[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.]

May 31, 2012

To Our Shareholders

MATERIALS DISCLOSED VIA THE INTERNET CONCERNING NOTICE OF CONVOCATION OF THE 27TH ANNUAL SHAREHOLDERS MEETING

Concerning "Notes to Consolidated Financial Statements" and "Notes to Non-Consolidated Financial Statements" are posted on the Company's website (http://www.jti.co.jp/) to be offered to shareholders, pursuant to the provisions of laws and regulations as well as Article 14 of our Articles of Incorporation.

Notes to Consolidated Financial Statements

Notes to Non-Consolidated Financial Statements

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

Japan Tobacco Inc.

Notes to Consolidated Financial Statements

1. Significant matters for preparing consolidated financial statements

(1) Accounting principles for preparing consolidated financial statements

The consolidated financial statements of Japan Tobacco Inc. (hereinafter referred to as the "Company") and its subsidiaries (hereinafter together referred to as "JT Group" or the "Group") are prepared in accordance with International Financial Reporting Standards (hereinafter referred to as "IFRS") under the provisions of Article 120, Paragraph 1 of the Ordinance on Accounting of Companies effective from the year ended March 31, 2012. Under the provisions of the second sentence of the same paragraph of the same Ordinance, some disclosure items required under IFRS are omitted.

The Group first adopted IFRS for the year ended March 31, 2012, and the date of transition to IFRS (hereinafter referred to as the "date of transition") is April 1, 2010.

(2) Early adoption of new standards

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

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

The effect of early adoption described above on the consolidated financial statements at the beginning of the year ended March 31, 2012 (April 1, 2011) is immaterial.

(3) Scope of consolidation

Number of consolidated subsidiaries: 240 companies

Major consolidated subsidiaries: TS Network Co., Ltd., Japan Filter Technology, Ltd., JT International S.A., Gallaher Ltd., Torii Pharmaceutical Co., Ltd., TableMark Co., Ltd., JT Beverage Inc., Japan Beverage Holdings Inc.

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

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

(4) Scope of equity method

Number of affiliates accounted for by the equity method: 11 companies

Major affiliates accounted for by the equity method: NTT DATA WAVE CORPORATION.

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

Joint ventures are accounted for using the equity method.

(5) Fiscal year of consolidated subsidiaries

JT International Holdings B. V. (hereinafter referred to as JTIH) and its subsidiaries (hereinafter collectively referred to as the “JTIH Group”), which operate the Group’s international tobacco business, have a fiscal year end date of December 31. For these companies, the period from January 1, 2011 to December 31, 2011 was used in the process of consolidation for the year ended March 31, 2012.

In the consolidation process of the Group, consolidation for the JTIH Group (subconsolidation) is conducted first, and then, the process of consolidation for the whole group is performed. The JTIH Group is one of our business operation units, which operates the Group’s international tobacco business. It manages budgets and actual results on a subconsolidation basis and, as a financial reporting unit, plays a major role in ensuring the accuracy and quality of our financial reporting. Under such consolidation process, in order to unify the financial reporting periods across the whole Group, maintaining the some level of quality of the Group’s consolidated financial reporting and satisfying the statutory schedule prescribed under the Companies Act of Japan, it is required to shorten the current closing schedule further across the Group. To achieve this, the review and improvement of the systems and structures of the closing process across the Group are necessary for the following: conducting the process of subconsolidation of the JTIH Group and changing the reporting process to the Company; restructuring the processes of consolidation and preparation of consolidated financial statements, including notes to consolidated financial statements; carrying out the proper arrangement of personnel resources and developing talents; and reviewing the process of approval in financial reporting. Due to the aforementioned reasons, we determined that the unification of reporting periods is impracticable for the near term.

However, under the unification of accounting standards to IFRS, we will promote actions to strengthen and make effective the closing and management systems in Japan and overseas, and will achieve the unification of reporting period at the earliest possible.

Although there is three months difference between the fiscal year end of the JTIH Group and that of the Company, in recent years seasonal and periodical fluctuations have been relatively small in the Group’s international tobacco business. Therefore, the effect from the mismatch of the reporting period on the Group’s consolidated financial position and operating results is limited. With respect to significant transactions conducted and events occurring during the time gap, the necessary adjustments are made and appropriate measures are taken to help financial statement users properly understand and assess the consolidated financial position and operating results of the Group.

(6) Accounting policies

A. Basis and method of valuation for financial assets other than derivatives

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

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

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

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

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

ii) Subsequent measurement
After initial recognition, financial assets are measured based on the classification by the following procedures:

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

(b) Other financial assets
Financial assets other than those measured at amortized cost are measured at fair value.

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

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

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

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

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

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

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

B. Basis and method of valuation for derivatives

The Group utilizes derivatives, including forward foreign exchange contracts and interest rate swap contracts, to hedge foreign exchange and interest rate risks, respectively. Derivatives are initially measured at fair value at the date the contract is entered into, and are subsequently remeasured at fair value.

Changes in the fair value of derivatives are recognized as profit or loss in the consolidated statement of income. However, the effective portion of the gains or losses on the hedging instrument in cash flow hedges and hedges of net investment in foreign operations is recognized as other comprehensive income.

C. Basis and method of valuation for inventories

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

Inventories are measured at the lower of acquisition cost or net realizable value, and the costs are determined by using the weighted-average method.

Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

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

D. Depreciation methods for significant depreciable assets

i) Property, plant and equipment and investment property (excluding leased assets)
Property, plant and equipment is measured by using the cost model and is stated at cost less accumulated depreciation and accumulated impairment losses. The acquisition cost includes any costs directly attributable to the acquisition of the asset; and dismantlement, removal and restoration costs; as well as borrowing costs eligible for capitalization.

Except for assets that are not subject to depreciation, such as land, assets are depreciated using the straight-line method over their estimated useful lives.

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

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

The estimated useful lives of major asset items are as follows:

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

The estimated useful lives and depreciation method are reviewed at each fiscal year end, with the effect of any changes in estimate being accounted for on a prospective basis.

ii) Intangible assets (excluding leased assets)
Intangible assets are measured by using the cost model and are stated at cost less accumulated amortization and accumulated impairment losses. Intangible assets acquired individually are measured at cost at the initial recognition, and the costs of intangible assets acquired in business combinations are recognized at fair value at the acquisition date. Expenditures on internally generated intangible assets are recognized as expense in the period when incurred, except for development expenses that satisfy the capitalization criteria.

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

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

- Trademark: 20 years
- Software: 5 years

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

iii) Leased assets
Leases are classified as finance leases whenever substantially all the risks and rewards of ownership are transferred to the Group. All other leases are classified as operating leases.

In finance lease transactions, leased assets and lease obligations are recognized in the consolidated statement of financial position at the lower of the fair value of the leased property or the present value of the minimum lease payments, each determined at the inception of the lease. Lease payments are apportioned between the financial costs and the reduction of the lease obligation based on the effective interest method. Financial costs are recognized in the consolidated statement

of income. Leased assets are depreciated using the straight-line method over their estimated useful lives or lease terms whichever shorter.

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

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

E. Policy on accounting of significant provisions

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

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

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

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

F. Employee retirement benefits and mutual aid pension benefits

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

With regard to obligations to bear pension expenses for mutual assistance association incurred with respect to services in or before June 1956 (meaning before enforcement of the Act on the Mutual Aid Association of Public Corporation Employees) among expenses required by obligations under the government-sponsored pension plan, the Company determines the liability related to the obligation under mutual assistance association and recognizes the amount in the liability related to retirement benefits.

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

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

Cost for retirement benefits for defined contribution plans is recognized as an expense at the time of

contribution.

As the Group has adopted the exemption provision prescribed in IFRS 1 “First-time Adoption of International Financial Reporting Standards” (hereinafter referred to as “IFRS 1”), which an entity can choose to apply, cumulative amount of actuarial gains and losses in relation to defined benefit plans as of the date of transition to IFRS are transferred in full to retained earnings.

G. Accounting for revenue

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

Since the amount of transactions where the Group is involved as an agency, including tobacco excise taxes, is deducted from revenue, the Group recognizes only the economic benefit inflow as revenue.

ii) Interest income
Interest income is recognized using the effective interest rate method.

iii) Dividend income
Dividend income is recognized when the shareholder’s right to receive payment is established.

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

H. Policy on translation of significant assets and liabilities denominated in foreign currency into Japanese yen

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

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

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

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

As the Group has adopted the exemption provision prescribed in IFRS 1, which an entity can choose to apply, cumulative amount of translation differences prior to the date of transition is

transferred to retained earnings.

I. Method of significant hedge accounting

The Group utilizes derivatives, including forward foreign exchange contracts and interest rate swap contracts, to hedge foreign exchange and interest rate risks, respectively. Derivatives are initially measured at fair value at the date the contract is entered into and are subsequently remeasured at fair value.

Changes in the fair value of derivatives are recognized as profit or loss in the consolidated statement of income. However, the effective portion of the gains or losses on the hedging instrument in cash flow hedges and hedges of net investment in foreign operations is recognized as other comprehensive income.

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

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

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

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

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

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

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

J. National consumption tax and local consumption tax are excluded from the consolidated statement of income.

(7) Amortization of goodwill

Goodwill is stated at acquisition cost less accumulated impairment losses.

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

As the Group has adopted the exemption provision prescribed in IFRS 1, which an entity can choose to apply, IFRS 3 “Business Combination” is not applied retrospectively with respect to business combinations prior to April 1, 2010. In such cases, the carrying amounts of goodwill based on the previous accounting standard (Japanese GAAP) as at the date of transition becomes the carrying amount as of the date of transition.

2. Notes to consolidated statement of financial position

(1) Accumulated depreciation of assets (including accumulated impairment losses):

Property, plant and equipment	¥831,449 million
Goodwill and intangible assets	¥541,533 million
Investment property	¥77,589 million

(2) Assets pledged as collateral and liabilities relating to collateral

i) Pursuant to Article 6 of the Japan Tobacco Inc. Act, JT's properties are pledged as general collateral for its corporate bonds.

Amount of liabilities relating to collateral

Yen straight bonds:	¥239,905 million

ii) Assets pledged as collateral related to some consolidated subsidiaries are ¥10,800 million.

Type and amount of assets pledged as collateral

Land, buildings and structures:	¥9,231 million
Machinery and vehicles:	¥571 million
Other:	¥998 million

The amount of liabilities related to assets pledged as collateral is ¥2,692 million.

Amount of liabilities relating to collateral

Loan payables:	¥2,342 million
Other:	¥350 million

(3) Allowance for doubtful accounts directly deducted from assets

Trade and other receivables:	¥1,729 million
Other financial assets	¥14,137 million

3. Notes to consolidated statement of changes in equity

(1) Class and total number of issued shares and class and total number of treasury shares

(Thousands of shares)

	Number of shares as of April 1, 2011	Increase for the year ended March 31, 2012	Decrease for the year ended March 31, 2012	Number of shares as of March 31, 2012
Issued shares				
Ordinary shares	10,000	–	–	10,000
Treasury shares				
Ordinary shares	479	–	–	479

(2) Cash dividends

i) Dividend payments

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

ii) Dividends whose record dates are in the year ended March 31, 2012 but whose effective dates fall in the year ended March 31, 2013

The following proposal will be placed on the agenda of the Annual Shareholders Meeting to be held on June 22, 2012.

(Proposal)	Class of shares	Total amount of dividends (Millions of yen)	Source of dividends	Cash dividend per share (Yen)	Record date	Effective date
Annual Shareholders Meeting (June 22, 2012)	Ordinary Shares	57,129	Retained earnings	6,000	March 31, 2012	June 25, 2012

(3) Class and number of shares under subscription rights to shares at the end of the year ended March 31, 2012 (excluding rights whose exercise period has yet to begin)

Ordinary shares 4,119 shares

4. Financial instruments

(1) Status of financial instruments

JT and its major consolidated subsidiaries are exposed to financial risks (credit risk, liquidity risk, foreign exchange risk, interest rate risk and market price fluctuation risk) in the course of their business activities, and they manage these risks in order to avoid or reduce them based on certain policies. They also report on the status of their management of major financial risks to JT's Executive Committee on a quarterly basis.

Derivatives are restricted to use to mitigate risk exposure arising from actual business operations and JT and its major consolidated subsidiaries do not enter into any transactions for speculative or trading purposes.

(2) Fair value of financial instruments

Carrying amount on consolidated statements of financial position and fair values as of March 31, 2012 are as follows.

(Millions of yen)

	Carrying amount on consolidated statements of financial position	Fair value
1) Long-term loan payables	127,496	127,844
2) Bonds	320,534	328,767

For short-term financial assets and liabilities that are measured at amortized cost, the fair value is close to carrying amount.

The fair value of long-term loan payables is determined by discounting the sum of principal and interest to the present value at an interest rate assumed for similar new loans being borrowed.

The fair value of bonds issued by JT and its consolidated subsidiaries is based on a quoted market price for bonds that have a quoted market price. For bonds that do not have any quoted market price, the fair value is determined by discounting the sum of principal and interest to the present value at a rate considering bonds' remaining maturity and credit risk.

5. Investment property

(1) Status of investment property

JT and some consolidated subsidiaries own some rental properties such as office buildings and residences in Tokyo Prefecture and other areas.

(2) Fair value of investment property

The carrying amount on the consolidated statements of financial position and the fair value of investment properties as of March 31, 2012 are as follows.

(Millions of yen)

Usage	Carrying amount on consolidated statements of financial position	Fair value
Investment property	67,387	177,642

(Notes)
1. The carrying amount on the consolidated statements of financial position is the acquisition cost less accumulated depreciation and accumulated impairment losses, if any.
2. The fair value of investment properties is principally measured based on the real estate appraisal assessed by the external real estate appraiser. This appraisal is based on evidence from the market reflecting trading prices of similar assets in accordance with the valuation standards of the countries in which the properties are located.

6. Per share information

(1) Equity attributable to owners of the parent company per share: ¥171,617.35

(2) Basic earnings per share: ¥33,700.97

(3) Diluted earnings per share: ¥33,687.78

7. Contingent obligations

The JT Group is party to a number of currently pending lawsuits. For those lawsuits for which it is not possible to reasonably estimate the final result, provisions are not recorded.

The JT Group believes that it has firm grounds for its own claims in these lawsuits. Having worked in coordination with external attorneys-at-law, the Group has established a system for responding to the lawsuits and is responding to these lawsuits appropriately.

(1) Lawsuits related to the use of tobacco products and health

The JT Group is the defendant in lawsuits claiming damage from use of tobacco products, marketing of tobacco products, or exposure to tobacco smoke. As of March 31, 2012, including lawsuits with the JT Group as the defendant as well as those for which JT is liable on the basis of its agreement to acquire the non-U.S. tobacco operations of RJR Nabisco Inc., there were 25 pending lawsuits regarding damage to health from use of tobacco products. The main currently pending lawsuits regarding damage to health from use of tobacco products are as follows.

i) Individual lawsuits

An individual lawsuit has been filed in South Africa regarding indemnitees of JT.

ii) Class actions

Eight class actions have been filed in Canada and one has been filed in Israel regarding indemnitees of some JT Group companies or JT.

iii) Lawsuits claiming the recovery of health care costs

In Canada, there are four pending lawsuits claiming the recovery of health care costs regarding persons to receive compensation from some JT Group companies and JT. These have been filed by the Government of British Columbia, the Government of New Brunswick, the Government of Ontario and the Government of Newfoundland and Labrador.

(2) Other lawsuits

The JT Group is also the defendant in lawsuits including commercial disputes and taxation disputes. There are two main lawsuits that are pending in Japan with regard to claims for damages against some JT group companies.

8. Significant events after the reporting period

The Company resolved at a meeting of the Board of Directors held on April 13, 2012 to conduct a share split and adopt a share unit system.

(1) Purpose of share split and adoption of share unit system

For the purpose of enlarging the Company's investor base by further improving the environment for investors to invest in our shares through reduction of the investment unit amount of the Company's shares, the decision has been made to split the shares at the ratio of 1:200 or 200 shares to one share.

Further, in parallel with the share split, the Company will adopt the share unit system which sets a share trading unit to 100 shares, in line with the Japanese Stock Exchanges Conference's decision to designate a trading unit to either 100 shares or 1,000 shares by April 1, 2014.

As a result of the share split and adoption of the share unit system, the investment unit amount of the Company's shares will be one-half or 1/2.

(2) Overview of share split

i) Method of the share split
Ordinary shares 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 200 to one.

ii) Increase in shares resulting from the share split

Total number of shares issued prior to the share split:	10,000,000 shares
Number of shares to be increased resulting from the share split:	1,990,000,000 shares
Total number of shares issued following the share split:	2,000,000,000 shares

iii) Schedule of the share split

Public notice of the record date:	Thursday, May 31, 2012
Record date:	Saturday, June 30, 2012
Effective date:	Sunday, July 1, 2012

(3) Adoption of share unit system

i) Size of the newly established share unit
Contingent on the afore-mentioned share split coming into effect, the Company will adopt the share unit system, setting the size of a share unit at 100 shares.

ii) Schedule
Effective date: Sunday, July 1, 2012

Per share information for the year ended March 31, 2012 on the assumption that the share split was conducted at the beginning of the year is as follows:

1) Equity attributable to owners of the parent company per share	¥858.09
2) Basic earnings per share	¥168.50
3) Diluted earnings per share	¥168.44

Partial amendments of the Articles of Incorporation to change the total number of authorized shares from 40 million shares to 8 billion shares following the share split and to set the size of a share unit at 100 shares are subject to the approval of the Minister of Finance no later than June 30, 2012.

9. All figures are rounded off to the nearest unit.

Notes to Non-Consolidated Financial Statements

1. Significant accounting policies

(1) Basis and method of valuation for securities

Shares of subsidiaries and affiliates:

Stated at cost determined by the moving-average method.

Available-for-sale securities:

Securities with a fair value:

Stated at fair value based on market prices on the closing date of the accounting period. (Valuation difference is stated as a component of net assets, the cost of securities sold is calculated applying the moving-average method.)

Securities without a fair value:

Stated at cost determined by the moving-average method.

(2) Basis and method of valuation for derivatives

Stated based on the fair value method.

(3) Basis and method of valuation for inventories

Stated at cost determined by the average cost method.

(Balance sheet amounts are measured at the lower of cost or net selling value.)

(4) Depreciation methods for depreciable assets

i) Property, plant and equipment (excluding lease assets)

The declining balance method (straight-line method is applied for buildings (excluding accompanying facilities) acquired on or after April 1, 1998) is applied.

The main useful lives are as follows.

Buildings (excluding accompanying facilities):	38 to 50 years
Machinery and equipment:	10 years

ii) Intangible assets (excluding lease assets)

Straight-line method

The main useful lives are as follows.

Patent right	8 years
Trademark	10 years
Software	5 years

iii) Lease assets

For finance leases that do not transfer ownership of the leased property to the lessee, depreciation expense is mainly computed on the straight-line method over the lease period as the useful life and assuming no residual value.

(5) Policy on accounting of provisions

i) Allowance for doubtful accounts

Provided for possible losses from bad debts at an amount determined based on the historical default rate for ordinary receivables and the individual recoverability of specific doubtful receivables from customers experiencing financial difficulties.

ii) Provision for bonuses

Provided based on the estimated payable amount to provide for the payment of bonuses to employees and directors.

iii) Provision for retirement benefits

Provided in preparation for the payment of retirement benefits to employees based on the estimated retirement benefits obligation and fair value of plan assets as of the end of this fiscal year.

Prior service cost is amortized using the straight-line method over the average remaining years of service of the employees (10 years).

Actuarial gains or losses are amortized from the year following the year in which the gains or losses are recognized using the straight-line method over the average remaining years of service of the employees (10 years).

Also included in the provision for retirement benefits is the portion of public pension expenses for mutual assistance association during certain periods in or before June 1956 (prior to the enforcement of the Act on the Mutual Aid Association of Public Corporation Employees).

(6) Policy on translation of assets and liabilities denominated in foreign currency into Japanese yen

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the rates prevailing at the closing date of the accounting period with translation differences treated as gains or losses occurring in the corresponding fiscal year.

(7) Method of hedge accounting

Deferral hedge accounting is applied.

For interest rate and currency swaps, if they satisfy the requirements for treatment that incorporates swaps into underlying accounting items (accounting by applying foreign exchange rate stipulated in the contracts; exceptional treatment), they are accounted for by incorporating swaps into underlying accounting items.

(8) National consumption tax and local consumption tax are excluded from each amount of the non-consolidated statement of income.

(9) Changes in accounting policies

i) Exclusion of amount equivalent to tobacco excise taxes from net sales and cost of sales

JT had previously applied a method by which the amount equivalent to tobacco excise taxes was included in net sales and cost of sales. However, effective April 1, 2011, the method applied has been changed to one which excludes this amount from net sales and cost of sales.

Regarding tobacco excise taxes, as the same amount equivalent to tobacco excise taxes that is included in net sales is also included in cost of sales, this is not something that has an effect on profit. However, JT believes that, under the recent business environment surrounding the Company, increases in the amounts equivalent to tobacco excise taxes included in net sales and cost of sales may cause the performance of JT to be evaluated inappropriately, to an extent that is above the

actual results of its business activities.

In light of the future business environment under these circumstances, JT believes that excluding the amount equivalent to tobacco excise taxes from net sales and cost of sales allows it to disclose the actual conditions of the business more appropriately.

In addition, it is appropriate to consider accounting treatment based on IFRS, which the JT Group applies starting in the current fiscal year. Furthermore, the JT Group has made this change as a way of reflecting the actual conditions of the business, by also taking into consideration the treatment of amounts equivalent to taxes in "Accounting Practice Committee Research Report on Revenue Recognition in Japan (interim report) –considerations in light of IAS 18 'Revenue' (December 8, 2009, the Japanese Institute of Certified Public Accountants)."

Although this change in accounting policy has been applied retrospectively, it has no effect on the balance of retained earnings as of the beginning of the current fiscal year in the statement of changes in net assets, since there is no cumulative impact from this retrospective application to be reflected in net assets as of the beginning of the current fiscal year.

Net sales including the amount equivalent to tobacco excise taxes, which was previously disclosed as net sales, is presented in "3. Notes to non-consolidated statement of income" as net sales including tobacco excise taxes.

ii) Application of Accounting Standard for Earnings Per Share
Effective April 1, 2011, the "Accounting Standard for Earnings Per Share" (Accounting Standards Board of Japan (ASBJ) Statement No. 2, June 30, 2010) and "Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No. 4, June 30, 2010) have been applied.

The Company has changed the method by which it calculates diluted earnings per share: for share options that vest after a specified service period, the Company now includes the portion of share options' fair value attributable to future service rendered to the Company when calculating the cash proceeds assumed to be received upon exercise of the share options.

(10) Changes in method of presentation

i) For the year ended March 31, 2011, "Foreign exchange losses" (¥280 million for the year ended March 31, 2012) was presented separately in "Non-operating expenses" of the non-consolidated statement of income; however, for the year ended March 31, 2012, it is included in "Other" in "Non-operating expenses" due to its decreased materiality.

ii) For the year ended March31, 2011, "Periodic mutual assistance association cost" (¥915 million for the year ended March 31, 2012) was presented separately in "Non-operating expenses " in the non-consolidated statement of income; however, for the year ended March 31, 2012, it is included in "Other" in "Non-operating expenses" due to its decreased materiality.

(11) Additional information

Application of Accounting Standard for Accounting Changes and Error Corrections
For accounting changes and corrections of prior period errors made on or after April 1, 2011, JT has applied the "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No. 24, December 4, 2009) and the "Implementation Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24, December 4, 2009).

2. Notes to non-consolidated balance sheet

(1) Receivables and payables with respect to subsidiaries and affiliates (excluding items separately presented)

Short-term receivables:	¥32,948 million
Short-term payables:	¥29,611 million
Long-term payables:	¥13,121 million

(2) Accumulated depreciation of property, plant and equipment: ¥612,914 million

(3) Pursuant to Article 6 of the Japan Tobacco Inc. Act, JT's assets are pledged as general collateral for its corporate bonds.

Amount of liabilities relating to collateral: Yen straight bonds ¥240,000 million

(4) Guarantee obligations

Guaranteed party	Guarantee amount (Millions of yen)	Type of guarantee obligation	
JTI (UK) Finance PLC	90,130	Bond guarantee, guarantee denominated in foreign currencies	¥90,130 million (EUR 522 million) (GBP 252 million)
JT International Holding B.V.	54,446	Loan guarantee, guarantee denominated in foreign currencies	¥54,446 million (GBP 306 million) (EUR 131 million) (USD 0 million)
JTI Ireland Limited	21,415	Loan guarantee, guarantee denominated in foreign currencies	¥21,415 million (EUR 195 million)
JT International Hellas A.E.B.E.	19,638	Loan guarantee, guarantee denominated in foreign currencies	¥19,638 million (EUR 179 million)
JT International Company Netherlands B.V.	14,237	Loan guarantee, guarantee denominated in foreign currencies	¥14,237 million (EUR 130 million)
Others (44 companies)	76,863	Loan guarantee	
Total	276,728		

(5) Payables to Directors and Corporate Auditors

Long-term payables: ¥69 million

(6) "Deposits in cash management system" are funds entrusted in the cash management system for domestic group companies.

3. Notes to non-consolidated statement of income

(1) Net sales including tobacco excise taxes for the year ended March 31, 2012 amounted to ¥2,019,143 million.
Net sales including tobacco excise taxes is the amount of net sales plus the amount equivalent to tobacco excise taxes.

(2) Amount of transactions with subsidiaries and affiliates

Net sales: ¥128,604 million

Purchase of goods: ¥77,298 million

Selling, general and administrative expenses: ¥62,563 million

Amount of non-operating transactions: ¥24,818 million

(3) Total research and development expenses are ¥43,378 million, all of which were recorded as general and administrative expenses.

(4) "Losses on the Great East Japan Earthquake" in extraordinary loss include losses on disposal of inventories and fixed costs resulting from the discontinuation of operations, which occurred at JT's manufacturing facilities and other sites as a result of the Great East Japan Earthquake.

4. Notes to non-consolidated statement of changes in net assets

Class and number of shares of treasury shares

(Thousands of shares)

	Number of shares as of April 1, 2011	Increase for the year ended March 31, 2012	Decrease for the year ended March 31 2012	Number of shares as of March 31, 2012
Treasury shares				
Ordinary shares	479	–	–	479
Total	479	–	–	479

5. Tax effect accounting

(1) Breakdown of deferred tax assets and deferred tax liabilities by major cause

Deferred tax assets	
Provision for retirement benefits	¥24,085 million
Obligations pertaining to mutual assistance pension benefits	¥32,711 million
Impairment losses on non-current assets	¥1,497 million
Provision for bonuses	¥4,560 million
Other	¥14,805 million
Subtotal	¥77,658 million
Less: valuation allowance	(¥1,931) million
Total	¥75,727 million
Deferred tax liabilities	
Reserve for reduction entry	(¥20,347) million
Other	(¥14,643) million
Total	(¥34,990) million
Net deferred tax assets	¥40,738 million

(2) Reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the consolidated statement of income, if there is a significant difference:

Normal effective statutory tax rate	40.35%
(Adjustment)	
Expenses not deductible permanently such as entertainment expenses	0.35%
Income not taxable permanently such as dividends income	(0.41)%
Tax credit on experiment and research expenses	(1.50)%
Valuation allowance	(16.18)%
Reduction in deferred tax assets at the end of period from tax rate change	2.82%
Other	0.58%
Actual effective tax rate	26.01%

(3) Amendments to amounts of deferred tax assets and deferred tax liabilities due to change in corporation tax rates

The "Act for Partial Revision of the Income Tax Act, for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures" (Act No. 114 of 2011) and the "Act on Special Measures for Securing Necessary Financial Resources to Implement Measures for the Restoration of the Damages following the Great East Japan Earthquake" (Act No. 117 of 2011) were promulgated on December 2, 2011. As a result, for the years beginning on or after April 1, 2012, the corporate tax rate will be lowered, and the special reconstruction corporate tax, a surtax for reconstruction funding after the Great East Japan Earthquake, will be imposed. In line with these changes, the effective statutory tax rate used to measure deferred tax assets and liabilities will be changed from the previous rate of 40.35%. The rate will be 37.78% for temporary differences expected to be eliminated from the year beginning on April 1, 2012 to the year beginning on April 1, 2014, and to 35.41% for temporary differences expected to be eliminated in the years beginning on April 1, 2015.

As a result of these tax rate changes, the amount of deferred tax assets (net of deferred tax liabilities) has decreased by ¥4,914 million, while the amount of deferred income taxes has increased by ¥5,445 million and the amount of valuation difference on available-for-sale securities has increased by ¥531 million.

6. Related party transactions

Subsidiaries and Affiliates

Type	Name	Ownership ratio of voting rights	Relation with related parties	Description of transaction	Transaction amount		Item	End-of-period balance
					Lending of funds	Receipt of repayment of funds		
					millions of yen	millions of yen		million yen
Subsidiary	TableMark Co., Ltd.	Direct ownership 100%	Lending of funds	Lending of funds (Note 1)	32,690	30,185	Short-term loan receivables	31,746
							Long-term loan receivables	13,699

Type	Name	Ownership ratio of voting rights	Relation with related parties	Description of transaction	Transaction amount	Item	End-of-period balance
					millions of yen		millions of yen
Subsidiary	TS Network Co., Ltd.	Direct ownership 74.5%	Deposits received for cash management system	Receipt of surplus funds (Notes 2, 3)	–	Deposits for cash management system	168,013
	Japan Beverage Holdings Inc.	Direct ownership 66.7%	Deposits received for cash management system	Receipt of surplus funds (Notes 2, 3)	–	Deposits for cash management system	29,001
	JTI (UK) Finance PLC	Indirect ownership 100%	Guarantee of obligations	Guarantee of obligations (Note 4)	90,130	–	–
	JT International Holding B.V.	Indirect ownership 100%	Guarantee of obligations	Guarantee of obligations (Note 4)	54,446	–	–

Transaction conditions and policy on determination of transaction conditions

(Notes) 1. Interest rates on lending of funds are reasonably determined taking into account interest rates on the market.

2. Interest rates on receipt of surplus funds are reasonably determined taking into account interest rates on the market.
3. For lending/borrowing from the cash management system, transaction amounts are omitted from the table above because of their frequent occurrence.
4. Guarantees of obligations are made for bonds and bank loans and guarantee fees are calculated based on the guarantee amount.

7. Per share information

(1) Net assets per share: ¥202,039.18

(2) Net income per share: ¥14,989.87

(3) Diluted net income per share: ¥14,984.00

8. Significant events after the reporting period

The Company resolved at a meeting of the Board of Directors held on April 13, 2012 to conduct a share split and adopt a share unit system.

(1) Purpose of share split and adoption of share unit system

For the purpose of enlarging the Company's investor base by further improving the environment for investors to invest in our shares through reduction of the investment unit amount of the Company's shares, the decision has been made to split the shares at the ratio of 1:200 or 200 shares to one share.

Further, in parallel with the share split, the Company will adopt the share unit system which sets a share trading unit to 100 shares, in line with the Japanese Stock Exchanges Conference's decision to designate a trading unit to either 100 shares or 1,000 shares by April 1, 2014.

As a result of the share split and adoption of the share unit system, the investment unit amount of the Company's shares will be one-half or 1/2.

(2) Overview of share split

ⅰ). Method of the share split

Ordinary shares 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 200 to one.

ⅱ). Increase in shares resulting from the share split

Total number of shares issued prior to the share split:	10,000,000 shares
Number of shares to be increased resulting from the share split:	1,990,000,000 shares
Total number of shares issued following the share split:	2,000,000,000 shares

ⅲ). Schedule of the share split

Public notice of the record date:	Thursday, May 31, 2012
Record date:	Saturday, June 30, 2012
Effective date:	Sunday, July 1, 2012

(3) Adoption of share unit system

ⅰ). Size of the newly established share unit

Contingent on the afore-mentioned share split coming into effect, the Company will adopt the share unit system, setting the size of a share unit at 100 shares.

ⅱ). Schedule

Effective date: Sunday, July 1, 2012

Per share information for the year ended March 31, 2012 on the assumption that the share split was conducted at the beginning of the the year is as follows:

1) Net assets per share: ¥1,010.20
2) Net income per share: ¥74.95
3) Diluted net income per share: ¥74.92

Partial amendments of the Articles of Incorporation to change the total number of authorized shares from 40 million shares to 8 billion shares following the share split and to set the size of a share unit at 100 shares are subject to the approval of the Minister of Finance no later than June 30, 2012.

9. All figures are rounded off to the nearest unit.