill amortization effect). Therefore, due to robust business growth, EBITDA growth exceeding the target was attained. In addition, if the planned year-end dividend for the current fiscal year is approved, the consolidated dividend payout ratio (after deducting the goodwill amortization effect) will be on the level of exceeding the target.

Going forward, in order to achieving sustainable profit growth and to manage our global business appropriately, the JT Group recognizes that enhancing its ability to adapt to unforeseen changes and events swiftly and flexibly, while challenging business plan assumptions to better anticipate the future - its “adaptability to a changing environment” - is an important theme.

Based on this way of thinking, the JT Group will change its management plans from the previous form, in which it announced medium-term, quantitative targets with set terms of three years in medium-term management plans that were announced once every three years, to a new form in which the term of plans is set at three years but the plans are renewed each year on a rolling basis. In this way, the Group will speed up its response to unexpected changes, thus dealing with them appropriately.

In accordance with the “4S Model” concept, the Group intends to carry out medium- to long-term allocation of management resources with a high priority attached to business investment that contributes to medium- to long-term profit growth. In addition to setting a target for adjusted EBITDA growth rate, the Group will also put in place targets for the consolidated dividend payout ratio and adjusted earnings per share (EPS) growth rate from the perspective of the further pursuit of competitive returns for shareholders. A competitive target for the dividend payout ratio will be set taking global players in the FMCG business as a benchmark. Furthermore, whilst our primary aim is to increase adjusted EPS mainly through profit growth, the Company will also consider an expeditious share buy-back as a complementary initiative.

(Notes) 1. Profit growth rate per share obtained by dividing the amount arrived at by subtracting impairment losses on goodwill, restructuring-related income and restructuring-related costs, among others, from profit attributable to owners of the parent company by diluted average number of shares during the period.

2. Fast Moving Consumer Goods (daily consumer durables)

The group-wide, medium- to long-term profit targets, medium- to long-term targets of returns for shareholders and the targets of each business are as follows:

○ Consolidated medium to long-term profit targets exceed those of JT-11

- Adjusted EBITDA growth of mid to high single digit per annum over the medium to long-term at constant rates of exchange
  - Target 5.2% growth in the fiscal year ending March 31, 2013, in comparison to the prior fiscal year, at constant rates of exchange

- Dividend payout ratio of 40% in the fiscal year ending March 31, 2014, subsequently aiming to reach 50% over the medium-term
  - Target 35.9% in the fiscal year ending March 31, 2013 at constant rates of exchange in comparison to the prior year

- Adjusted EPS growth of high single digit per annum over the medium to long-term at constant rates of exchange

○ Business targets

- Tobacco Business: Grow adjusted EBITDA at mid to high single-digit rate per annum over the mid to long-term in the core business and profit growth engine of the JT Group
  - Japanese Domestic: Highly competitive platform of profitability
  - International: Profit growth engine, generating more than 50% of the Group profit

- Pharmaceutical Business: Strive to establish profitability through rapid and efficient market launch of compounds in late phases of clinical trials

- Food Business: Strengthen profit generation capability through continuous improvement, and contribute to the Group profit

In order to achieve the consolidated medium to long-term profit targets, our strategic focus across all businesses is to achieve quality top line growth. For each business, our strategic focus is to improve cost competitiveness and business foundations that support these efforts, thereby achieving sustainable profit growth.

As a global group, the JT Group will actively implement measures to strengthen its governance. In addition to IFRS, which was introduced in the fiscal year ended March 31, 2012, preparations are now underway to unify the fiscal year-ends of all Group companies to December effective from the fiscal year ending December 31, 2014. In addition, the introduction of two independent Outside Directors is being proposed at the current general meeting of shareholders in order to strengthen governance further. While the JT Group’s system to ensure business is conducted properly (i.e. the internal control system) functions effectively through endeavors to secure appropriate operations in accordance with the resolutions of the Board of Directors, the Group will also work to strengthen its internal control system further in the future by continuing to make improvements.

With respect to CSR, the Group will strengthen its group-wide initiatives further with the aim of securing sustained development for both society and the business.

Uncertainties continue to grow in the business environment, primarily from persistent turmoil in the global economy and instability as typified by events in the Middle East. Against this background, the JT Group will make further advances in the “change response capability” it has developed hitherto, while also doing its utmost to achieve sustained growth in the medium to long term.

10. Main business contents

Business segment	Main business
Japanese Domestic Tobacco Business	Manufacture and sale of tobacco products, mainly Mild Seven 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
Food Business	Manufacture and sale of beverages, processed foods 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
TableMark Co., Ltd.	(Millions of yen) 47,503	100.0	Manufacture and sale of processed foods
JT Beverage Inc.	(Millions of yen) 90	100.0	Sale of beverages
Japan Beverage Holdings Inc.	(Millions of yen) 500	66.7	Sale of beverages by vending machine

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

2. There were 240 consolidated subsidiaries in this fiscal year, including 8 above-mentioned important subsidiaries, as well as 14 affiliates accounted for by the equity method. In addition, consolidated revenue for this fiscal year amounted to ¥2.0338 trillion (down 1.2% year on year) with consolidated profit attributable to owners of the parent company at ¥3,209 billion (up 31.9% year on year).

12. Major lenders

Lender	Outstanding balance (Millions of yen)
Syndicated loan	76,933
Mizuho Bank , Ltd.	27,125

(Note) The syndicated loan consists of 12 participant banks with joint arrangers Citigroup Global Markets Ltd., ING Bank N.V. and The Royal Bank of Scotland Plc.

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)

(Note) Hofu factory closed as of March 31, 2012.

(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)

TableMark Co., Ltd. (Tokyo)

JT Beverage Inc. (Tokyo)

Japan Beverage Holdings Inc. (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)
Japanese Domestic Tobacco Business	11,092
International Tobacco Business	24,237
Pharmaceutical Business	1,693
Food Business	10,646
Common company-wide services within JT	861
Total	48,529

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

(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	7,933	(15)	44.0	22.6
Female	1,003	23	38.0	16.3
Total or average	8,936	8	43.4	21.9

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

II. Matters Concerning Shares of JT

1. Total number of shares authorized: 40,000,000 shares

2. Total number of shares issued: 10,000,000 shares

(Including treasury stock 478,526 shares)

3. Number of shareholders: 51,995

4. Major shareholders

Name of shareholders	Number of shares held (Share)	Equity ownership (%)
The Minister of Finance	5,001,335	52.53
Japan Trustee Services Bank, Ltd. (Trust Account)	226,192	2.38
State Street Bank and Trust Company	210,864	2.21
The Master Trust Bank of Japan, Ltd. (Trust Account)	193,972	2.04
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	169,000	1.77
State Street Bank and Trust Company	140,185	1.47
Goldman Sachs and Company Regular Account	119,353	1.25
Government of Singapore Investment Corporation Pte Ltd.	118,306	1.24
The Chase Manhattan Bank 385036	88,944	0.93
Mellon Bank, N.A. as Agent for its Client Melon Omnibus US Pension	88,414	0.93

(Note) Equity ownership is calculated after deducting treasury stock (478,526 shares).

5. Other important matters regarding shares

The Company made the following resolution concerning a stock split, its adoption of the share unit system and partial amendments to the Articles of Incorporation at a meeting of the Board of Directors held on April 13, 2012.

(1) The Company will carry out a stock split at the ratio of 1:200 or 200 shares of common stock to one share of common stock effective July 1, 2012.

1) Increase in shares resulting from stock split
The shares to be increased will be common stock, and the number of shares to be increased will be the number obtained by multiplying the final total number of shares issued as of June 30, 2012 by 199.

2) Method of split
Shares of common stock held by shareholders listed or recorded in the final registry of shareholders as of the record date of Saturday, June 30, 2012 will be split at a ratio of 1:200 or 200 shares to one share.

(2) The Company will adopt the share unit system on July 1, 2012, setting the number of shares per share unit of the Company at 100 shares.

(3) In accordance with the above stock split and adoption of the share unit system, the Articles of Incorporation will be partially amended, effective July 1, 2012, pursuant to the provisions of Article 184, paragraph 2 and Article 191 of the Companies Act of Japan.

1) Article 6 of the Articles of Incorporation will be amended, increasing the total number of shares authorized to be issued by 7,960,000,000 shares. As a result, the total number of shares authorized to be issued will be 8,000,000,000 shares.

2) Article 7 will be newly established, setting the number of shares per share unit of the Company at 100 shares.

(4) The change in the number of authorized shares from 40,000,000 to 8,000,000,000 as a result of the stock split, and the amendments to the Articles of Incorporation to set the number of shares per share unit of the Company at 100 shares following the adoption of the share unit system, shall be made on the condition of receipt of authorization from the Minister of Finance by June 30, 2012.

* Following the adoption of the share unit system, voting rights at the Company's General Meeting of Shareholders will be one per each unit (100 shares). The investment unit amount of the Company's shares will be one half or 1/2 of the amount before the stock split and adoption of the share unit system.

III. Matters Concerning Subscription Rights to Shares

1. Total number and others of subscription rights to shares as of March 31, 2012

(1) Total number of subscription rights to shares:

4,119 units

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

Common stock 4,119 shares

(1 share per subscription right to shares)

2. Status of subscription rights to shares held by Directors and Auditors of JT as of March 31, 2012

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

Common stock 1,886 shares

(1 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	153	8
	FY2008	¥285,904 per unit	From October 7, 2008 to October 6, 2038	204	8
	FY2009	¥197,517 per unit	From October 14, 2009 to October 13, 2039	544	8
	FY2010	¥198,386 per unit	From October 5, 2010 to October 4, 2040	460	8
	FY2011	¥277,947 per unit	From October 4, 2011 to October 3, 2041	514	8
Auditor	FY2007	¥581,269 per unit	From January 9, 2008 to January 8, 2038	11	1

(Note) The portion held by the Auditor was granted when same held the position of Executive Officer (*sikkoyakuin*).

3. Status of subscription rights to shares granted to employees of JT from April 1, 2011 to March 31, 2012

(1) Class and number of shares under subscription rights to shares apply:

Common stock 524 shares

(1 share per subscription right to shares)

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

¥277,947 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 4, 2011 to October 3, 2041

(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

524 subscription rights to shares were granted to 15 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	Yoji Wakui		NIPPONKOA Insurance Co., Ltd. Outside Director
President, Representative Director	Hiroshi Kimura		
Executive Deputy President, Representative Director	Munetaka Takeda	Assistant to CEO in Compliance, Finance and Operational Review & Business Assurance	
Executive Deputy President, Representative Director	Mitsuomi Koizumi	President, Tobacco Business	JT International Holding B.V. Chairman
Executive Deputy President, Representative Director	Masakazu Shimizu	Assistant to CEO in CSR, Communications and General Administration	
Executive Deputy President, Representative Director	Yasushi Shingai	Assistant to CEO in Strategy, HR, Legal and Food Business	
Member of the Board	Noriaki Okubo	President, Pharmaceutical Business	
Member of the Board	Mutsuo Iwai		JT International S.A. Executive Vice President
Standing Auditor	Hisao Tateishi		
Standing Auditor	Gisuke Shiozawa		
Auditor	Koichi Ueda		The Resolution and Collection Corporation Representative Director and President Koichi Ueda Law Office Attorney at Law
Auditor *	Yoshinori Imai		

(Notes)
1. Auditors Hisao Tateishi, Koichi Ueda and Yoshinori Imai are Outside Auditors.
2. Auditor Gisuke Shiozawa has relevant knowledge about financing and accounting as he was the head of Treasury Division of JT.
3. The asterisk * denotes Auditors who have assumed their offices on June 24, 2011.
4. Executive Deputy President, Representative Director Masaaki Sumikawa and Auditor Takanobu Fujita resigned on June 24, 2011.
5. Auditors Hisao Tateishi, Koichi Ueda and Yoshinori Imai were notified as independent officers (auditors) to the financial instruments exchange.

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	9	352	5	95	14	447
Directors' bonus	6	113	-	-	6	113
Stock option grants	8	143	-	-	8	143
Total	-	608	-	95	-	703

(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 three members: the Chairman of the Board, who has the role of the panel's chairman, and two members from outside.

Outside members of Compensation Advisory Panel (as of April 1, 2012)

Shiseido Company, Limited	Corporate Counselor	Mr. Morio Ikeda
Tokyo Gas Co., Ltd.	Corporate Counselor	Mr. Norio Ichino

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 medium- 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 medium- and long-term corporate value of JT. The said "stock option" was introduced in 2007 as remuneration that is linked to the medium- 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 approximately 70% of the “basic remuneration.”

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.

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 Directors and ¥190 million per year for 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 monitoring 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

Category	Name	Organizations where concurrent positions are held	Position
Auditor	Koichi Ueda	The Resolution and Collection Corporation	Representative Director and President
		Koichi Ueda Law Office	Attorney at Law

(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
Auditor	Hisao Tateishi	Attended all 16 meetings of the Board of Directors, as well as all 16 meetings of the Audit Board held during this fiscal year. Mr. Tateishi asked questions and made remarks where necessary at these meetings, as an auditor.
	Koichi Ueda	Attended all 16 meetings of the Board of Directors, as well as all 16 meetings of the Audit Board during this fiscal year. Mr. Ueda asked questions and made remarks where necessary at these meetings, as an auditor.
	Yoshinori Imai	Attended 12 out of 13 meetings of the Board of Directors, as well as all 13 meetings of the Audit Board held during this fiscal year since he assumed office on June 24, 2011. 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 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 Auditor	
	Number to be paid (Person)	Amount to be paid (Millions of yen)
Basic remuneration	4	59

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:	¥310 million
ii)	Fees for tasks other than audit attestation based on Article 2, paragraph 1 of the Certified Public Accountants Act:	¥134 million

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

¥634 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 tasks other than audit attestation based on Article 2, Paragraph 1 of the Certified Public Accountants Act, which consist of advisory services on International Accounting Standards 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, 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 Guidelines for Conduct based on regulations concerning the compliance system in order to ensure that Directors and employees comply with laws, regulations, JT's Articles of Incorporation, the social norms, etc., and set up a 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 companywide, cross-sectional system and shed light on issues.

The Compliance Office distributes to all Directors and employees the "JT Compliance Manual", which explains the Code of Conduct and Guidelines for 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 Compliance Committee for deliberation.

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.

(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 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 down to the nearest unit unless otherwise noted.

Consolidated Statement of Financial Position

(As of March 31, 2012)

(Millions of yen)

Account title	Amount	Account title	Amount
Current assets		**Current liabilities**	
Cash and cash equivalents	404,740	Trade and other payables	298,663
Trade and other receivables	327,767	Bonds and borrowings	211,766
Inventories	446,617	Income tax payables	42,501
Other financial assets	27,361	Other financial liabilities	8,039
Other current assets	123,163	Provisions	5,686
Subtotal	1,329,649	Other current liabilities	590,717
Non-current assets held-for-sale	1,401	Subtotal	1,157,373
Total current assets	1,331,050	Liabilities directly associated with non-current assets held-for-sale	101
		Total current liabilities	1,157,474
Non-current assets		**Non-current liabilities**	
Property, plant and equipment	619,536	Bonds and borrowings	279,750
Goodwill	1,110,046	Other financial liabilities	20,994
Intangible assets	306,448	Retirement benefit liabilities	315,020
Investment property	67,387	Provisions	4,448
Retirement benefit assets	14,371	Other non-current liabilities	92,235
Investments accounted for using the equity method	18,447	Deferred tax liabilities	82,460
		Total non-current liabilities	794,906
Other financial assets	67,548		
Deferred tax assets	132,174	**Total liabilities**	**1,952,380**
Total non-current assets	2,335,957	**Equity**	
		Share capital	100,000
		Capital surplus	736,410
		Treasury shares	(94,574)
		Other components of equity	(376,363)
		Retained earnings	1,268,577
		Equity attributable to owners of the parent company	1,634,050
		Non-controlling interests	80,576
		Total equity	1,714,626
Total assets	**3,667,007**	**Total liabilities and equity**	**3,667,007**

Consolidated Statement of Income

(Year ended March 31, 2012)

(Millions of yen)

Account title	Amount
Revenue	2,033,825
Cost of sales	(892,034)
Gross profit	1,141,791
Other operating income	48,512
Share of profit in investments accounted for using the equity method	2,047
Selling, general and administrative expenses	(733,169)
Operating profit	459,180
Financial income	5,603
Financial costs	(23,429)
Profit before income taxes	441,355
Income taxes	(112,795)
Profit for the year	328,559
Attributable to:	
Owners of the parent company	320,883
Non-controlling interests	7,676

Consolidated Statement of Changes in Equity

(Year ended March 31, 2012)

(Millions of yen)

	Equity attributable to owners of the parent company						
				Other components of equity			
	Share capital	Capital surplus	Treasury shares	Subscription rights to share	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Net gain (loss) on revaluation of available-for-sale securities
As of April 1, 2011	100,000	736,410	(94,574)	763	(257,262)	–	5,754
Cumulative effect of applying a new accounting standard	–	–	–	–	–	(142)	(5,754)
Profit for the year	–	–	–	–	–	–	–
Other comprehensive income	–	–	–	–	(129,966)	(166)	–
Comprehensive income for the year	–	–	–	–	(129,966)	(166)	–
Share-based payments	–	–	–	265	–	–	–
Dividends	–	–	–	–	–	–	–
Changes in the ownership interest in a subsidiary without a loss of control	–	–	–	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	–	–	–	–	–
Other increase (decrease)	–	–	–	–	–	–	–
Total transactions with the owners	–	–	–	265	–	–	–
As of March 31, 2012	100,000	736,410	(94,574)	1,028	(387,228)	(309)	–

(Millions of yen)

	Equity attributable to owners of the parent company					Non-controlling interests	Total equity
	Other components of equity			Retained earnings	Total		
	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	Actuarial gains (losses) on defined benefit retirement plans	Total				
As of April 1, 2011	–	–	(250,745)	1,034,054	1,525,145	76,166	1,601,311
Cumulative effect of applying a new accounting standard	5,551	–	(344)	97	(247)	47	(201)
Profit for the year	–	–	–	320,883	320,883	7,676	328,559
Other comprehensive income	4,684	(10,009)	(135,458)	–	(135,458)	(958)	(136,416)
Comprehensive income for the year	4,684	(10,009)	(135,458)	320,883	185,425	6,718	192,143
Share-based payments	–	–	265	–	265	–	265
Dividends	–	–	–	(76,172)	(76,172)	(2,138)	(78,310)
Changes in the ownership interest in a subsidiary without a loss of control	–	–	–	(366)	(366)	(137)	(503)
Transfer from other components of equity to retained earnings	(89)	10,009	9,920	(9,920)	–	–	–
Other increase (decrease)	–	–	–	–	–	(80)	(80)
Total transactions with the owners	(89)	10,009	10,185	(86,458)	(76,273)	(2,355)	(78,628)
As of March 31, 2012	10,146	–	(376,363)	1,268,577	1,634,050	80,576	1,714,626

Non-Consolidated Balance Sheet

(As of March 31, 2012)

(Millions of yen)

Account title	Amount	Account title	Amount
ASSETS		**LIABILITIES**	
Current assets	**566,843**	**Current liabilities**	**679,830**
Cash and deposits	8,263	Account payables–trade	15,864
Account receivables–trade	57,438	Short-term loan payables	5
Short-term investment securities	7,000	Current portion of bonds	60,000
Merchandise and finished goods	24,607	Current portion of long-term loan payables	120
Semifinished goods	80,958		
Work in progress	3,570	Lease obligations	4,324
Raw materials and supplies	37,260	Account payables–other	53,141
Advance payments–trade	485	National tobacco excise tax payables	97,323
Prepaid expenses	5,395	National tobacco special excise tax payables	15,052
Deferred tax assets	10,760		
Short-term loan receivables	279,923	Local tobacco excise tax payables	112,516
Short-term loan receivables from subsidiaries and affiliates	33,395	Income tax payables	9,767
		Consumption tax payables	25,608
Other	17,794	Cash management system deposits received	267,817
Allowance for doubtful accounts	(4)	Provision for bonuses	12,070
		Other	6,223
Non-current assets	**2,449,808**	**Non-current liabilities**	**412,083**
Property, plant and equipment	**310,528**	Bonds	180,000
Buildings	107,329	Long-term loan payables	50,040
Structures	2,953	Lease obligations	8,712
Machinery and equipment	69,980	Provision for retirement benefits	160,396
Vehicles	1,447	Asset retirement obligations	677
Tools, furniture and fixtures	24,968	Lease and guarantee deposits received	4,853
Land	91,336	Long-term account payables–other	7,406
Construction in progress	12,515	**Total liabilities**	**1,091,912**
		NET ASSETS	
Intangible assets	**20,287**	**Shareholders' equity**	**1,914,305**
Patent right	147	**Capital stock**	**100,000**
Trademark	4,603	**Capital surplus**	**736,410**
Software	9,334	Legal capital surplus	736,400
Other	6,202	Other capital surplus	10
		Retained earnings	**1,172,469**
Investments and other assets	**2,118,994**	Legal retained earnings	18,776
Investment securities	32,764	Other retained earnings	1,153,693
Investments in subsidiaries and affiliates	2,019,048	Reserve for reduction entry	37,113
Investments in capital of subsidiaries and affiliates	782	Special account for reduction entry	10,595
		General reserve	955,300
Long-term loan receivables	290	Retained earnings brought forward	150,684
Long-term loan receivables from subsidiaries and affiliates	14,464	**Treasury stock**	**(94,574)**
		Valuation and translation adjustments	**9,406**
Long-term prepaid expenses	6,867	Valuation difference on available-for-sale securities	9,406
Deferred tax assets	29,978		
Other	15,355	**Subscription rights to shares**	**1,028**
Allowance for doubtful accounts	(555)	**Total net assets**	**1,924,739**
Total assets	**3,016,651**	**Total liabilities and net assets**	**3,016,651**

Non-Consolidated Statement of Income

(Year ended March 31, 2012)

(Millions of yen)

Account title	Amount	
Net sales		734,902
Cost of sales		252,631
Gross profit		**482,270**
Selling, general and administrative expenses		281,225
Operating income		**201,045**
Non-operating income		
Interest income	478	
Dividend income	3,651	
Other	3,497	7,626
Non-operating expenses		
Interest expense	1,308	
Interest on bonds	2,978	
Financial support for domestic leaf tobacco growers	2,863	
Other	3,452	10,601
Ordinary income		**198,071**
Extraordinary income		
Gains on sales of non-current assets	29,619	
Other	5,566	35,185
Extraordinary loss		
Losses on sales of non-current assets	793	
Losses on retirement of non-current assets	7,483	
Impairment losses	3,001	
Losses on the Great East Japan Earthquake	13,425	
Cooperation fee for terminating leaf tobacco farming	12,469	
Other	3,181	40,352
Income before income taxes		**192,903**
Income taxes–current	40,244	
Income taxes–deferred	9,933	50,178
Net income		**142,726**

Non-Consolidated Statement of Changes in Net Assets

(Year ended March 31, 2012)

(Millions of yen)

	Shareholders' equity											
		Capital surplus			Retained earnings							
						Other retained earnings						
	Capital stock	Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Reserve for reduction entry	Special account for reduction entry	General reserve	Retained earnings brought forward	Total retained earnings	Treasury stock	Total shareholders' equity
As of April 1, 2011	100,000	736,400	10	736,410	18,776	37,128	1,882	955,300	92,829	1,105,915	(94,574)	1,847,751
Changes of items during the period												
Provision of reserve for reduction entry	–	–	–	–	–	5,339	–	–	(5,339)	–	–	–
Reversal of reserve for reduction entry	–	–	–	–	–	(8,192)	–	–	8,192	–	–	–
Increase in reserve for reduction entry due to tax rate change	–	–	–	–	–	2,839	–	–	(2,839)	–	–	–
Provision of reserve for special account for reduction entry	–	–	–	–	–	–	9,785	–	(9,785)	–	–	–
Reversal of reserve for special account for reduction entry	–	–	–	–	–	–	(1,882)	–	1,882	–	–	–
Increase in reserve for special account for reduction entry due to tax rate change	–	–	–	–	–	–	810	–	(810)	–	–	–
Dividends from surplus	–	–	–	–	–	–	–	–	(76,172)	(76,172)	–	(76,172)
Net income	–	–	–	–	–	–	–	–	142,726	142,726	–	142,726
Net changes of items other than shareholders' equity	–	–	–	–	–	–	–	–	–	–	–	–
Total changes of items during the period	–	–	–	–	–	(14)	8,713	–	57,855	66,554	–	66,554
As of March 31, 2012	100,000	736,400	10	736,410	18,776	37,113	10,595	955,300	150,684	1,172,469	(94,574)	1,914,305

(Millions of yen)

	Valuation and translation adjustments		Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
As of April 1, 2011	5,887	5,887	763	1,854,401
Changes of items during the period				
Provision of reserve for reduction entry	–	–	–	–
Reversal of reserve for reduction entry	–	–	–	–
Increase in reserve for reduction entry due to tax rate change	–	–	–	–
Provision of reserve for special account for reduction entry	–	–	–	–
Reversal of reserve for special account for reduction entry	–	–	–	–
Increase in reserve for special account for reduction entry due to tax rate change	–	–	–	–
Dividends from surplus	–	–	–	(76,172)
Net income	–	–	–	142,726
Net changes of items other than shareholders' equity	3,519	3,519	265	3,784
Total changes of items during the period	3,519	3,519	265	70,338
As of March 31, 2012	9,406	9,406	1,028	1,924,739

[The following represents a translation, for convenience only, of the original report issued in the Japanese language.]

INDEPENDENT AUDITOR'S REPORT

April 27, 2012

To the Board of Directors of
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Yasuyuki Miyasaka (Seal)

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Satoshi Iizuka (Seal)

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Koji Ishikawa (Seal)

Pursuant to the fourth paragraph of Article 444 of the Companies Act, we have audited the consolidated financial statements, namely, the consolidated statement of financial position as of March 31, 2012 of Japan Tobacco Inc. (the "Company") and its consolidated subsidiaries, and the related statements of income and changes in equity for the fiscal year from April 1, 2011 to March 31, 2012, and the related notes of significant matters for preparing consolidated financial statements and other related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with the provision of the second sentence of Article 120, paragraph 1 of the Ordinance on Accounting of Companies, which permits preparation of consolidated financial statements with the omission of some disclosure items required under International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Audit Opinion

In our opinion, the consolidated financial statements referred to above which are prepared with omission of some disclosure items required under IFRS in accordance with the provision of the second sentence of Article 120, paragraph 1 of the Ordinance on Accounting of Companies, present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as of March 31, 2012, and the results of their operations for the year then ended.

Emphasis of Matter

As mentioned in significant events after the reporting period, the Company made a resolution, at a meeting of the Board of Directors held on April 13, 2012, to conduct a stock split and adopt a share unit system.
This matter does not affect our conclusion.

Interest

Our firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

[The following represents a translation, for convenience only, of the original report issued in the Japanese language and “the accompanying supplemental schedules” referred to in this report are not included in the attached financial documents.]

INDEPENDENT AUDITOR'S REPORT

April 27, 2012

To the Board of Directors of
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Yasuyuki Miyasaka (Seal)

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Satoshi Iizuka (Seal)

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Koji Ishikawa (Seal)

Pursuant to the first item, second paragraph of Article 436 of the Companies Act, we have audited the non-consolidated financial statements, namely, the balance sheet as of March 31, 2012 of Japan Tobacco Inc. (the “Company”), and the related statements of income and changes in net assets for the 27th fiscal year from April 1, 2011 to March 31, 2012, and the related notes of significant accounting policies and other related notes to the non-consolidated financial statements, and the accompanying supplemental schedules.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements and the accompanying supplemental schedules in conformity with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of financial statements and the accompanying supplemental schedules that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

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

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

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

Audit Opinion

In our opinion, the non-consolidated financial statements and the accompanying supplemental schedules referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2012, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter

1. As mentioned in changes in accounting policies, the Company previously applied a method by which the amount equivalent to tobacco excise taxes was included in net sales and cost of sales, but changed this from the current fiscal year to a method that excludes this amount from net sales and cost of sales.
2. As mentioned in significant events after the reporting period, the Company made a resolution, at a meeting of the Board of Directors held on April 13, 2012, to conduct a stock split and adopt a share unit system.

These matters do not affect our conclusion.

Interest

Our firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

[The following represents a translation, for convenience only, of the original report issued in the Japanese language.]

Audit Report of the Board of Auditors

AUDIT REPORT

Regarding the performance of duties by the Directors for the 27th business year from April 1, 2011 to March 31, 2012, the Board of Auditors hereby submits its audit report, which has been prepared through discussions based on the audit report prepared by each Auditor.

1. Auditing Methods Employed by the Auditors and Board of Auditors and Details of Such Methods

The Board of Auditors established auditing policies, allocation of duties, and other relevant matters, and received reports from each Auditor regarding his or her audits and results thereof, as well as received reports from the Directors, other relevant personnel, and Independent Auditors regarding performance of their duties, and sought explanations as necessary.

Each Auditor complied with the auditing standards of Auditors established by the Board of Auditors, followed the auditing policies, allocation of duties, and other relevant matters, communicated with the Directors, and any other relevant personnel, and made efforts to optimize the environment for information collection and audit, and participated in the Board of Directors' Meetings and other important meetings, received reports from the Directors, and other relevant personnel regarding performance of their duties, sought explanations as necessary, examined important documents, and studied the operations and financial positions at the head office and principal offices. We monitored and verified the details of the resolution of the Board of Directors related to the provision of a system described in paragraphs 1 and 3 of Article 100 of the Ordinance for Enforcement of the Companies Act, that not only ensures Directors are carrying out their duties in compliance with laws and regulations and the Articles of Incorporation, but also ensures the propriety of the work activities of other companies. We also monitored and verified the condition of the system (internal control system) put in place in accordance with the aforesaid resolution. With respect to subsidiaries, we communicated and exchanged information with Directors, Auditors, and other relevant personnel of the subsidiaries, and received business reports from subsidiaries as necessary. Based on the above methods, we examined the business report and the accompanying supplemental schedules related to the relevant business year.

Furthermore, we monitored and verified whether the Independent Auditors maintained their independence and implemented appropriate audits, and we received reports from the Independent Auditors regarding the performance of their duties and sought explanations as necessary. In addition, we received notice from the Independent Auditors that "the system for ensuring that duties are performed properly" (matters set forth in each item of Article 131 of the Ordinance on Accounting of Companies) is organized in accordance with the "Quality Management Standards Regarding Audits" (Business Accounting Council, October 28, 2005) and other relevant regulations, and sought explanations as necessary. Based on the above methods, we examined the non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of income, and non-consolidated statement of changes in net assets) and the accompanying supplemental schedules, as well as consolidated financial statements (consolidated statement of financial position, consolidated statement of income, and consolidated statement of changes in equity, which omit some disclosure items required under International Financial Reporting Standards (IFRS) in accordance with the provision of the second sentence of Article 120, paragraph 1 of the Ordinance on Accounting of Companies) related to the relevant business year.

2. Audit Results

(1) Results of Audit of Business Report and Other Relevant Documents

1. In our opinion, the business report and the accompanying supplemental schedules are in accordance with the related laws and regulations and Articles of Incorporation, and fairly represent JT's condition.
2. With regard to the performance of duties by the Directors, we have found no evidence of wrongful action or material violation of related laws and regulations, nor of any violation with respect to the Articles of Incorporation.
3. In our opinion, the contents of the resolutions of the Board of Directors regarding the internal controls system are fair and reasonable, and, furthermore, the development, implementation and maintenance of the internal controls system are appropriate.

(2) Results of Audit of Non-Consolidated Financial Statements and the accompanying supplemental schedules

In our opinion, the methods and results employed and rendered by the Accounting Auditors, Deloitte Touche Tohmatsu LLC, are fair and reasonable.

(3) Results of Audit of Consolidated Financial Statements

In our opinion, the methods and results employed and rendered by the Independent Auditors, Deloitte Touche Tohmatsu LLC, are fair and reasonable.

May 1, 2012

Board of Auditors, Japan Tobacco Inc.

Standing Auditor	Hisao Tateishi	(seal)
Standing Auditor	Gisuke Shiozawa	(seal)
Auditor	Koichi Ueda	(seal)
Auditor	Yoshinori Imai	(seal)

(Note) Standing Auditor Hisao Tateishi and Auditors Koichi Ueda and Yoshinori Imai are Outside Auditors provided for by Article 2, item 16 and Article 335, paragraph 3 of the Companies Act.

REFERENCE DOCUMENTS
FOR THE GENERAL MEETING OF SHAREHOLDERS

Items and Relevant Information

Company's Proposals (Item 1 to Item 4)

Item 1: Appropriation of Surplus

The surplus is proposed to be appropriated as follows:

Year-end dividends

The year-end dividends on shares of Common Stock for the 27th Business Term which is the last business year of the JT-11 medium-term management plan, are proposed to be paid with a consolidated dividend payout ratio (after deducting the goodwill amortization effect) at 30.7%, achieving a target of 30%, on the following terms.

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

Cash

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

¥6,000 per share of Common Stock of JT Aggregate amount: ¥57,128,844,000

Together with the interim dividends of ¥4,000 per share paid in December 2011, the annual dividends for the 27th Business Term will be ¥10,000 per share, increasing by ¥3,200 year-on-year.

(3) Effective date for distribution of surplus:

June 25, 2012

Item 2: Partial Amendments to the Articles of Incorporation

1. Reasons for amendments

(1) For the purpose of enlarging the Company's investor base through reduction of the investment unit amount of the Company's shares, and in light of the decision of the Japanese Stock Exchanges Conference to standardize the trading unit, the Board has passed a resolution on April 13, 2012 to split the Company's stock at the ratio of 1:200 or 200 shares to one share, and adopt the share unit system, setting a share trading unit to 100 shares effective July 1, 2012.
As a result, the company is newly establishing provision on the rights with respect to shares which are less than one share unit (Proposed amendment of Article 8) and provision for the demand for the sale of shares which are less than one share unit (Proposed amendment of Article 9).

(2) Following the establishment of the provisions described above, Articles 7 to 31 will be renumbered accordingly.

2. Details of amendments

Details of amendments are as follows:

The amendment is effective July 1, 2012

(Underlined portions designate amendments to be resolved on for the subject agenda item.)

Current Articles of Incorporation	Proposed Amendments
(Authorized shares) Article 6. The total number of shares to be issued by the Company shall be forty million (40,000,000) shares.	(Authorized shares) Article 6. The total number of shares to be issued by the Company shall be eight billion (8,000,000,000) shares.
(Newly established)	(The number of shares per share unit) Article 7. The number of shares per share unit of the Company shall be one hundred (100) shares.
(Newly established)	<u>(Rights in respect of shares less than one share unit)</u> <u>Article 8. Any shareholder of the Company may not exercise any rights in respect of shares less than one share unit other than those listed below:</u> (1) <u>the rights as provided for in the items of Article 189, Paragraph 2 of the Companies Act;</u> (2) <u>the rights to the allocation of shares offered to shareholders and stock acquisition rights offered to shareholders, in proportion to the numbers of their respective shares; and</u> (3) <u>the rights to exercise a demand as provided for in Article 9 hereof.</u>

Current Articles of Incorporation	Proposed Amendments
(Newly established)	<u>(Demand for sale of shares less than one share unit)</u> <u>Article 9. Any shareholder of the Company may demand the Company to sell the number of shares that would, collectively with the number of his/her shares less than one share unit, constitute one share unit.</u>
Article <u>7</u>. to Article <u>31</u>. (Provisions omitted)	Article <u>10.</u> to Article <u>34.</u> (Same as at present)

(Note) With regard to Article 6 and Article 7 of the amendment proposal stated above, a resolution was passed at the Board of Directors' Meeting held on April 13, 2012, with July 1, 2012, as the effective date.

Item 3: Election of Nine (9) Directors

The terms of office of all eight (8) present Directors will expire at the conclusion of this ordinary general meeting of shareholders. Accordingly, the election of nine (9) Directors including two (2) Outside Directors is proposed in order to enhance the management system.

The candidates for the office of Director are as follows:

Candidate Number	Name (Date of Birth)	Brief Personal History, Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company	Number of the Company's Shares Held
1	Hiroshi Kimura (April 23, 1953)	Apr. 1976 Joined the Company (Japan Tobacco and Salt Public Corporation) Jan. 1999 Vice President of Corporate Planning Division May 1999 Senior Manager in Tobacco Business Planning Division, Tobacco Business Headquarters Executive Vice President, JT International S.A. Jun. 1999 Member of the Board Jun. 2001 Retired from Member of the Board Jun. 2005 Member of the Board Jun. 2006 President, Chief Executive Officer and Representative Director (Current Position)	133
2	Mitsuomi Koizumi (April 15, 1957)	Apr. 1981 Joined the Company (Japan Tobacco and Salt Public Corporation) Jun. 2001 Vice President of Corporate Planning Division Jun. 2003 Senior Vice President, and Head of Human Resources and Labor Relations Group Jun. 2004 Senior Vice President, and Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters Jun. 2006 Executive Vice President, and Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters Jun. 2007 Member of the Board, Executive Vice President, and Head of Marketing & Sales General Division, Tobacco Business Headquarters Jul. 2007 Member of the Board, Executive Vice President, and Chief Marketing & Sales Officer, Tobacco Business Headquarters Jun. 2009 Representative Director, Executive Deputy President, and President, Tobacco Business (Current Position) (Significant Concurrent Positions outside the Company) Chairman, JT International Holding B.V.	95

Candidate Number	Name (Date of Birth)	Brief Personal History, Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company	Number of the Company's Shares Held
3	Yasushi Shingai (January 11, 1956)	Apr. 1980 Joined the Company (Japan Tobacco and Salt Public Corporation) Jul. 2001 Vice President of Financial Planning Division Jun. 2004 Senior Vice President, Head of Finance Group Jul. 2004 Senior Vice President, and Chief Financial Officer Jun. 2005 Member of the Board, Senior Vice President, and Chief Financial Officer Jun. 2006 Member of the Board Executive Vice President, JT International S.A. Jun. 2011 Executive Deputy President, Representative Director, Assistant to CEO in Strategy, HR, Legal and Food Business (Current Position)	86
4	Noriaki Okubo (May 22, 1959)	Apr. 1983 Joined the Company (Japan Tobacco and Salt Public Corporation) Apr. 2000 Vice President of Business Development Dept., Pharmaceutical Division Jun. 2002 Vice President of Business Planning Dept., Pharmaceutical Division Jun. 2004 Member of the Board, Senior Vice President, and President, Pharmaceutical Business Jun. 2006 Member of the Board, Executive Vice President, and President, Pharmaceutical Business Jun. 2009 Member of the Board, Senior Executive Vice President, and President, Pharmaceutical Business (Current Position)	42
5	(Newly appointed) Akira Saeki (August 25, 1960)	Apr. 1985 Joined the Company Jun. 2005 Vice President of Corporate Strategy Division Jun. 2007 Senior Vice President, Head of Tobacco Business Planning Division, Tobacco Business Jun. 2008 Senior Vice President, Head of Tobacco Business Planning Division, Tobacco Business and Chief External Affairs Planning Officer Jun. 2010 Executive Vice President, Head of Tobacco Business Planning Division, Tobacco Business (Current Position)	46

Candidate Number	Name (Date of Birth)	Brief Personal History, Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company	Number of the Company's Shares Held
6	(Newly appointed) Hideki Miyazaki (January 22, 1958)	Apr. 1980 Joined Nomura Securities Co., Ltd. Jul. 2005 Senior Manager of Accounting Division of the Company Jan. 2006 Deputy Chief Financial Officer Jun. 2008 Senior Vice President, and Chief Financial Officer Jun. 2010 Executive Vice President, and Chief Financial Officer (Current Position)	32
7	Mutsuo Iwai (October 29, 1960)	Apr. 1983 Joined the Company (Japan Tobacco and Salt Public Corporation) Jun. 2003 Vice President of Corporate Planning Division Jun. 2005 Senior Vice President, and Vice President of Food Business Division, Food Business Jun. 2006 Member of the Board, Executive Vice President, and President, Food Business Jun. 2008 Executive Vice President, and Chief Strategy Officer Jun. 2010 Member of the Board, Executive Vice President, Chief Strategy Officer and Assistant to CEO in Food Business Jun. 2011 Member of the Board (Current Position) Executive Vice President, JT International S.A. (Current Position) (Significant Concurrent Positions outside the Company) Executive Vice President, JT International S.A.	80
8	(Newly appointed) Motoyuki Oka (September 15, 1943)	Apr. 1966 Joined Sumitomo Corporation Jun. 1994 Director, Sumitomo Corporation Apr. 1998 Managing Director, Sumitomo Corporation Apr. 2001 Senior Managing Director, Sumitomo Corporation Jun. 2001 President and CEO, Sumitomo Corporation Jun. 2007 Chairman of the Board of Directors, Sumitomo Corporation (Current Position) (Significant Concurrent Positions outside the Company) Chairman of the Board of Directors, Sumitomo Corporation	0

Candidate Number	Name (Date of Birth)	Brief Personal History, Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company	Number of the Company's Shares Held
9	(Newly appointed) Main Kohda (April 25, 1951)	Sep. 1995 Started independently as Novelist (Current Position) Jan. 2003 Member of Financial System Council, Ministry of Finance Japan Apr. 2004 Visiting professor, Faculty of Economics, Shiga University Mar. 2005 Member of the Council for Transport Policy, Ministry of Land, Infrastructure, Transport and Tourism Nov. 2006 Member of the Tax Commission, Cabinet Office, Government of Japan Jun. 2010 Member of the Board of Governors, Japan Broadcasting Corporation (Current Position) (Significant Concurrent Positions outside the Company) Novelist Member of the Board of Governors, Japan Broadcasting Corporation	0

(Notes) 1. No conflict of interest exists between the Company and each of the above candidates.
Although JT has had a business relationship related to manufacturing machine, etc. with Sumitomo Corporation for which Motoyuki Oka has served as a chairman of the board of directors, the transaction amount accounted for just about 0.1% of our consolidated sales revenue in the fiscal year ended March 31, 2012, which has no material impacts to generate special interest.

2. Motoyuki Oka and Main Kohda are candidates for the office of Outside Director.
3. Relevant matters concerning the candidates for the office of Outside Director are described as follows:
   (1) For Motoyuki Oka
   The election of Motoyuki Oka as Outside Director is proposed, as he would be able to reflect his abundant experience and extensive insight into management of global companies in management of the Company.
   (2) For Main Kohda
   The election of Main Kohda as Outside Director is proposed, as she has abundant insight into international finance, and would be able to reflect her extensive experience as university professor and member of governmental advisory bodies, etc. and deep insight and objective point of view used through activities as a novelist in management of the Conpany.
4. Should the election of Motoyuki Oka and Main Kohda be approved, pursuant to the provision of Article 23 of the Articles of Incorporation, the Company intends to enter into an agreement with each of them to limit their liabilities sptipulated in Article 423, Paragraph 1 of the Companies Act to the extent permitted by the laws and ordinances.
5. The Company intends to register Motoyuki Oka and Main Kohda as independent director provided under the stock exchange rules to the stock exchange.

Item 4: Election of One (1) Company Auditor

Company Auditor Gisuke Shiozawa will resign at the conclusion of this ordinary general meeting of shareholders. Accordingly, the election of one (1) Company Auditor as his replacement is proposed.

The Board of Company Auditors has approved this proposition.

The candidate for the office of Company Auditor is as follows:

Name (Date of Birth)	Brief Personal History, Positions in the Company, and Significant Concurrent Positions outside the Company	Number of the Company's Shares Held
(Newly appointed) Futoshi Nakamura (November 23, 1957)	Apr. 1981 Joined the Company (Japan Tobacco and Salt Public Corporation) Jul. 2004 Head of Procurement Planning Division Sep. 2005 Senior Manager of Operational Review and Business Assurance Division Vice President, JT International Holding B.V. Vice President Jul. 2009 Senior Manager of Accounting Division Jul. 2010 Head of Operational Review and Business Assurance Division (Current Position)	5

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

Shareholder’s Proposals (Item 5 to Item 8)

The proposals from Item 5 to Item 8 were made by a shareholder. The number of voting rights of the shareholder (one) is 49,379.

The following are the agenda and reasons for the proposals made by the shareholder which are stated as they are.

Item 5: Dividend Proposal

1. Agenda

The year-end dividends on shares of Common Stock for the 27th fiscal year shall be paid in the amount of JPY20,000 per share of Common Stock.

2. Reason of Proposal

The Company has sufficient cash and retained earnings to pay a higher dividend. The Company has on average returned 25% of its earnings to shareholders as dividends and share buybacks in the last three years which is a substantially lower dividend payout ratio compared to its international competitors. Over the same period JT’s competitors, British American Tobacco and Philip Morris International respectively returned on average 70% and 120% of their earnings to shareholders.

The Board of Directors’ view on Item 5

The Board of Directors is opposed to this proposal.

The Company aims to achieve sustainable profit growth over the medium to long-term with a view that investing in business for future profit growth is in the best interests of all shareholders. The Company has achieved a combined annual EBITDA growth rate of 5.7% over the past 10 years through business investments thus far which include the acquisitions of RJR International and Gallaher. Concurrently, we have been returning capital to shareholders by progressively increasing our consolidated dividend payout ratio excluding the impact of goodwill amortization to a most recent level of 30% in the fiscal year ended March 31, 2012, on the basis of the Board of Directors’ recommendation, thereby attaining the target announced by the Company in its efforts to improve the attractiveness of shareholder return.

On the other hand, the Board of Directors believes that delivery of a substantially high return as stated in the proposals is short-term focused, and it would result in constrained business investment for future profit growth, loss of business competitiveness and shareholder value.

In Business plan 2012, we have set out the dividend payout ratio target of 40% in the fiscal year ending March 31, 2014, followed by a further increase to 50% over medium-term subsequently.

Item 6: Share Buy-back

1. Agenda

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: 1,600,000*;
- 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 general shareholders meeting

2. Reason of Proposal

The capital structure of the Company is under levered 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 prioritise the return of profits to shareholders and to deliver a competitive shareholder return.

*Following our Board of Directors' resolution of April 13, 2012 concerning stock split at the ratio of 200 shares to one share effective July 1, 2012, this equals to 320,000,000 shares after the stock split comes into effect.

The Board of Directors' view on Item 6

The Board of Directors is opposed to this proposal.

The Company aims to achieve sustainable profit growth over the medium to long-term with a view that investing in business that will drive future profit growth is in the best interests of all shareholders.

On the other hand, the Board of Directors believes that the large share buyback proposed by the shareholder could negatively impact the Company's flexibility to make business investments and financing, resulting in loss of business competitiveness and shareholder value.

JT has introduced an EPS growth rate target as a key performance indicator (KPI). As part of managing the EPS growth rate set out as one of our shareholder return initiatives, the Company will actively monitor the business environment and expeditiously buy back shares at appropriate times.

In addition, taking into account the current cash flow projections, anticipated business investments and credit rating considerations, the Company is considering a possible buy-back of up to ¥250 billion in the event of the Japanese Government share offering, which is a portion of the anticipated shares to be offered.

Item 7: Partial Amendments to the Articles of Incorporation

1. Agenda

The following new provision will be added as Article 16.2 in Chapter 3 “Shareholder’s Meeting” of the Articles of Incorporation:

Article 16.2 The shareholder’s meeting can resolve the matters in respect of cancellation of treasury shares including the type and number of shares to be cancelled, in addition to the matters set forth in the Companies Act of Japan.

2. Reason of 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 shareholders meeting should have the authority to resolve the matters in respect of cancellation of treasury shares by its resolution.

The Board of Directors’ view on Item 7

The Board of Directors is opposed to this proposal.

We believe that the Board of Directors should retain authority on the cancellation and use of treasury stock, a funding source, owing to the need to evaluate and act with speed in the current business environment. Accordingly, there is no need to amend the articles of incorporation for shareholders meetings to resolve these matters, in line with the principle of the Companies Act of Japan.

We view treasury stock as a funding source, similar to new share issuances in our evaluation of future business investments including acquisitions, and taking into account our constraints on financing through new share issuances due to the Japan Tobacco Inc. Law.

The EPS growth rate managed as our KPI will exclude treasury stock. Any decision reached to utilize treasury stock for future business investments will only be made after giving careful consideration to whether it contributes to long-term sustainable profit growth and best serves the interest of all shareholders.

Item 8: Cancellation of All Existing Treasury Shares

1. Agenda

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

All shares of Common Stock owned by the Company are cancelled.

2. Reason of 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.

Currently, the Company does not intend to cancel all the treasury shares, taking into account the potential use of treasury stock for business investments through future acquisitions and the constraints on financing through new share issuances due to the Japan Tobacco Inc. Law.

Direction for Exercise of the Voting Rights via the Internet:

For the exercise of voting rights via the Internet, please access the web-site for the exercise of voting rights designated by JT (below, “web-site for exercising voting rights”), refer to the items below and exercise your voting rights.

If you have any questions, please contact “System Inquiries (Help Desk)” provided on the next page.

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

1. Web-site for Exercise of Voting Rights

[Web-site URL for Exercise of Voting Rights] **http://www.evote.jp/**

(1) The exercise of voting rights via the Internet is available only by accessing the web-site for exercising voting rights from a computer. (However, you will not be able to access the web-site from 2 a.m. to 5 a.m. each day during the exercise period.)

(2) If your Internet connection uses firewalls, etc., 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 voting rights via the Internet is only available until 6 p.m. on Thursday, June 21, 2012. We ask that you please exercise your voting rights at your earliest convenience.

2. Instructions for Exercise of the Voting Rights via the Internet

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

(2) In order to prevent unauthorized access (web spoofing) or alteration of the voting by non-shareholders, shareholders voting via the Internet will be asked to change their “Temporary Password” on the web-site for exercising voting rights.

(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 rights are exercised both by returning the Voting Rights Exercise Form and via the Internet, only the exercise of the voting rights via the Internet shall be deemed valid.

(2) If the voting rights are exercised more than once via the Internet, only the last exercise shall be deemed valid.

4. Fees incurred when accessing the web-site for exercising voting rights

The shareholder shall bear any fees for accessing the web-site for exercising voting rights (Internet provider connection fees, communications fees, etc.)

System Inquiries (Help Desk)

Mitsubishi UFJ Trust and Banking Corporation
Corporate Agency Division
Tel: 0120-173-027 (Toll-free, only in Japan)
(Business hours: 9:00 to 21:00)