[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.]

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Date of filing:	June 22, 2012
Business year:	27th term (from April 1, 2011 to March 31, 2012)
Company name (Japanese):	日本たばこ産業株式会社 (*Nihon Tabako Sangyo Kabushiki-Kaisha*)
Company name (English):	JAPAN TOBACCO INC.
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Places where the document to be filed is available for public inspection:	Japan Tobacco Inc. Saitama Sales Office (55-1, Shimocho 1-chome, Omiya-ku, Saitama-shi, Saitama)
	Japan Tobacco Inc. Yokohama Sales Office (3-1, Kinkocho, Kanagawa-ku, Yokohama-shi, Kanagawa)
	Japan Tobacco Inc. Nagoya Sales Office (12-1, Iseyama 2-chome, Naka-ku, Nagoya-shi, Aichi)
	Japan Tobacco Inc. Osaka Sales Office (5-10, Oyodo-minami 1-chome, Kita-ku, Osaka-shi, Osaka)
	Japan Tobacco Inc. Kobe Sales Office (7-23, Nakayamate-dori 3-chome, Chuo-ku, Kobe-shi, Hyogo)
	Tokyo Stock Exchange, Inc. (2-1, Nihonbashi-kabutocho, Chuo-ku, Tokyo)
	Osaka Securities Exchange Co., Ltd. (8-16, Kitahama 1-chome, Chuo-ku, Osaka-shi, Osaka)

A. Company Information

I. Overview of the JT Group

1. Trends in principal management benchmarks

(1) Management benchmarks (consolidated)

Term	International Financial Reporting Standards	
	26th term	27th term
Accounting period	From April 1, 2010 to March 31, 2011	From April 1, 2011 to March 31, 2012
Revenue (Millions of yen)	2,059,365	2,033,825
Profit before income taxes (Millions of yen)	385,242	441,355
Profit for the year (Millions of yen)	248,736	328,559
Profit attributable to owners of the parent company (Millions of yen)	243,315	320,883
Comprehensive income (loss) for the year (Millions of yen)	(48,967)	192,143
Total equity (Millions of yen)	1,601,311	1,714,626
Total assets (Millions of yen)	3,655,201	3,667,007
Equity attributable to owners of the parent company per share (Yen)	160,179.52	171,617.35
Basic earnings per share (Yen)	25,414.33	33,700.97
Diluted earnings per share (Yen)	25,407.09	33,687.78
Ratio of equity attributable to owners of the parent company to total assets (%)	41.73	44.56
Ratio of profit to equity attributable to owners of the parent company (%)	15.30	20.31
Price earnings ratio (PER) (Times)	11.82	13.83
Net cash flows from (used in) operating activities (Millions of yen)	406,847	551,573
Net cash flows from (used in) investing activities (Millions of yen)	(125,993)	(103,805)
Net cash flows from (used in) financing activities (Millions of yen)	(185,379)	(279,064)
Cash and cash equivalents at the end of the year (Millions of yen)	244,240	404,740
Number of employees [Separately, average number of temporary employees] (Person)	48,472 [11,611]	48,529 [10,702]

Notes: 1. Effective from the 27th term, the consolidated financial statements are prepared based on International Financial Reporting Standards (hereinafter, “IFRS”).
2. The yen amounts are rounded to the nearest million.
3. Revenue does not include consumption taxes.

Term	Japanese GAAP				
	23rd term	24th term	25th term	26th term	27th term
Accounting period	From April 1, 2007 to March 31, 2008	From April 1, 2008 to March 31, 2009	From April 1, 2009 to March 31, 2010	From April 1, 2010 to March 31, 2011	From April 1, 2011 to March 31, 2012
Net sales (Millions of yen)	6,409,726	6,832,307	6,134,695	2,432,639	2,547,060
Ordinary income (Millions of yen)	362,681	307,586	255,377	313,066	362,728
Income before income taxes and minority interests (Millions of yen)	372,614	262,143	276,054	281,147	345,028
Net income (Millions of yen)	238,702	123,400	138,448	145,366	227,399
Comprehensive income (Millions of yen)	–	–	–	(110,352)	117,047
Net assets (Millions of yen)	2,154,629	1,624,288	1,723,278	1,571,751	1,610,535
Total assets (Millions of yen)	5,087,214	3,879,803	3,872,595	3,544,107	3,472,612
Net assets per share (Yen)	216,707.27	162,087.74	172,139.61	156,996.72	160,570.98
Net income per share (Yen)	24,916.51	12,880.90	14,451.67	15,183.52	23,882.77
Diluted net income per share (Yen)	24,916.26	12,879.77	14,448.89	15,179.19	23,873.42
Equity ratio (%)	40.81	40.02	42.58	42.18	44.03
Return on equity (ROE) (%)	11.83	6.80	8.65	9.25	15.04
Price earnings ratio (PER) (Times)	20.03	20.33	24.08	19.79	19.51
Net cash flows from (used in) operating activities (Millions of yen)	145,030	275,271	320,024	399,638	551,617
Net cash flows from (used in) investing activities (Millions of yen)	(1,668,634)	(65,008)	(84,057)	(119,407)	(104,530)
Net cash flows from (used in) financing activities (Millions of yen)	519,000	(217,470)	(250,398)	(184,951)	(278,383)
Cash and cash equivalents at the end of the year (Millions of yen)	215,008	167,257	154,368	244,240	404,740
Number of employees [Separately, average number of temporary employees] (Person)	47,459 [14,986]	47,977 [11,736]	49,665 [11,870]	48,472 [11,611]	48,529 [10,702]

Notes:
1. Audits pursuant to Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act have not been conducted for the figures for the 26th term and the 27th term.
2. Effective from the 27th term, the method used for the consolidated financial statements based on Japanese GAAP has been changed to one which excludes the amount equivalent to tobacco excise taxes from net sales and cost of sales. As a consequence, the consolidated financial statements based on Japanese GAAP for the 26th term are presented reflecting retrospective application of this accounting policy change.
3. Effective from the 27th term, the "Accounting Standard for Earnings Per Share" (ASBJ Statement No. 2, June 30, 2010) and the "Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No. 4, June 30, 2010) are applied. As a consequence, diluted net income per share for the 26th term (Japanese GAAP) is presented reflecting retrospective application of this accounting policy change.
4. Foreign subsidiaries classified under the JT Group's international tobacco business apply IFRS effective from the first quarter of the 27th term. As a consequence, the figures for the 27th term presented above are consolidated closing figures based on Japanese GAAP that include the portion of the international tobacco business to which IFRS is applied. In addition, all figures for the 26th term are consolidated closing figures based on Japanese GAAP that reflect retrospective application of this accounting policy change related to the international tobacco business.
5. Whereas the JT Group previously discarded fractional amounts of less than ¥1 million, effective from the 26th term, they are rounded to the nearest million.
6. Net sales do not include consumption taxes.
7. For the main details of the differences, etc. between IFRS and Japanese GAAP, please refer to "II. Review of operations, 1. Overview of operating results, (2) Adoption of IFRS and (5) Parallel disclosure" and "V. Accounting, 1. Financial statements, (1) Financial statements, Notes to consolidated financial statements, 41. First-time adoption of International Financial Reporting Standards."

(2) Filing company's management benchmarks (non-consolidated)

Term	23rd term	24th term	25th term	26th term	27th term
Accounting period	From April 1, 2007 to March 31, 2008	From April 1, 2008 to March 31, 2009	From April 1, 2009 to March 31, 2010	From April 1, 2010 to March 31, 2011	From April 1, 2011 to March 31, 2012
Net sales (Millions of yen)	2,302,704	2,173,552	2,052,654	749,252	734,902
Ordinary income (Millions of yen)	177,757	160,200	161,606	182,819	198,071
Net income (Millions of yen)	131,145	89,637	107,361	32,216	142,726
Capital stock (Millions of yen)	100,000	100,000	100,000	100,000	100,000
Total number of shares issued (Thousands of shares)	10,000	10,000	10,000	10,000	10,000
Net assets (Millions of yen)	1,816,727	1,845,443	1,901,759	1,854,401	1,924,739
Total assets (Millions of yen)	2,902,509	2,857,330	3,027,503	2,879,354	3,016,651
Net assets per share (Yen)	189,616.56	192,595.36	198,452.58	194,679.73	202,039.18
Cash dividends per share (Yen) [Interim dividends per share] (Yen)	4,800 [2,200]	5,400 [2,600]	5,800 [2,800]	6,800 [2,800]	10,000 [4,000]
Net income per share (Yen)	13,689.35	9,356.60	11,206.74	3,365.00	14,989.87
Diluted net income per share (Yen)	13,689.21	9,355.78	11,204.58	3,364.04	14,984.00
Equity ratio (%)	62.6	64.6	62.8	64.4	63.8
Return on equity (ROE) (%)	7.35	4.90	5.73	1.72	7.56
Price earnings ratio (PER) (Times)	36.45	27.99	31.05	89.30	31.09
Dividend payout ratio (%)	35.1	57.7	51.8	202.1	66.7
Number of employees [Separately, average number of temporary employees] (Person)	8,999 [1,209]	8,908 [1,164]	8,961 [1,349]	8,928 [1,387]	8,936 [1,393]

Notes:
1. The financial statements of the filing company are prepared based on Japanese GAAP.
2. Effective from the 27th term, the method used for the financial statements has been changed to one which excludes the amount equivalent to tobacco excise taxes from net sales and cost of sales. As a consequence, the financial statements for the 26th term are presented reflecting retrospective application of this accounting policy change.
3. Effective from the 27th term, the "Accounting Standard for Earnings Per Share" (ASBJ Statement No. 2, June 30, 2010) and the "Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No. 4, June 30, 2010) are applied. As a consequence, diluted net income per share for the 26th term is presented reflecting retrospective application of this accounting policy change.
4. Cash dividend per share for the 25th term of ¥5,800 includes the 25th anniversary commemorative dividend of ¥200.
5. Whereas JT previously discarded fractional amounts of less than ¥1 million, effective from the 26th term, they are rounded to the nearest million.
6. Net sales do not include consumption taxes.

2. History

(1) Background of JT's transition to stock company

Before it became a stock company, Japan Tobacco Inc. (hereinafter, "JT") was formerly Japan Tobacco and Salt Public Corporation, or JTS. JTS was established in June 1, 1949 with the "Aim to bring soundness and efficiency to the operation of the national government monopolies." JTS, serving as the main body for conducting operations of the tobacco monopoly system and other government monopolies, contributed to establishing stable supply of tobacco and securing tobacco-derived financial revenues.

However, the growth in demand for cigarettes in Japan began to slow in the mid-1970s as the result of demographic trends and growing concern about health risks associated with smoking. This trend continued, such that growth in industry sales essentially stopped. In addition to the structural change, the Japanese domestic tobacco market was virtually opened to foreign tobacco suppliers, triggering competition between domestic and foreign tobacco products in Japan, and foreign countries stepped up pressure on Japan to take further market-opening measures that were difficult to implement within the framework of the monopoly tobacco sales system. Amid such pressure as well as moves toward the reform of government-run public corporations, Ad Hoc Commission on Administrative Reform was established in March 1981 to conduct research on the public corporation system. In its third report (July 30, 1982), the commission proposed drastic reform of the monopoly system and the public corporation system.

In response to this proposal, the government conducted a comprehensive review of these systems and drafted bills to:

- Abolish the tobacco monopoly law in order to liberalize tobacco imports and establish a tobacco business law in order to make necessary adjustments related to the tobacco business.
- Abolish the JTS law, reorganize JTS as stock company so as to enable it to pursue rational corporate management as much as possible and establish the Japan Tobacco Inc. Act, which provides for a necessary minimum level of regulation in light of the corporation's need to compete with foreign tobacco companies on an equal footing in the domestic market following the liberalization of tobacco imports.

These bills were enacted on August 3, 1984 in the 101st session of the Diet and promulgated on August 10 of the same year.

(2) Status of JT after its incorporation

JT was incorporated on April 1, 1985, pursuant to the Japan Tobacco Inc. Act (Act No. 69 of August 10, 1984; hereinafter, the "JT Act"), and all of the start-up capital was provided by the Japan Tobacco and Salt Public Corporation, or JTS. When incorporated, JT succeeded all the rights and obligations of JTS.

The main changes since the incorporation of JT are as follows:

Date	Details of change
April 1985	Japan Tobacco Inc. was incorporated.
April 1985	The Business Development Division was established to promote active development of new businesses. Subsequently until July 1990, in order to reinforce the promotion system for each business, this division was reformed and business departments were established dealing with medicine, food, etc.
March 1986	Fukuoka and Tosu Factories closed and Kitakyushu Factory built to modernize and rationalize tobacco production. Subsequently until June 1996, nine more tobacco factories were closed down in further moves towards rationalization of the tobacco production system.
October 1988	The communication name "JT" was introduced.
July 1991	The Head Office was relocated from Minato-ku to Shinagawa-ku to make way for the construction of the new Head Office building.
September 1993	The Central Pharmaceutical Research Institute was established to reinforce JT's internal pharmaceutical research and development capabilities.
October 1994	The initial public offering of JT shares held by the Japanese government took place. (394,276 shares) JT shares were listed on the First Section of the Tokyo, Osaka and Nagoya Stock Exchanges.
November 1994	JT shares were listed on the Kyoto, Hiroshima, Fukuoka, Niigata and Sapporo Stock Exchanges.
May 1995	The Head Office was relocated from Shinagawa-ku to Minato-ku.
June 1996	The second public offering of JT shares held by the Japanese government took place. (272,390 shares)
April 1997	In accordance with the abolition of the salt monopoly, JT ended its salt monopoly business. The Tobacco Mutual Aid Pension scheme was united with the Employees' Pension scheme.
April 1998	JT signed an agreement with Unimat Corporation to form a business alliance in the soft drinks business and acquired a majority stake in the company.
December 1998	JT acquired a majority stake in Torii Pharmaceutical Co., Ltd. through a tender offer.
May 1999	JT acquired the non-US tobacco operations of RJR Nabisco Inc.
July 1999	JT acquired the food business of Asahi Kasei Corporation, including eight subsidiaries such as Asahi Foods Corporation.
October 1999	Through the business alliance with Torii Pharmaceutical Co., Ltd., research and development in the medical pharmaceutical business was concentrated in JT while promotion functions were united within Torii Pharmaceutical.
March 2003	In order to establish a basis for future profit growth in the domestic tobacco tusiness, the Sendai, Nagoya and Hashimoto Factories were closed down.
October 2003	JT acquired 45,800 of its own shares in order to expand its management options.
March 2004	In order to establish a basis for future profit growth in the domestic tobacco business, the Hiroshima, Fuchu, Matsuyama and Naha Factories were closed down.
June 2004	The third public offering of JT shares held by the Japanese government took place (289,334 shares), completing the sale of shares above the minimum threshold that the government is legally required to maintain.
November 2004 to March 2005	JT acquired 38,184 of its own shares in order to expand its management options.
March 2005	In order to establish a basis for future profit growth in the Japanese domestic tobacco business, the Ueda, Hakodate, Takasaki, Takamatsu, Tokushima, Usuki, Kagoshima and Miyakonojo Factories were closed down.
April 2006	JT ceased to produce, sell and use Marlboro brand cigarette exclusively in Japan upon the expiration of the license term.
April 2007	JT acquired shares issued of the Gallaher Group Plc of the United Kingdom through an acquisition method under English act known as a scheme of arrangement.
January 2008	JT acquired the shares of Katokichi Co., Ltd. through a tender offer.
March 2009	In order to restructure the domestic tobacco business in ways to make it more competitive, Kanazawa Factory was closed down.
March 2010	In order to restructure the domestic tobacco business in ways to make it more competitive, Morioka and Yonago Factories were closed down.
February 2011 to March 2011	JT acquired 58,630 of its own shares as part of its efforts to increase shareholder returns and in order to improve capital efficiency.
March 2011	In order to restructure the domestic tobacco business in ways to make it more competitive, Odawara Factory was closed down.
March 2012	In order to restructure the domestic tobacco business in ways to make it more competitive, Hofu Factory was closed down.

Note: The stock split of 5-for-1 was conducted as of April 1, 2006.

3. Business description

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

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

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

The main business activities operated by JT, its 240 consolidated subsidiaries and 11 companies accounted for by the equity method, and the relationship of each company to the Group’s business activities are stated below.

The following four segments are the same as the segmentation of reportable segments in “V. Accounting, 1. Financial statements, (1) Financial statements, Notes to consolidated financial statements, 6. Operating segments, (1) Outline of reportable segments.”

The JT Group is a global company operating the domestic and international tobacco businesses, pharmaceutical business, and food business.

Domestic Tobacco Business

The domestic tobacco business consists of the manufacture and sale of tobacco products.

JT manufactures and sells tobacco products, and TS Network Co., Ltd. conducts distribution-related operations such as distribution of JT’s tobacco products and wholesale of foreign tobacco products (imported tobacco products). Japan Filter Technology Co., Ltd. and other subsidiaries manufacture materials.

Major subsidiaries and affiliates

TS Network Co., Ltd., JT Logistics Co., Ltd., Japan Filter Technology Co., Ltd., Fuji Flavor Co., Ltd., JT Engineering Inc.

Besides the companies named above, there are 11 consolidated subsidiaries and 2 companies accounted for by the equity method.

International Tobacco Business

The international tobacco business consists of the manufacture and sale of tobacco products with JT International S.A. as the core company.

Major subsidiaries and affiliates

JT International S.A., Gallaher Ltd., JTI Marketing and Sales CJSC, LLC Petro, Liggett-Ducat CJSC, JT International Germany GmbH, JTI Tütün Urunleri Sanayi A.S., JTI-Macdonald Corp.

Besides the companies named above, there are 155 consolidated subsidiaries and 6 companies accounted for by the equity method.

Pharmaceutical Business

The pharmaceutical business consists of research and development, manufacture and sale of prescription drugs.

JT concentrates on research and development while Torii Pharmaceutical Co., Ltd. manufactures and promotes sales of drugs (including JT's products).

Major subsidiaries and affiliates

Torii Pharmaceutical Co., Ltd., Akros Pharma Inc.

Besides the companies named above, there are 2 consolidated subsidiaries.

Food Business

The food business consists of the manufacture and sale of beverages, processed foods and seasonings.

In the beverage business, JT develops products while JT Beverage Inc., Japan Beverage Holdings Inc. and certain other subsidiaries sell them. In the processed food business and seasonings business, TableMark Co., Ltd. and certain other subsidiaries are engaged in manufacturing, selling and other activities.

Major subsidiaries and affiliates

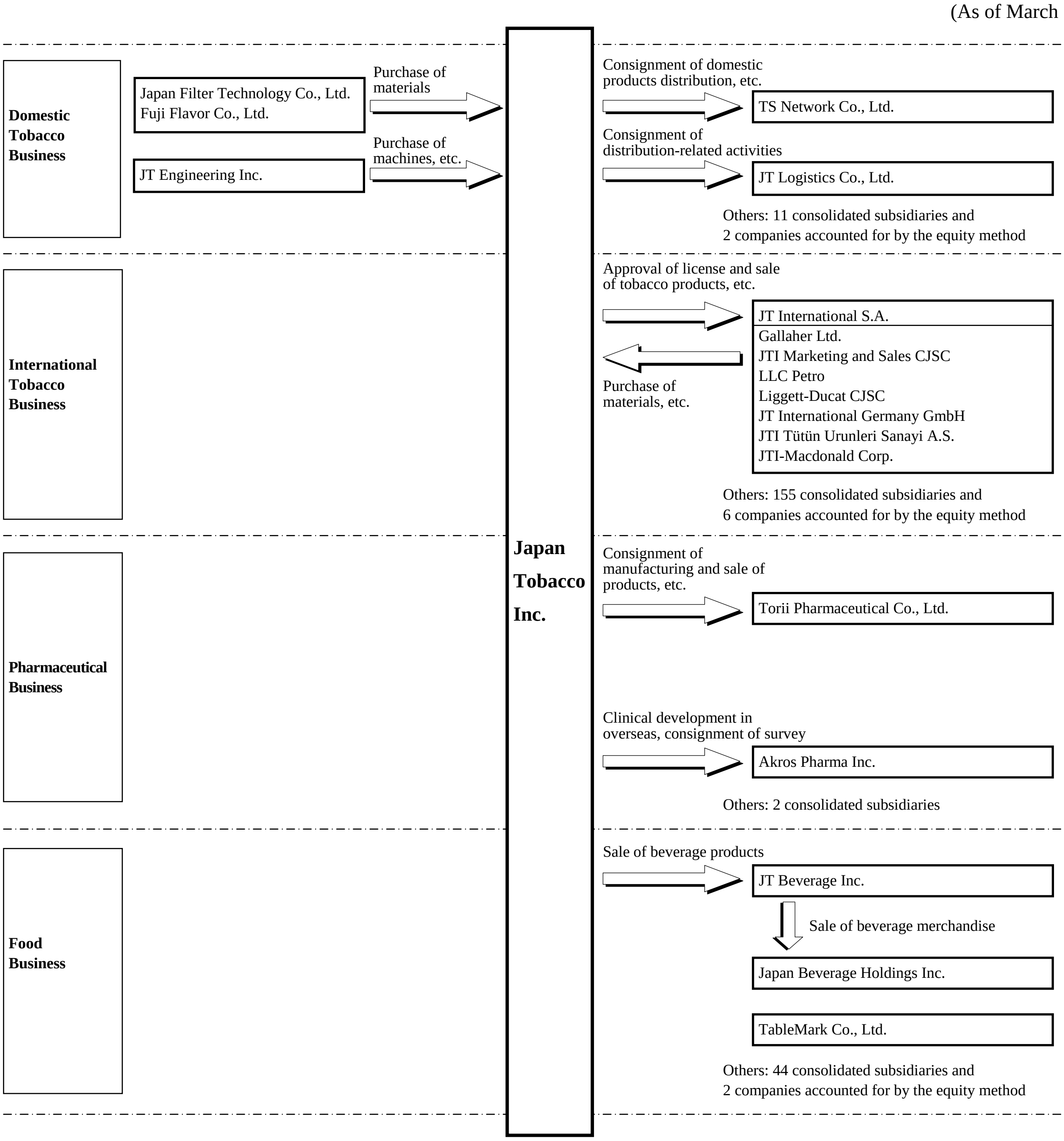
JT Beverage Inc., Japan Beverage Holdings Inc., TableMark Co., Ltd.

Besides the companies named above, there are 44 consolidated subsidiaries and 2 companies accounted for by the equity method.

In addition to the reportable segments mentioned above, the JT Group runs businesses, etc. relating to the rent of real estate, etc. and there are subsidiaries and affiliates with respect to these businesses (10 consolidated subsidiaries and 1 company accounted for by the equity method).

The following business activities diagram show the matters described above.

(As of March 31, 2012)



* In addition to the businesses mentioned above, the JT Group runs businesses, etc. relating to the rent of real estate, etc. and there are subsidiaries and affiliates with respect to these businesses (10 consolidated subsidiaries and 1 company accounted for by the equity method).

An overview of each of the fields of research and development, procurement, manufacturing and sales, etc. in each business is as follows.

Tobacco Business

The JT Group’s tobacco business (the JT Group’s tobacco business is managed separately for domestic and overseas markets. The tobacco business’ reportable segments are accordingly divided into “domestic tobacco business” and “international tobacco business”) has the third largest sales volume in the world (excluding China National Tobacco Corporation) and operates in over 120 markets. Our portfolio includes 3 of the top 10 selling global brands.

<Research and development>

We are committed to strengthening our R&D capabilities to ensure a long-term competitive advantage. Our focus areas in the R&D activities are the development of new leaf tobacco varieties, improvement of tobacco leaf processing, enhancement of taste, upgrade of manufacturing technology, and continuous progress on emerging product development capabilities. We aim to add value to our products in these focus areas in a cost efficient manner. We have established a global research platform in Japan which, focuses on the fundamental research and product technology development. To best meet consumers’ needs and preferences, our market teams are continuously engaged in the product development.

<Procurement of tobacco leaves>

The supply of tobacco leaves, raw materials used in manufacturing tobacco products, is affected by a variety of factors, such as climate conditions, agricultural input prices, and energy costs. As a result of an increase in costs, the supply of tobacco leaves has been unstable, leading to the fluctuations in tobacco leaf prices. Given these circumstances, the JT Group aims to secure a stable supply and ensure competitive leaf purchase prices. This will be achieved through further vertical integration and strengthening of our relationships with our leaf suppliers.

- Procurement of non-Japan origin tobacco leaf

The JT Group sources leaves both internally, from major tobacco leaf producing countries (the United States, Brazil, Malawi, etc.), and externally, mainly from the two leading international suppliers.

Our internal source was established in 2009, when we acquired the tobacco leaf suppliers (in Brazil and in Africa), and we set up a U.S. joint venture operation. Since then, our efforts have been focused on ensuring the stable procurement through vertical integration, strengthening quality control by supporting farmers, and reinforcing the leaf procurement organization by developing our expertise in this area.

- Procurement of Japan origin tobacco leaves

In Japan, the Tobacco Business Act (“Ordinance”) requires us to enter into purchase contracts with tobacco farmers every year and purchase the entire usable tobacco harvest. The aggregate cultivation area size and leaf prices for the subsequent year are determined respecting the recommendations from the Leaf Tobacco Deliberative Council[Note].

Note: The Leaf Tobacco Deliberative Council is a council which confers on important matters concerning the cultivation and purchase of domestically grown leaf tobacco in response to inquiries by the JT representatives. The council consists of no more than 11 members, who represent domestic leaf tobacco growers as well as appointees from the academia appointed by JT with the approval of the Minister of Finance (MOF).

<Manufacturing>

We devote our efforts to manufacture quality tobacco products that strengthen consumers’ confidence. Our global manufacturing footprint include 9 factories in Japan (6 tobacco manufacturing and 3 tobacco-related factories), and 28 factories in 24 other countries (including tobacco-related factories) as of the end of March 2012. In a limited number of cases, we also partner with competing manufacturers under contracts and or license agreements to manufacture our products.

The Great East Japan Earthquake which occurred on March 11, 2011 damaged some of our factories in Japan and forced us to temporarily suspend the shipments, causing inconvenience and distress to consumers, retailers and many others. The damaged facilities have since then resumed production, and our production capacity has been restored to the pre-earthquake levels.

<Marketing>

To enhance brand loyalty, we are conducting extensive and effective marketing activities in accordance to the various regulations and standards.

Globally, our marketing activities are focused predominately on GFBs(Note), while complementing our brand portfolio by promoting local brands as well.

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 (GFBs).

<Retail prices>

In setting a retail price for a product, we consider various factors, including positioning of the brand, perceived value of the product, retail price of competing products, and our margin. In addition, there are regulations that influence our price-setting decisions. For example, some countries adopt a fixed retail price requirement, and forms of excise taxation on tobacco products (specific and/or ad valorem) differ among the countries. Retail price changes most often occur in case of tax increase. Globally, governments increase taxes to secure tax revenues and promote public health.

<Sales (distribution)>

To ensure that our products are delivered to consumers, we use optimal distribution networks for each market in accordance with the legal constraints, established local business practices, and other factors. Our distribution networks can be independent distribution networks or local agencies and distributors.

There are various sales channels for tobacco products; chain stores such as convenience stores, gas stations and supermarkets, small independent retailers and vending machines. The contribution of each channel to the total industry sales varies from market to market. Accordingly, we develop different trade marketing initiatives for each market, depending on the focus channels as well as consumer trend and competitors’ strategies.

Pharmaceutical Business

JT commenced the pharmaceutical business in 1987. Our mission is to build world-class, unique R&D capabilities and reinforce our market presence through innovative drugs. The pharmaceutical business is currently focusing on the development, production, and sale of prescription drugs.

In December 1998, the JT Group acquired a majority of the outstanding shares in Torii Pharmaceutical Ltd. After the acquisition, all production as well as sales and promotion functions were integrated under Torii Pharmaceutical, while all R&D functions were grouped under JT.

In April 2000, we established an R&D base outside Japan by adding a clinical development function to Akros Pharma Inc., a JT Group company based in the state of New Jersey, United States.

In order to establish and strengthen our earnings base, we are enhancing our R&D pipeline, exploring opportunities for strategic in- or out-licensing and strengthening collaboration with license partners.

Eight compounds developed in-house are under clinical development as of April 26, 2012.

<Research and development>

- Overview

R&D activities are the foundation of the JT's pharmaceutical business and are critical for our long-term growth and profitability. Our R&D activities focus mainly on the fields of glucose and lipid metabolism, virus research and immune disorders and inflammation.

Through the pharmaceutical business the JT Group invested ¥24.9 billion in R&D during the year ended March 31, 2012 and ¥23.4 billion in the year ended March 31, 2011.

- R&D process

JT's Central Pharmaceutical Research Institute is responsible for discovery research, drug development, and pre-clinical trial research. JT's pharmaceutical development division and Akros Pharma Inc. undertake clinical trials and handle the application process to receive certification for any new drugs. Concerning compounds out-licensed for development and commercialization outside Japan, the licensees implement the subsequent processes.

<Production>

The JT Group's pharmaceutical products are produced by Torii Pharmaceutical Ltd. or contract manufacturers outside the JT Group.

<Sales and promotion>

- Sales and promotion outside Japan

At present, the JT Group does not have its own sales organization for pharmaceutical products outside Japan. We out-license the right to develop and commercialize outside Japan for a certain compounds in the development stage and receive royalties from our partners linked to their sales performance.

- Sales and promotion in Japan

Torii Pharmaceutical is mainly responsible for sales of our pharmaceutical products to pharmaceutical wholesalers and promotion to medical facilities. Promotional activities are conducted by around 440 medical representatives (MRs) stationed at Torii Pharmaceutical's 14 sales branches across Japan.

REMITCH, the treatment drug of pruritus in hemodialysis patients and Truvada, an anti-HIV drug, are our main products among others.

Food Business

In the JT Group's food business, we operate production and sales of beverages, processed foods and seasonings in Japan. The production of processed foods and seasonings is managed by our subsidiary TableMark Co., Ltd. and its group companies (hereinafter, "TableMark").

JT started its beverage business in 1988. In the beverage business, we are striving to further strengthen the "Roots" the flagship brand and to enhance the sales network that centers on our subsidiary Japan Beverage Holdings Inc. (hereinafter, "Japan Beverage"), a vending machine operator. Through these efforts, we aim to steadily grow the beverage business and enhance its profitability.

Since its start in 1998, we have been expanding the processing food business through organic growth as well as business investments in the form of M&As and strategic partnerships.

In 2008, we acquired Katokichi Co., Ltd., a major frozen food manufacturing company in Japan, through a tender offer. The JT Group's processed food and seasoning operations were transferred over to Katokichi as part of the integration. In 2010, Katokichi changed its corporate name to TableMark to pursue synergies and foster a sense of unity within the group. The business pillars of TableMark, which operates mainly in Japan, include processed food, mainly staple food products such as frozen noodles, frozen rice, packed rice and frozen bread bakery chain outlets in the Tokyo metropolitan area and seasonings, including yeast, kelp and bonito extracts, combination seasonings and processed seasonings for direct consumer consumption such as oyster sauce.

TableMark's major processed food products include "Reito-Sanuki-Udon" (frozen wheat noodles) and "Takitate-Gohan" (packed rice).

In the seasoning business, TableMark focuses on the "Vertex" yeast extract seasonings in particular. "Vertex" is used in various foods, such as instant ramen and snacks.

<Research and development>

Regarding R&D in the food business, we devote our efforts to the development of innovative products that meet consumers' needs and preferences. In the beverages business, we search for new materials, develop new products and reform existing brands such as "Roots," develop new containers and production technology. For our flagship brand, "Roots," we adopted the high-temperature, short-time (HTST) method for the production of canned coffee, becoming the first company to use the method for canned coffee. This method considerably reduces the time needed for heat sterilization, thereby limiting flavor loss and making it possible to replicate the taste of freshly brewed coffee.

Regarding processed foods, we have developed frozen bread products which allow consumers to enjoy the taste of freshly baked bread at home. TableMark's original techniques for fermentation, baking and freezing recreate and preserve the taste and texture of fresh bread.

<Procurement>

The first step to produce safe foods is to procure safe and high-quality raw materials. For the procurement, the JT Group reviews quality assurance certificates submitted by its suppliers. We also carry out monitoring inspections to check agrochemical residues as well as conduct regular inspections at processing factories to ensure compliance with the JT Group's internal standards, in addition to the Food Sanitation Act and other relevant laws. Our inspection for agrochemical residues is strictly based on a "positive list system," as specified by the Food Sanitation Act.

Furthermore, we examine the safety of production sites for raw materials used by our processed food business. Concerning agricultural farms, we check not only soil and water, but also how products are cultivated and how agrochemicals are handled. Breeding farms and fish farms are also inspected.

<Production>

The JT Group is promoting the adoption of ISO 9001, the HACCP system, and ISO 22000.

In the processed food business, all of the JT Group's 21 factories in and outside Japan, as well as our business partners' factories which produce our frozen foods, have achieved the ISO 22000 certification. Under the ISO 22000 standard, continuous improvements are made following effective rules to control sanitation and other key issues. These rules are set based on the HACCP concept and their effectiveness is tested using scientific evidence.

In the beverage business, the JT Group outsources production of all beverages, except for certain bottled drinking water, to domestic beverage bottlers which monitor strictly their production process and product quality. We maintain strong partnerships with bottlers to retain competitive production capabilities and secure a stable supply source.

In the processed food and seasoning businesses, the JT Group operates 19 factories in Japan and 8 outside Japan. We outsource production of some processed foods to domestic and international contract manufacturers.

<Food safety>

To ensure that consumers can continue to enjoy our products safely, the JT Group has established independent food safety management divisions which are responsible for overall food safety controls of our beverages, processed food and seasoning businesses. We are promoting a cross-functional food product safety initiative. For example, TableMark's Tokyo Quality Control Center analyzes raw materials and finished goods for the beverage business.

We seek assessment and advice on our initiatives from external food safety experts. We reflect the experts' knowledge and viewpoints in our business by actively incorporating them into food safety controls.

Details of the food safety activities, including the discussions described in the above "Procurement" and "Production" sections, are disclosed on our website.

<Sales and distribution>

JT Group brand beverage products are sold through retail channels including vending machines and retailers, such as convenience stores and supermarket chains.

The vending machine network plays a critical role in the nationwide sales and distribution channels. It comprised around 265,000 vending machines as of March 2012. Approximately 119,000 vending machines sell mainly the JT Group beverage products and some vending machines also sell coffee and tea served in disposable cups.

In convenience stores and supermarkets, we are striving to increase our exposure by offering a wider range of our products and obtaining better shelf space.

The TableMark's processed food and seasoning products are sold nationwide through retail stores, supermarkets, convenience stores, restaurants, hotels and other channels.

4. Status of subsidiaries and affiliates

Name	Location	Capital (Millions of yen)	Principal business	Holding rate of voting rights (%)	Relationship				
					Interlocking of officers, etc.		Financial assistance	Business relationship	Facility leasing
					Officer of JT	Employee of JT			
(Consolidated subsidiaries) 240 companies									
TS Network Co., Ltd.	Taito-ku, Tokyo	460	Domestic tobacco	74.5	No	Yes	No	Consignment of tobacco products distribution, etc.	Yes
JT Logistics Co., Ltd.	Shibuya-ku, Tokyo	207	Domestic tobacco	100.0	No	Yes	No	Consignment of tobacco products and raw materials distribution	Yes
Japan Filter Technology Co., Ltd. *2	Shibuya-ku, Tokyo	461	Domestic tobacco	87.6	No	No	No	Purchase of filter for tobacco products	Yes
Fuji Flavor Co., Ltd.	Hamura-shi, Tokyo	196	Domestic tobacco	100.0	No	Yes	Yes	Purchase of flavors for tobacco products	No
JT Engineering Inc. *2	Sumida-ku, Tokyo	200	Domestic tobacco	100.0	No	Yes	No	Purchase of machines, etc.	Yes
JT International Holding B.V. *2	Netherlands	Thousands of EUR 1,380,018	International tobacco	100.0 (100.0)	Yes	Yes	No	No	No
JT International S.A. *2	Swiss	Thousands of CHF 1,215,425	International tobacco	100.0 (100.0)	Yes	No	No	Approval of license and sale of tobacco products, etc.	No
Gallaher Ltd. *2	U.K.	Thousands of GBP 172,495	International tobacco	100.0 (100.0)	No	No	No	No	No
JTI Marketing and Sales CJSC *1	Russia	Thousands of RUB 108,700	International tobacco	100.0 (100.0)	No	No	No	No	No
LLC Petro	Russia	Thousands of RUB 328,439	International tobacco	100.0 (100.0)	No	No	No	No	No
Liggett-Ducat CJSC	Russia	Thousands of RUB 260,366	International tobacco	100.0 (100.0)	No	No	No	No	No
JT International Germany GmbH	Germany	Thousands of EUR 37,394	International tobacco	100.0 (100.0)	No	No	No	No	No
JTI Tütün Urunleri Sanayi A.S. *2	Turkey	Thousands of TRY 148,825	International tobacco	100.0 (100.0)	No	No	No	No	No
JTI-Macdonald Corp. *2	Canada	Thousands of CAD 124,996	International tobacco	100.0 (100.0)	No	No	No	No	No
Torii Pharmaceutical Co., Ltd. *3	Chuo-ku, Tokyo	5,190	Pharmaceutical	54.5	No	Yes	No	Consignment of manufacturing and sale of products, etc.	Yes
Akros Pharma Inc.	U.S.A.	Thousand of USD 1	Pharmaceutical	100.0 (100.0)	No	Yes	No	Clinical development in overseas, consignment of survey	No
JT Beverage Inc.	Shinagawa-ku, Tokyo	90	Food	100.0	No	Yes	Yes	Consignment of selling beverages, etc.	Yes
Japan Beverage Holdings Inc.	Shinjuku-ku, Tokyo	500	Food	66.7	No	Yes	No	Sale of beverages through JT Beverage Inc.	Yes
TableMark Co., Ltd. *2	Chuo-ku, Tokyo	47,503	Food	100.0	No	Yes	Yes	No	Yes
Other 221 companies *2									
(Companies accounted for by the equity method) 11 companies									

Notes: 1. Descriptions in the "Principal business" column are names of segments.
2. The figures in parentheses in the "Holding rate of voting rights" column are indirect holding rates included in the figures outside the parentheses.
3. "Interlocking of officers, etc." includes interlocking of officers of associated companies and secondment of officers of JT.
4. With regard to foreign subsidiaries at which the closing dates of the accounting period fall on December 31, the above shows the situation as of December 31, 2011.
5. *1: Revenue of JTI Marketing and Sales CJSC (excluding revenue among the consolidated companies) exceed 10% of consolidated revenue of the JT Group.

Name	Major profit/loss information (Millions of yen)				
	Revenue	Profit before income taxes	Profit for the year	Total equity	Total assets
JTI Marketing and Sales CJSC	223,135	44,379	34,709	10,606	60,436

6. *2: These companies are classified as specified subsidiaries. Companies that fall under the category of specified subsidiaries included in “Other 221 companies” are as follows.
JTI (UK) MANAGEMENT LTD, JT Canada LLC Inc., JT Canada LLC II Inc., Gallaher Europe Finance, Gallaher Group Ltd., Austria Tabak GmbH, JT Europe Holding B.V.
7. *3: This company files Annual Securities Report.

5. Status of employees

(1) Consolidated companies

(As of March 31, 2012)

Segment	Number of employees (Person)
Domestic Tobacco Business	11,092 [3,889]
International Tobacco Business	24,237 [3,020]
Pharmaceutical Business	1,693 [148]
Food Business	10,646 [3,571]
Common company-wide services within the filing company, etc.	861 [74]
Total	48,529 [10,702]

Notes: 1. The number of employees indicates the number of working employees, and the average number of temporary employees during this fiscal year is given in parentheses separately.

2. The number of employees in foreign subsidiaries in which the closing dates of the accounting period fall on December 31 is calculated using the number of employees as of December 31, 2011.

3. The number of employees in the "Common company-wide services within the filing company, etc." row is the number of those working for departments unclassifiable to specific segments, such as the administrative department.

(2) Filing company (JT)

(As of March 31, 2012)

Number of employees (Person)	Average age (Year old)	Average years of service (Year)	Average annual salary (Yen)
8,936 [1,393]	43.4	21.9	8,609,774

The numbers of employees by segment are as follows.

Segment	Number of employees (Person)
Domestic Tobacco Business	7,644 [1,389]
Pharmaceutical Business	730 [0]
Food Business	50 [3]
Common company-wide services within the filing company, etc.	512 [1]
Total	8,936 [1,393]

Notes: 1. The number of employees indicates the number of working employees, and the average number of temporary employees during this fiscal year is given in parentheses separately.

2. The number of employees in the "Common company-wide services within the filing company, etc." row is the number of those working for departments unclassifiable to specific segments, such as the administrative department.

3. The number of employees includes contract employees (84), employees on leave (79) and employees transferred to JT (73), but excludes employees transferred from JT and employees on long-term leave prior to retirement (total 972).

4. Average years of service includes years of service at Japan Tobacco and Salt Public Corporation.

5. Average annual salary (including taxes) includes bonuses and surplus wages.

(3) Status of labor union

In the JT Group, the labor-management relations are stable and there are no matters that should be reported.

II. Review of operations

1. Overview of operating results

(1) JT-11 medium-term management plan (until the year ended March 31, 2012)

JT and its group companies (the “JT Group” or the “Group”) formulated mid-term management 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 by providing diversified value that is uniquely available from JT.”

The JT Group achieved the annual-average EBITDA growth rate of 8.3%, which exceeded the JT-11 group-wide target of 5% or more of the annual average growth (based on the assumption that foreign exchange rates remain the same). This performance was attributable to the contributions of the domestic and international tobacco businesses.

The domestic tobacco business achieved a performance substantially higher than the target to maintain the initially expected EBITDA in the fiscal year ended March 31, 2010, despite 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 is confirmed as the business realized profit growth despite a substantial decrease in sales volume.

The international tobacco business, benefiting from the increase in market share and the growth of GFB, even in the business environment with increase of uncertainty, attained a 10% EBITDA CAGR 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.

We made efforts in the pharmaceutical business to increase and advance compounds in late stage developments and to strengthen our R&D pipeline, and we saw a steady progress by licensee such as having submitted a marketing application for an anti-HIV single-tablet regimen containing JTK-303 to US FDA and EMA, among others, as well as the development of MEK inhibitor for melanoma.

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

With regard to dividends, we aimed at a consolidated dividend payout ratio (excluding the impact of goodwill amortization) of 30%. The consolidated dividend payout ratio (excluding the impact of goodwill amortization) for the fiscal year is 30.7%, having reached our target.

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

(2) Adoption of IFRS

The JT Group has adopted 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, such revenue is not included in revenue or cost of sales. In addition, certain sales rebates were presented in selling, general and administrative expenses under Japanese GAAP while they are presented in revenue as a deduction from revenue under IFRS.
- Items presenting non-operating income, non-operating expenses, extraordinary income, and extraordinary loss under Japanese GAAP are resented as financial income or financial costs for financial-related items, and as cost of sales, other operating income, share of profit on investments accounted for using the equity method, or selling, general and administrative expenses, etc. for items other than financial-related items under IFRS.

<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. Goodwill is not amortized under IFRS.
- Under Japanese GAAP, the Group amortized actuarial gains or losses arising from the calculation of retirement

benefit liabilities starting with the year following the year in which they were recognized, over certain years determined based on the employees' average remaining service period at the time of occurrence, using the straight-line method. Under IFRS, the Group recognizes all of the actuarial gains or losses in 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. Under IFRS, it adopts the straight-line method.

The details are shown in the section of "V. Accounting, 1. Financial statements, (1) Financial statements, Notes to consolidated financial statements, 41. First-time adoption of International Financial Reporting Standards."

In addition to the financial data reported in the consolidated financial statements, the Group also provides certain additional measures that are not required or defined under IFRS. These financial measures are used internally to manage each of our business operations to understand their underlying performance, in view of our aiming for mid- to long-term sustainable growth, and we believe that they provide useful information for users of our financial statements to assess the Group's performance.

Core revenue

For tobacco business, core revenue is disclosed additionally as a breakdown of revenue. Specifically, the figure for the 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.

Adjusted EBITDA

The adjusted EBITDA is, where operating profit, less depreciation and amortization, impairment losses on goodwill, restructuring-related income and costs, etc., is presented in order to provide useful comparative information on our performance.

For details, please refer to "V. Accounting, 1. Financial statements, (1) Financial statements, b. Consolidated statements of income, Reconciliation from operating profit to adjusted EBITDA."

(3) Operating results

All of the following financial figures are based on IFRS.

<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 domestic tobacco business caused by the impact of the earthquake and the tax and price increase for tobacco products, along with the strong yen, despite the favorable pricing in the domestic and the international tobacco businesses.

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012	Change	
	Billions of yen	Billions of yen	Billions of yen	%
Revenue	2,059.4	2,033.8	(25.5)	(1.2)
Domestic Tobacco Business	665.8	646.2	(19.6)	(2.9)
Of which, core revenue (Note)	632.2	611.9	(20.2)	(3.2)
International Tobacco Business	963.5	966.3	2.7	0.3
Of which, core revenue (Note)	887.8	894.6	6.8	0.8
Pharmaceutical Business	44.1	47.4	3.3	7.5
Food Business	367.5	359.4	(8.0)	(2.2)

* Figures exclude revenue within consolidated companies.

* Revenue includes rent received from leased properties in addition to items relating to the segments shown above. For details, please refer to “V. Accounting, 1. Financial statements, (1) Financial statements, Notes to consolidated financial statements, 6. Operating segments, (2) Revenues and performances for reportable segments.”

Note: Revenue from imported tobacco delivery charges, among others, is excluded from the domestic tobacco business. Revenue from the distribution business, contract manufacturing, among others, is excluded from the international tobacco business.

<Cost of sales, other operating income, share of profit in investments accounted for using the equity method, selling, general and administrative expenses>

Cost of sales decreased by ¥61.8 billion, or 6.5%, from the previous fiscal year to ¥892.0 billion, while other operating income increased by ¥27.9 billion, or 135.1%, from the previous fiscal year to ¥48.5 billion. Share of profit in investments accounted for using the equity method decreased by ¥0.3 billion, or 12.1%, from the previous fiscal year to ¥2.0 billion. Selling, general and administrative expenses increased by ¥6.0 billion, or 0.8%, from the previous fiscal year to ¥733.2 billion.

<Operating profit and 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 driven by a favorable pricing in the 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 after excluding the depreciation, the 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.

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012	Change	
	Billions of yen	Billions of yen	Billions of yen	%
Adjusted EBITDA	522.0	577.1	55.1	10.6
Domestic Tobacco Business	247.2	262.3	15.1	6.1
International Tobacco Business	277.9	314.8	36.9	13.3
Pharmaceutical Business	(9.8)	(10.0)	(0.3)	–
Food Business	17.7	20.0	2.3	12.8
Operating profit	401.3	459.2	57.9	14.4

* Operating profit and adjusted EBITDA include operating profit and adjusted EBITDA relating to factors other than the segments shown above. For details, please refer to "V. Accounting, 1. Financial statements, (1) Financial statements, Notes to consolidated financial statements, 6. Operating segments, (2) Revenues and performances for reportable segments."

* Adjusted EBITDA = operating profit + depreciation and amortization + impairment losses on goodwill ± restructuring-related costs and restructuring-related income

<Profit attributable to owners of the parent company>

As a result of 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 resulting from 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 in the non-consolidated statement of income for the previous fiscal year.

Operating results by segment are as follows.

Domestic Tobacco Business

Total sales volume for cigarettes during the year ended March 31, 2012 decreased by 26.2 billion cigarettes, or 19.5%, from the previous fiscal year to 108.4 billion cigarettes(Note). 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 in October 2010. Our market share for the year ended March 31, 2012 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 increase in October 2010.

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 decreased by ¥20.2 billion, or 3.2%, from the previous fiscal year to ¥611.9 billion. This was mainly attributable to the decrease in sales volume.

However, 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 driven by the effects of favorable pricing and insurance payouts received in connection with the Great East Japan Earthquake.

The volume of cigarettes manufactured in Japan in the fiscal year ended March 31, 2012 decreased by 4.0 billion cigarettes, or 2.8%, from the previous fiscal year to 137.3 billion cigarettes.

Note: 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.

International Tobacco Business

Among GFBs in the year ended March 31, 2012, there was steady growth in shipments of Winston in Russia, Italy and Turkey. LD shipments grew in Russia. As a result, shipment volume of GFBs 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 GFBs 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 driven by 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%, versus the previous fiscal year, to reach $3,944 million, despite an increase in expenses mainly caused by increases in raw material costs and strengthening of sales promotions. Growth was driven primarily by favorable pricing and the comparison with the previous fiscal year, in which a payment of fine in Canada had been recorded.

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 volume manufactured overseas(Note) in the fiscal year ended March 31, 2012 decreased by 0.2 billion cigarettes, or 0.1%, from the previous fiscal year to 385.2 billion cigarettes.

Note: Effective from the current fiscal year, volume manufactured overseas includes Roll Your Own ("RYO") and Make Your Own ("MYO") tobacco*, as well as cigarillos, bringing it in line with shipment volume. The volume of RYO and MYO tobacco and cigarillos manufactured in the current fiscal year was 15.1 billion cigarettes.

* Roll Your Own ("RYO"): Fine cut tobacco to be used by a customer to roll a cigarette by hand, using rolling paper

Make Your Own ("MYO"): Fine cut tobacco to be used by a customer to make a cigarette, using a specialized tool and cigarette tubes

* 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

In the pharmaceutical business, our focus is increasing on 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. Gilead Sciences, Inc., which is our licensee, has submitted a marketing application for an anti-HIV single-tablet regimen containing JTK-303 to US FDA and EMA, among others.

Revenue in the year ended March 31, 2012 increased by ¥3.3 billion, or 7.5%, from the previous fiscal year to ¥47.4 billion mainly due to increased sales of products of our subsidiary Torii Pharmaceutical Co., Ltd. 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.

Food Business

Revenue in the year ended March 31, 2012 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 our processed food business in the previous fiscal year, despite increased sales in our beverage business mainly driven by a solid sales performance by our flagship coffee brand “Roots” and sales growth in staple food products (frozen noodles, packed cooked rice and baked frozen bread) in our processed food business.

On the other hand, adjusted EBITDA in the year ended March 31, 2012 increased by ¥2.3 billion, or 12.8%, from the previous fiscal year to ¥20.0 billion. This was mainly driven by the effects of increased revenue from “Roots” in our beverage business, increased sales in higher-margin staple food products in our processed food business, and steady improvement of the earnings structure including a reduction in fixed costs.

(4) Cash flows

Cash and cash equivalents at the end of the current fiscal year increased by ¥160.5 billion from the end of the previous fiscal year to ¥404.7 billion. Cash and cash equivalents at the end of the previous fiscal year was ¥244.2 billion.

Cash flows from (used in) operating activities

Net cash flows from operating activities during the year ended March 31, 2012 were ¥551.6 billion, compared with ¥406.8 billion in the previous fiscal year. The main drivers were the generation of a stable cash inflow from our tobacco business and an increase in tobacco excise taxes payable in our domestic tobacco business. As a result of holidays for financial institutions, the amount of tobacco excise taxes paid in our domestic tobacco business for the previous fiscal year is for 12 months, while the amount for the year ended March 31, 2012 is for 11 months.

Cash flows from (used in) investing activities

Net cash flows used in investing activities during the year ended March 31, 2012 were ¥103.8 billion, compared with ¥126.0 billion in the previous fiscal year, despite proceeds from the sale of investment property. This was mainly due to the purchase of property, plant and equipment and an investment to acquire business bases in the republics of Sudan and South Sudan.

Cash flows from (used in) financing activities

Net cash flows used in financing activities during the year ended March 31, 2012 were ¥279.1 billion, compared with ¥185.4 billion in the previous fiscal year. The main factors were repayments of long-term borrowings, the redemption of bonds, and the payment of cash dividends.

(5) Parallel disclosure

The differences between the main items in the summary of the consolidated financial statements prepared in accordance with the Regulation for Consolidated Financial Statements (excluding chapters 7 and 8), as well as those in the consolidated financial statements prepared in accordance with IFRS, and the equivalent items in the consolidated financial statements as prepared in accordance with Japanese GAAP, are as described below.

An audit pursuant to Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act has not been conducted for the summary of the consolidated financial statements prepared in accordance with Japanese GAAP.

In addition, figures in the summary of the consolidated financial statements prepared in accordance with Japanese GAAP are rounded to the nearest million yen.

a. Summary of consolidated balance sheets

(Millions of yen)

	As of March 31, 2011	As of March 31, 2012
Assets		
Current assets		
Cash and deposits	117,458	133,103
Notes and accounts receivable-trade	301,829	312,112
Short-term investment securities	159,098	18,221
Merchandise and finished goods	108,215	112,258
Semi-finished goods	103,475	81,521
Work in process	3,739	4,972
Raw materials and supplies	276,989	251,088
Other	172,921	439,270
Allowance for doubtful accounts	(2,782)	(1,729)
Total current assets	1,240,943	1,350,817
Noncurrent assets		
Property, plant and equipment	663,551	634,679
Intangible assets		
Goodwill	1,094,366	955,765
Right of trademark	286,436	257,204
Other	27,235	31,614
Total intangible assets	1,408,037	1,244,584
Investments and other assets		
Investment securities	58,582	65,089
Other	196,534	191,581
Allowance for doubtful accounts	(23,540)	(14,137)
Total investments and other assets	231,576	242,533
Total noncurrent assets	2,303,164	2,121,795
Total assets	3,544,107	3,472,612

(Millions of yen)

	As of March 31, 2011	As of March 31, 2012
Liabilities		
Current liabilities		
Notes and accounts payable-trade	170,821	165,427
Short-term bank loans	70,060	43,486
Current portion of bonds	126,486	60,150
Current portion of long-term loans payable	21,491	78,219
National tobacco excise tax payable	202,234	240,532
National tobacco special excise tax payable	8,151	15,052
Local tobacco excise tax payable	102,169	191,377
Income taxes payable	65,651	42,501
Provision	38,778	44,502
Other	252,053	232,853
Total current liabilities	1,057,892	1,114,099
Noncurrent liabilities		
Bonds payable	325,739	260,478
Long-term loans payable	152,415	52,152
Provision for retirement benefits	224,214	220,370
Other provision	376	481
Other	211,721	214,498
Total noncurrent liabilities	914,464	747,978
Total liabilities	1,972,357	1,862,077
Net assets		
Shareholders’ equity		
Capital stock	100,000	100,000
Capital surplus	736,410	736,410
Retained earnings	1,395,932	1,547,160
Treasury stock	(94,574)	(94,574)
Total shareholders’ equity	2,137,768	2,288,996
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,754	9,885
Pension liability adjustment of foreign consolidated subsidiaries	(34)	(24)
Foreign currency translation adjustment	(648,647)	(769,985)
Total accumulated other comprehensive income	(642,928)	(760,123)
Subscription rights to shares	763	1,028
Minority interests	76,147	80,634
Total net assets	1,571,751	1,610,535
Total liabilities and net assets	3,544,107	3,472,612

b. Summary of consolidated statements of income and summary of consolidated statements of comprehensive income

Summary of consolidated statements of income

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Net sales	2,432,639	2,547,060
Cost of sales	1,311,081	1,386,165
Gross profit	1,121,558	1,160,895
Selling, general and administrative expenses	788,318	786,237
Operating income	333,240	374,658
Non-operating income		
Interest income	2,174	2,366
Dividends income	854	1,922
Foreign exchange gains	798	–
Other	8,155	11,880
Total non-operating income	11,981	16,168
Non-operating expenses		
Interest expenses	17,060	14,293
Foreign exchange losses	–	2,738
Financial support for domestic leaf tobacco growers	1,492	2,863
Other	13,604	8,203
Total non-operating expenses	32,156	28,098
Ordinary income	313,066	362,728
Extraordinary income		
Gain on sales of noncurrent assets	12,183	30,300
Other	8,418	10,811
Total extraordinary income	20,601	41,111
Extraordinary loss		
Loss on sales of noncurrent assets	850	1,017
Loss on retirement of noncurrent assets	7,255	8,532
Impairment loss	5,297	4,241
Regulatory fine in Canada	12,843	–
Loss on the Great East Japan Earthquake	10,966	15,166
Cooperation Fee for Terminating Leaf Tobacco Farming	–	12,469
Other	15,307	17,385
Total extraordinary losses	52,519	58,811
Income before income taxes and minority interests	281,147	345,028
Income taxes	131,135	110,474
Net income before minority interests	150,012	234,554
Minority interests in income	4,646	7,155
Net income	145,366	227,399

Summary of consolidated statements of comprehensive income

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Net income before minority interests	150,012	234,554
Other comprehensive income		
Valuation difference on available-for-sale securities	(6,458)	4,184
Pension liability adjustment of foreign consolidated subsidiaries	(24)	11
Foreign currency translation adjustment	(253,882)	(121,702)
Total other comprehensive income	(260,364)	(117,507)
Comprehensive income	(110,352)	117,047
Total comprehensive income attributable to		
Owners of the parent	(115,309)	110,204
Minority interests	4,957	6,843

c. Summary of consolidated statements of changes in net assets

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Shareholders' equity		
Capital stock		
Balance at the beginning of current period	100,000	100,000
Balance at the end of current period	100,000	100,000
Capital surplus		
Balance at the beginning of current period	736,407	736,410
Changes of items during the period		
Disposal of treasury stock	3	–
Total changes of items during the period	3	–
Balance at the end of current period	736,410	736,410
Retained earnings		
Balance at the beginning of current period	1,310,670	1,395,932
Cumulative effect of changes in accounting policies	(4,661)	–
Retained earnings as restated	1,306,009	1,395,932
Changes of items during the period		
Dividends from surplus	(55,565)	(76,172)
Net income	145,366	227,399
Change in scope of consolidation	122	–
Total changes of items during the period	89,924	151,227
Balance at the end of current period	1,395,932	1,547,160
Treasury stock		
Balance at the beginning of current period	(74,575)	(94,574)
Changes of items during the period		
Purchase of treasury stock	(20,000)	–
Disposal of treasury stock	1	–
Total changes of items during the period	(19,999)	–
Balance at the end of current period	(94,574)	(94,574)
Total shareholders' equity		
Balance at the beginning of current period	2,072,501	2,137,768
Cumulative effect of changes in accounting policies	(4,661)	–
Total shareholders' equity as restated	2,067,840	2,137,768
Changes of items during the period		
Dividends from surplus	(55,565)	(76,172)
Net income	145,366	227,399
Change in scope of consolidation	122	–
Purchase of treasury stock	(20,000)	–
Disposal of treasury stock	4	–
Total changes of items during the period	69,928	151,227
Balance at the end of current period	2,137,768	2,288,996
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities		
Balance at the beginning of current period	12,044	5,754
Changes of items during the period		
Net changes of items other than shareholders' equity	(6,290)	4,132
Balance at the end of current period	5,754	9,885

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Pension liability adjustment of foreign consolidated subsidiaries		
Balance at the beginning of current period	(26,270)	(34)
Changes of items during the period		
Net changes of items other than shareholders' equity	26,236	11
Balance at the end of current period	(34)	(24)
Foreign currency translation adjustment		
Balance at the beginning of current period	(409,161)	(648,647)
Changes of items during the period		
Net changes of items other than shareholders' equity	(239,486)	(121,338)
Balance at the end of current period	(648,647)	(769,985)
Total accumulated other comprehensive income		
Balance at the beginning of current period	(423,387)	(642,928)
Changes of items during the period		
Net changes of items other than shareholders' equity	(219,541)	(117,195)
Balance at the end of current period	(642,928)	(760,123)
Subscription rights to shares		
Balance at the beginning of current period	565	763
Changes of items during the period		
Net changes of items other than shareholders' equity	199	265
Balance at the end of current period	763	1,028
Minority interests		
Balance at the beginning of current period	73,599	76,147
Changes of items during the period		
Net changes of items other than shareholders' equity	2,548	4,487
Balance at the end of current period	76,147	80,634
Total net assets		
Balance at the beginning of current period	1,723,278	1,571,751
Cumulative effect of changes in accounting policies	(4,661)	–
Total net assets as restated	1,718,617	1,571,751
Changes of items during the period		
Dividends from surplus	(55,565)	(76,172)
Net income	145,366	227,399
Change in scope of consolidation	122	–
Purchase of treasury stock	(20,000)	–
Disposal of treasury stock	4	–
Net changes of items other than shareholders' equity	(216,795)	(112,443)
Total changes of items during the period	(146,867)	38,784
Balance at the end of current period	1,571,751	1,610,535

d. Summary of consolidated statements of cash flows

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	281,147	345,028
Depreciation and amortization	121,649	124,618
Impairment loss	5,297	4,241
Amortization of goodwill	88,014	82,528
Increase (decrease) in provision for retirement benefits	(14,113)	(9,179)
Interest and dividends income	(3,028)	(4,288)
Interest expenses	17,060	14,293
Loss (gain) on sales and retirement of noncurrent assets	(6,227)	(24,419)
Regulatory fine in Canada	12,843	–
Decrease (increase) in notes and accounts receivable-trade	(29,890)	(27,097)
Decrease (increase) in inventories	(2,449)	26,191
Increase (decrease) in notes and accounts payable-trade	28,970	444
Increase (decrease) in accounts payable-other	(7,160)	1,131
Increase (decrease) in tobacco excise taxes payable	27,627	148,260
Other, net	28,728	2,152
Subtotal	548,468	683,904
Interest and dividends income received	5,053	6,181
Interest expenses paid	(18,659)	(16,003)
Payment for regulatory fine in Canada	(12,843)	–
Income taxes paid	(122,380)	(122,464)
Net cash provided by (used in) operating activities	399,638	551,617

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Net cash provided by (used in) investing activities		
Purchase of short-term investment securities	(30,077)	(2,106)
Proceeds from sales and redemption of securities	15,870	20,790
Purchase of property, plant and equipment	(131,243)	(97,252)
Proceeds from sales of property, plant and equipment	18,814	36,467
Purchase of intangible assets	(6,491)	(13,174)
Purchase of investment securities	(3,431)	(3,592)
Payments into time deposits	(25,299)	(46,648)
Proceeds from withdrawal of time deposits	21,169	34,854
Purchase of investments in subsidiaries	(82)	(504)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	–	(33,622)
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	–	730
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	(647)	–
Other, net	22,009	(474)
Net cash provided by (used in) investing activities	(119,407)	(104,530)
Net cash provided by (used in) financing activities		
Increase (decrease) in short-term bank loans and commercial paper	(172,083)	(2,408)
Proceeds from long-term loans payable	62,946	–
Repayment of long-term loans payable	(23,207)	(59,879)
Proceeds from issuance of bonds	79,793	–
Redemption of bonds	(50,300)	(133,333)
Purchase of treasury shares	(20,000)	–
Cash dividends paid	(55,558)	(76,165)
Proceeds from stock issuance to minority shareholders	584	629
Cash dividends paid to minority shareholders	(1,666)	(2,138)
Repayments of finance lease obligations	(5,461)	(5,090)
Other, net	0	–
Net cash provided by (used in) financing activities	(184,951)	(278,383)
Effect of exchange rate change on cash and cash equivalents	(5,604)	(8,204)
Net increase (decrease) in cash and cash equivalents	89,676	160,500
Cash and cash equivalents at beginning of period	154,369	244,240
Increase in cash and cash equivalents from newly consolidated subsidiary	195	–
Cash and cash equivalents at end of period	244,240	404,740

e. Changes in significant matters in preparing consolidated financial statements

(Application of IFRS at JT International Holding B.V. and its subsidiaries)

JT International Holding B.V. (hereinafter, “JTIH”), which is classified under the JT Group’s international tobacco business, and its subsidiaries (collectively, hereinafter, the “JTIH Group”), had previously applied accounting principles generally accepted in the United States of America (U.S. GAAP). However, effective January 1, 2011, the JTIH Group applied IFRS.

As the JT Group’s business expands globally and the application of IFRS is useful in order to enhance international comparability in the capital markets, the Group is aiming to apply IFRS. As part of this process, the JTIH Group, which had previously applied U.S. GAAP, established a sufficient structure to prepare financial statements in accordance with IFRS as of the beginning of the current fiscal year, therefore, the JTIH Group has applied IFRS effective January 1, 2011.

As a result of this change, the JTIH Group applied IFRS retrospectively to the figures of the financial position, operating results and cash flows position. Along with the “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (ASBJ PITF No. 18, May 17, 2006, revised February 19, 2010), etc., the consolidated financial statements for the fiscal year ended March 31, 2011 (the previous fiscal year) are shown in accordance with this retrospective application.

Consequently, compared to the amounts before the retrospective application, in the consolidated balance sheet as of the previous fiscal year end, total assets have decreased by ¥27,820 million, total liabilities have decreased by ¥8,368 million, and net assets have decreased by ¥19,452 million.

In the consolidated statement of income for the previous fiscal year, net sales have decreased by ¥1,686,437 million, cost of sales has decreased by ¥1,687,515 million, operating income has increased by ¥4,559 million, ordinary income has increased by ¥578 million, and income before income taxes and minority interests has increased by ¥649 million. In addition, the balance of retained earnings as of the beginning of the previous fiscal year in the consolidated statement of changes in net assets has decreased by ¥4,661 million, reflecting the cumulative amount of the effect from the retrospective application on net assets as of the beginning of the previous fiscal year.

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

The JT Group 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, although we are taxed according to different taxation systems in different countries, 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, the JT Group believes that, under the current circumstances, in which tobacco excise tax hikes have been implemented in various countries in recent years, increases in the amounts equivalent to tobacco excise taxes included in net sales and cost of sales may cause the performance of the JT Group to be evaluated inappropriately, to an extent that is above the actual results of its business activities.

The JT Group believes that it is able to demonstrate its performance more appropriately by showing net sales and cost of sales, net of tobacco excise taxes equivalent amount under such an environment.

In addition, as the JT Group’s business expands globally, it is important to take accounting treatments based on IFRS into consideration. 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 No. 13 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).”

The JT Group has applied this change in its accounting policy retrospectively, and the consolidated financial statements for the fiscal year ended March 31, 2011 are shown in accordance with this retrospective application.

As a result, compared to the amounts before the retrospective application, for the fiscal year ended March 31, 2011, net sales and cost of sales have both decreased by ¥2,075,479 million (excluding the impact from the application of IFRS at the JTIH Group). However, this has no effect on operating income, ordinary income or income before income taxes and minority interests. In addition, as there is no cumulative amount of the effect from this retrospective application to be reflected in net assets as of the beginning of the previous fiscal year, this has no effect on the balance of retained earnings as of the beginning of the previous fiscal year in the consolidated statement of changes in net assets.

f. Differences between main items in consolidated financial statements prepared in accordance with IFRS and equivalent items in consolidated financial statements as prepared in accordance with Japanese GAAP

(Amortization of goodwill)

Under Japanese GAAP, we estimated substantially the amortization period and goodwill was amortized over the years estimated; however, amortization after the date of transition to IFRS is suspended.

As a result of the impact from this change, amortization of goodwill (selling, general and administrative expenses) has decreased by ¥82,547 million for the current fiscal year and by ¥88,033 million for the previous fiscal year under IFRS in comparison with under Japanese GAAP.

For details, please refer to “(2) Adoption of IFRS.”

2. Status of production, orders received and sales

The JT Group conducts production and sales of broad and various products in the domestic tobacco business, international tobacco business, pharmaceutical business and food business. Moreover, the types, formats, content volumes, packages, etc. of their products are broad, and major products are not based on a made-to-order basis. For this reason, size of production and orders received are presented neither in the amount of money nor in volume by segment.

Therefore, details of “production, orders received and sales” are presented in connection with the operating results by segment in “1. Overview of operating results.”

Regarding business partners which are the source for 10% or more of JT Group’s total revenue, the revenue from such partners and the percentage of total revenue are as follows.

Business partner	Fiscal year ended March 31, 2011		Fiscal year ended March 31, 2012	
	Amount (Billions of yen)	Percentage	Amount (Billions of yen)	Percentage
Megapolis Group	207.4	10.1	236.1	11.6

Note: The JT Group’s international tobacco business sells tobacco products to Megapolis Group, which runs logistics and wholesaling businesses mainly in Russia.

3. Issues to be addressed

We recognize that the business environment in which the JT Group operates is growing increasingly uncertain due to the deterioration of the global economy caused by the intensification of the European debt crisis and unstable political situations in some regions, including the Middle East. Developing greater adaptability is an essential task in order to achieve sustainable profit growth by leveraging on the uncertain business environment and adequately executing business on a global scale. “Adaptability” refers to the ability to assume a wider range of contingencies than in the past, during the planning phase, and to quickly and flexibly respond to changes and events that surpass our assumptions so that we can deal with increasing uncertainty over the future. We believe that how well and how quickly companies can respond to changes will be the key to determine their competitiveness.

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

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

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

The JT Group has attained sustainable profit growth and will continue to do so through the pursuit of the 4S model. Since attaining sustainable profit growth requires us to continue to provide new value and satisfaction to consumers, we believe it is essential to steadily make business investments for future mid-to long-term profit growth. In addition, we believe that the pursuit of the 4S model will lead to a consistent increase in corporate value in the mid- to long-term and therefore that it is the best approach to serve the interests of all stakeholders.

Concerning the mid-to long-term resource allocation of the JT Group, we will place top priority on business investments that will lead to sustainable profit growth in the medium and long term based on our management principles.

Of our three core businesses, we regard the tobacco business as the core business and profit growth engine, so we place top priority on business investments that will lead to the sustainable profit growth of the tobacco business. In the meantime, we will invest and devote efforts to strengthen the business foundations of the pharmaceutical and food business in order to generate future profits.

As we have decided to further pursue a competitive level of return of profits to shareholders, we will also set targets for the dividend payout ratio and the adjusted EPS growth. We will set a competitive dividend payout ratio target compared with global FMCG* players including those in non-tobacco sectors. As for the adjusted EPS growth, we will in principal seek to achieve it through profit growth but will also flexibly consider buying back our shares as a supplementary measure.

If the government releases some of its holdings of JT shares in the fiscal year ending March 2013, we intend to buy back a certain amount of our shares in order to mitigate the equity market impact and to enhance adjusted EPS growth, subject to board approval.

Moreover, if the government’s obligation to hold JT shares is modified in the future, we will consider buying back our shares when the government-held shares are released.

* FMCG stands for Fast Moving Consumer Goods and means daily consumer goods.

The JT Group has set company-wide profit targets and a mid-to long-term guidance on shareholder return in accordance with the management principles and the resource allocation policy. The adjusted EBITDA growth rate and the consolidated dividend payout ratio remain our key performance indicators. In addition, from the fiscal year ending March 2013, we will also concentrate on the adjusted EPS growth rate in pursuit of a competitive level of shareholder returns.

As for the mid- to long-term adjusted EBITDA growth target, we will aim for mid to high single-digit annual average growth at constant rates of exchange.

Concerning the dividend payout ratio, we will aim to reach 40% by the fiscal year ending March 2014 and then increase it in the medium term to 50%.

Concerning the adjusted EPS (diluted), we will aim for high single-digit annual average growth at constant rates of exchange.

Based on the concept of enhancing "adaptability," starting with a new management plan from the fiscal year ending March 2013, we have shifted from the previous management plan format of a three-year fixed plan (most recently used in JT-11, which covered fiscal 2009 to 2011) to a three-year rolling plan subject to annual updating, in order to appropriately respond to unexpected changes with a greater sense of urgency.

We will continue to provide numerical annual forecasts, in line with our current practice. In addition, we will provide guidance as to the mid- to long-term target for business performance benchmarks.

As basic strategies for attaining our targets, we will strive for "achieving quality top-line growth," "strengthening cost competitiveness" and "strengthening business foundations", implementing the strategies based on the concept of selection and focus.

Mainly, we place emphasis on "achieving quality top-line growth" and concentrating resources in key brands and product categories, in order to increase value added to products and services, as described in the following explanations of business strategies.

Concerning "strengthening cost competitiveness," we aim at improving profitability and enhancing cash generation capability by optimizing business and corporate costs and establishing quick and efficient business operation systems, while leveraging our efforts of maintaining and enhancing quality.

Additionally, we will reinforce our business continuity capabilities, as the experience of the Great East Japan Earthquake has reminded us of the importance of doing so. We will seek to simultaneously improve business continuity capabilities and cost competitiveness.

When strengthening business foundations, it is critical to accurately identify changes in the business environment and to keep ourselves ready to readjust in order to meet challenges without being constrained by precedents. We will make continuous improvement efforts from that perspective. In addition, we will maximize synergies by leveraging the diversity of our global footprint as represented by our worldwide business operations, which are spread over more than 120 countries, and our global workforce, which represents more than 100 nationalities, and by promoting collaboration on a global scale. As we strongly believe that the quality of human resources is the key to business activity and performance, we will strengthen human resource development.

In summary, we will maintain the 4S model as the basis of the JT Group's management principles, enhance our ability to adapt to changes and consistently execute our growth strategy. Through these initiatives, we will achieve sustainable profit growth and continuously increase corporate value in the mid to long term.

Tobacco Business

The tobacco business is the JT Group's core business and profit growth engine and aims for annual average growth at a mid to high single-digit rate over the mid-to long-term. The domestic tobacco business acts as highly competitive platform of profitability, while the international tobacco business serves as the profit growth engine of the JT Group, generating more than 50% of the Group profit.

<Quality top-line growth>

- Maintaining and increasing shares in our key markets through brand equity enhancement

Over the past years, our tobacco business has grown its share in most of our key markets; this performance is mainly the result of our outstanding brand portfolio.

The strength of our portfolio was demonstrated, for instance, in our market share performance during and after the global economic turmoil triggered by the Lehman Brothers collapse. Our well-balanced portfolio allowed us to capture changes in consumers' price preferences. Our market share performance was robust and enabled us to regain growth momentum at the outset of economic recovery.

In order to further grow market share, we will continue strengthening our brands, especially our Global Flagship Brands, through consistent investments.

Our Global Flagship Brands (GFBs) are Winston, Camel, Mild Seven, Silk Cut, Benson & Hedges, LD, Sobranie and Glamour.

These eight brands have been selected to form a portfolio which most effectively and efficiently meets a variety of consumer needs on a global basis, including taste, price range and brand image, thereby, ensuring strong consumer loyalty.

The GFBs form the core of our brand portfolio. Within our GFBs, Winston, the world's No. 2 brand, and Camel, sold in more than 100 countries, are the "engine brands" that drive quality top-line growth. Mild Seven, Silk Cut, Benson & Hedges and LD are our "stronghold brands," holding strong positions in their respective regions and contributing to the enhancement of our brand portfolio. Sobranie and Glamour are positioned as "future potential brands" with strong growth expected in the future.

Our brand investments will be heavily focused towards our GFBs, but at the same time we will also strengthen our local brands. These diverse local brands allow us to meet the unique preferences of the consumers and complement our brand portfolios in the diverse markets and regions where we are active. In the Japanese market, for example, in addition to our GFB Mild Seven, our focus has been on local brands Seven Stars and Pianissimo and we will continue to invest in these brands to enhance their equity. We will continue to focus our investments in innovation, as it is one of the most effective methods to enhance brand equity.

Our innovation efforts target five key elements which add value to our tobacco products: 1) tobacco blends, 2) flavors, 3) filters and other non-tobacco materials—these three are important elements to determine quality of taste—4) capability to process these innovations into products and 5) package design, which is critical to visual quality.

We recognize the growing importance of connection especially at point-of-sale for "brand communications"* with consumers, which support share gains.

* Use of mass media (TV, radio, newspapers and magazines) to promote tobacco products is severely restricted by regulations on advertisement and promotion.

With this in mind, we will enhance our trade marketing activities to improve point-of-sale visibility. Our approach will be tailored to each market, where local regulations, the key sales channels, consumers' purchasing patterns and competitors' trade marketing tactics vary greatly among one another. The approach includes, for example, building mid-to long-term partnerships with key accounts and designing unique promotional activities for each account.

- Broadening the base

Over the years, we have increased our presence as a leading global tobacco manufacturer through large-scale M&As, most notably RJR Nabisco's non-US tobacco operations in 1999 and Gallaher Group Plc. in 2007.

The geographical expansion achieved with these two acquisitions has been the main driver of our growth for over a decade. The success of these acquisitions, owing in part to the prompt postmerger integration within our business, has reinforced our global business base.

Our most recent acquisition was Haggar Cigarette & Tobacco Factory Ltd. (HCTF), which has the largest market share in Sudan and also operates in the new Republic of South Sudan. We agreed on the acquisition of HCTF in July 2011, and the company joined the JT Group in November.

JT announced the proposed acquisition of Gryson NV which has established an important presence in the Roll Your Own ("RYO") and Make Your Own ("MYO") market across several European countries including France, Belgium, Luxembourg, Spain and Portugal, as well as in a number of other countries. We expect to complete the acquisition within the current year upon completion of the necessary procedures.

Moving forward, we will continue to seek out growth opportunities. The strengthening of our tobacco business base as well as expansion into emerging markets will help promote organic growth. In addition, growth opportunities will be pursued by other strategic alternatives that may arise.

- Creation of a new product category

Currently, the JT Group's tobacco business focuses mainly on conventional cigarettes, while seeking business opportunities in the existing other tobacco product categories, such as cigars and pipes.

In addition, as the business environment and consumers' needs evolve, we aim to introduce innovative new product categories, with unique value propositions. Developing an innovative new category requires understanding of consumers' preferences as well as regulations in each country or region. It is also challenging from a technological standpoint. Nevertheless, we see the creation of new categories as essential to our mid-to long-term growth, and we will aggressively invest to introduce innovative new product categories.

So far, the JT Group has launched "Zerostyle" in the Japanese market, a smokeless tobacco product which can be consumed without causing disturbance to those around the consumer.

The partnership agreement in December 2011 between the JT Group and Ploom Inc., a U.S. company, also illustrates our efforts towards this initiative.

We will continue to focus on the creation of new product categories, leveraging our own technologies as well as exploring external opportunities.

<Strengthening cost competitiveness>

Our tobacco business will persistently pursue continuous cost efficiency improvement of our operations, in particular with respect to the global supply chain, with an emphasis on agility and efficiency without compromising quality.

We will enhance our cost competitiveness by optimizing the global supply chain through various initiatives, including: further vertical integration in global leaf procurement; extended use of common non-tobacco materials; increased collaboration among suppliers; flexible procurement to benefit from attractive market prices; and improved inventory management for both tobacco and non-tobacco materials. Furthermore, enhanced productivity through realignment of manufacturing process and optimal level of capital expenditures will ensure conversion cost containment. We are also determined to improve our business continuity capability by securing options for sourcing and geographically spreading critical functions. Specifically, we will ensure a framework of multiple supply sources, optimal manufacturing capacity allocation on a global basis and diversification of production capability for priority SKUs (Stock Keeping Units).

We will improve our margin through increased cost efficiency while maintaining quality, and enhance cash flow generation by optimizing working capital and capital expenditures.

<Strengthening business foundations>

We believe that human resource development is the key driver of sustainable profit growth in the tobacco business.

The JT Group has business operations in more than 120 countries and territories and our diverse workforce of employees representing more than 100 nationalities is contributing to business execution regardless of nationality, gender and age. We maximize synergies by leveraging this diversity and promoting collaboration on a global scale.

As we believe that the quality of human resources is the key to business activity and performance, we will strengthen human resource development and enhance our ability to recruit, develop and retain employees on a global basis.

The tobacco business remains committed to increasing its presence as a leading global tobacco manufacturer and further strengthening its role as the core business and profit growth engine of the JT Group, by steadily implementing the above business strategies.

Pharmaceutical Business

The JT Group’s pharmaceutical business will strive to strengthen its earnings base through speedy and smooth market launch of compounds in late-stage development.

With this goal in mind, we will concentrate business resources on three priority areas where we have R&D experience and have built up know-how: 1) glucose and lipid metabolism, 2) virus research, and 3) immune disorders and inflammation. Our immediate goal is to achieve profitability in the near future, while maintaining our continued investments in R&D to realize mid- and long-term optimization of resource allocation.

<Strengthening the earnings base>

To strengthen the earnings base, we will step up efforts to achieve speedy and smooth market launch of compounds in late development stage and promote R&D on next-generation strategic products as key tasks.

Regarding speedy and smooth market launch of compounds in the late-development stage, we have enhanced our pipeline of compounds in advanced stages of clinical trial, as we had committed to JT-11, our previous mid-term management plans. For example, in the latest development, Gilead Sciences Inc., a licensee of our JTK-303 (elvitegravir) integrase inhibitor, applied with the U.S. Food and Drug Administration in October 2011 and the European Medicines Agency in November 2011 for approval to market this compound in combination tablet form. Two other compounds, including one being developed by a licensee, are also in the final stage of clinical trial. Going forward, we will make every effort to gain regulatory approval and achieve market launch in Japan and abroad as soon as possible. We will also set forth a sales strategy for maximizing the value of our compounds through enhanced cooperation with Torii Pharmaceutical Ltd., a group company, and licensing partners.

We recognize that “promoting R&D on next-generation strategic products” is a key task from the perspective of the sustainable development of the JT Group’s pharmaceutical business. Market launch of new drugs has become increasingly difficult in recent years. However, the JT Group will explore appropriate drug development opportunities by collecting information concerning unmet needs of medical facilities around the world. We will also conduct flexible research management, carefully tailored to each drug candidate.

With the intensification of worldwide R&D competition, we recognize that it is essential to define a sophisticated development strategy that takes into account of the requirements of medical facilities and implementation of clinical tests quickly. In addition, as we recognize that delivering new drugs to as many patients as possible at the earliest possible date contributes to the maximization of the value of drugs, we will continue to out-license compounds to other companies, particularly global pharmaceutical companies, and aggressively explore alliance opportunities.

We have a strong track record of out-licensing. In the year ended March 31, 2005, we licensed JTK-303, an anti-HIV drug, to Gilead Sciences, a U.S. company. In the year ended March 31, 2007, we out-licensed a pre-trial-stage new compound (MEK inhibitor) to GlaxoSmithKline and a pre-trial-stage antibody (Anti-ICOS monoclonal antibody) to MedImmune.

In order to conduct R&D activity in an effective manner, we recognize the urgent requirement of training personnel who can collect accurate information regarding unmet needs and use the information to formulate a sophisticated development strategy, as well as train personnel who can play an active role on a global scale.

Food Business

The JT Group’s food business focuses on three business areas, precisely beverages, processed foods, and seasonings. We will make continuous improvement efforts and seek to strengthen profit-generating capabilities in these three areas. Our top priority for the moment is enhancing profitability in the Japanese market. Our efforts will be devoted to strengthening our business foundation in order to reach our objective.

<Quality top-line growth>

In the beverage business, we will continue to seek to strengthen our brands, most notably our core “Roots” brand, as well as sales capabilities.

During recent years, the “Roots” brand has been one of the fastest-growing products in sales volume in the canned coffee category, driven by effective marketing activities. Most notably, the “Aroma Bottle” series, which includes

“Roots Aroma Black,” holds the No. 1 market share in the bottle canned coffee category (according to the sales results of the “Roots” bottle canned series including “Roots Aroma Black” in the bottle canned coffee category in January 2011 through December 2011 as surveyed by Intage MBI).

We will enhance and expand our brand portfolio of attractive products meeting consumer needs based on innovative ideas in light of the analysis of sales data with Roots as our core brand. At the same time, effective advertising and sales promotion plans will be developed. Through these measures we seek to enhance our competitiveness in the food business. In addition, we will continue to seek to enhance and improve the sales channels of our beverage vending machine operator subsidiary, Japan Beverage. This will be achieved through strengthened partnerships with our accounts and further research on consumers.

TableMark, which are part of the JT Group, are taking the central role in our processed food business. We will focus on staple foods, such as frozen noodles, frozen rice, packed rice and frozen bread, as well as yeast products. These are categories where we have strong products and established market shares. We will seek to achieve an operating profit margin on par with, or above, industry average over the medium term by concentrating resources in this area.

Specifically, in the area of product line-up, we plan to create products that offer good value for the price from consumers’ perspective while using our unique technology. This will be achieved by improving our ability to identify consumers’ needs, generate ideas based on the identified needs, and transform the generated ideas into products. Concerning marketing, we will develop effective and efficient advertising and promotional activities in line with this product strategy and reinforce our trade marketing capabilities. By adopting these measures, we aim to further expand our market share.

In the seasoning business, we will focus on yeast products available only by using our unique technology and seasonings solely made of natural ingredients such as extracts from quality materials. We intend on expanding our market share by providing a broader product line-up that meets consumers’ wide-ranging needs. Fuji Foods Corporation, a subsidiary of TableMark will lead this business operation.

<Strengthening cost competitiveness>

In the beverages business, we plan on increasing profitability by curbing raw materials procurement costs. In addition, we will continue our efforts to reduce fixed costs. In particular, efficiencies and effectiveness will be pursued by cost savings through better alignment of product and sales strategies. Cost management practices will also be reinforced at Japan Beverage Inc.

In the processed food business, we have a variety of cost containment programs, including strengthening our raw materials procurement capabilities, efficiently managing the distribution network, and improving the productivity of the JT Group factories. In addition, consistent group-wide efforts will be made to lower fixed costs, including more efficient use of sales activity expenditures. This will be completed through better selection and focus of promotional activities.

In the seasoning business, cost efficiencies will be achieved by fixed cost reduction through factory consolidation, enhanced productivity in both international and Japan domestic manufacturing facilities, and utilization of seasonings produced in our processed food operation.

<Strengthening business foundations>

- Food Safety Control

JT has until now strived to enhance food safety control through three major initiatives—“reducing risk,” “improving consumer response” and “strengthening the institutional capability.”

We believe that these initiatives have developed a robust food safety control system that deserves to be trusted by customers. In the future, we will evolve these initiatives from four perspectives—“ food safety,” “food defense,” “food quality” and “food communication”—so that we can deliver safe and high-quality food products for your loved ones.

Regarding “food safety,” we will seek to minimize risks by utilizing food safety management systems already introduced so as to prevent customers from being exposed to risks.

Regarding “food defense,” we will utilize the already implemented integrated program for risk management in order to prevent external purposeful attacks, such as malicious tampering with products.

Regarding “food quality,” we will pursue “deliciousness,” which should be the fundamental quality of foods, and will strive to prevent product failure.

Regarding “food communication,” we will conscientiously listen to the voices of customers and actively provide information so as to make our activities more visible to the outside.

- Human resource development

Development of human resources that support our business activities is critically important. Competence development programs as well as appropriate career paths of our employees will be created and implemented. Particular emphasis will be placed on developing our personnel to become highly qualified marketing experts.

4. Business and other risks

Listed below are items that, among those relating to the review of operations and accounting, etc. revealed in the Annual Securities Report, may significantly influence investor decisions. The following includes forward-looking statements determined, unless otherwise indicated, as of the filing date.

(1) Items relating to the business, profit structure and management policy of the JT Group

a. Significance of tobacco revenue from the Japanese market in consolidated revenue

The JT Group operates in more than 120 regions around the world, mainly in the tobacco business. Among these, tobacco revenue in the Japanese market makes a considerable contribution to the Group's revenue. Accordingly, any adverse influence on the Japanese market may negatively impact the result of the JT Group as a whole (for details of risks relating to the JT Group's tobacco business, see (2) below).

b. Business expansion

The JT Group believes that the pharmaceutical business and food business will contribute to its future earnings and the Group plans to invest in these businesses, however, there are no guarantees as to the returns expected from these investments.

The JT Group worked proactively to obtain external managerial resources geared towards business expansion through such maneuvers as, for its international tobacco business, the acquisition of Gallaher Ltd. as well as the non-US tobacco operations of the American firm RJR Nabisco Inc. and, for its food business, the acquisition of the Katokichi Group (now TableMark Co., Ltd.). In an effort to further strengthen the business foundation, the JT Group will consider acquisitions, capital contributions, business tie-ups and cooperative systems with respect to other companies and may execute same if it is determined as a result that such activities would contribute to the future earnings of the JT Group. However, should such activities not generate the expected results, or should a significant, unforeseen problem be discovered after the acquisition, same may have a detrimental effect on the earnings of the JT Group.

Also, as a result of the recording in the consolidated statements of financial position of a substantial amount of goodwill generated following acquisitions, the amount of goodwill accounts for 30.3% of the consolidated total assets as of the end of the fiscal year. The JT Group believes that the abovementioned goodwill appropriately reflects the future profitability that will result from the unleashing of synergy effects of each business value and integration, however, if it is determined that this expected outcome does not materialize as a result of factors such as changes in the business environment or competitive forces, the JT Group may incur an impairment loss that negatively impacts our performance.

c. Effects of foreign exchange fluctuations

JT drafts its consolidated financial statements indicating all figures in yen, however, overseas Group companies draft their financial statements in currencies other than yen. Accordingly, the results, assets and liabilities of overseas Group companies are converted into yen as of the date on which the consolidated financial statements of JT are drafted and indicated in yen therein. As a result, those figures are affected by fluctuations in the exchange rate of the foreign currency used by overseas Group companies in their accounts settlement with respect to the yen. Especially, foreign exchange fluctuation may greatly impact consolidated financial statements with respect to the amount contributed by the expansion of the international tobacco business.

JTIH, which is responsible for consolidating the financial results of the JT Group's international tobacco business, uses the U.S. dollar for its financial reporting. However, JTIH does business through consolidated subsidiaries and affiliates around the world, some of which use foreign currencies other than the U.S. dollar. This means that the JT Group's consolidated results are affected not only by exchange rate fluctuations between the Japanese yen and the U.S. dollar but also by those between the U.S. dollar and other foreign currencies used by the consolidated subsidiaries and affiliates for their financial reporting.

In addition, any liquidation, sale or significant drop in the value of an foreign Group company whose foreign currency denominated stock, etc. was acquired by JT will result in the recording of an investment loss with respect to said company in the consolidated financial statements of JT and this loss will be affected by the exchange rate fluctuation between the yen and the foreign currency that was used to acquire said stock, etc. Most international transactions by JT Group companies are effected in currencies other than the yen and there exists a foreign exchange risk. Although the JT Group hedges a portion of the foreign exchange risk generated by its transactions, it is impossible to completely avoid this risk for the entire group by such hedges and there is always the possibility that foreign exchange fluctuations will negatively affect the Group's earnings.

d. Outline of the 2012 Tax Reform Proposals

The Outline of the 2012 Tax Reform Proposals determined by the Cabinet of Japan on December 10, 2011 continues to mention that, in order to hold down tobacco consumption from the perspective of national health, a future tax rate increase for the tobacco excise tax is necessary. It also states that, when the future framework of the tobacco business is examined, full consideration will be given to the consistency of such a move with the policies stated in the outlines of the 2010 and 2011 Tax Reform Proposals (amending and abolishing the existing Tobacco Business Act and formulating a new framework for the tobacco business in light of the expected future picture of the tobacco business and the lives of those involved in it), as well as the examination on the sale of JT shares and the framework of holding the shares based on the "Act on Special Measures for Securing Necessary Financial Resources for the Implementation of Reconstruction Measures Following the Great East Japan Earthquake" (hereinafter, the "Securing Reconstruction Resources Act"), which was promulgated on December 2, 2011. The contents of the above may affect the JT Group's business performance.

e. Natural disasters and other contingency situations

The Great East Japan Earthquake that occurred in March 2011 has inflicted damage on some factories of the JT Group and raw materials suppliers, thereby creating an impact on the Group's business operations, mainly in the domestic tobacco business. Incidents related to the earthquake disaster may negatively affect the JT Group's business performance in the future. In addition, future major earthquakes, tsunamis, typhoons and other natural disasters and unforeseen emergencies in Japan or overseas may negatively affect the JT Group's business performance.

The earthquake and subsequent tsunami in March 2011 caused partial meltdowns at the Fukushima Daiichi Nuclear Power Plant in Japan. The JT Group is focused on conducting activities to eliminate consumers' concerns over the radioactive pollution on tobacco leaves, and continue to deliver products free of any risk of contamination. We have established an internal standard comparable to the official standards for other agricultural products (the Food Sanitation Act does not set a standard for the maximum allowable radioactivity level in tobacco leaves). Multiple inspections are conducted, i.e. before leaf purchase, before leaf processing, before product manufacturing, and before shipping from our factories.

f. Country risk

The JT Group, in particular the tobacco business, operates in more than 120 countries around the world, and importance of the international tobacco business has been increasing. In order to achieve long-term growth, we will continue to expand the business base. Geographical expansion increases our exposure to country risks, such as a change in the political environment, a change in the economic conditions, a change in the social environment, or a change in the legal system. If materialized, these risks could negatively affect our business performances.

g. Economic deterioration

Since the beginning of the crisis in September 2008, Europe's debt crisis worsens, the global economy remains fragile and volatile due to increasing uncertainties, and economic deterioration could reoccur in the future. In general, the tobacco business is seen as relatively resilient to economic downturns. However, our top-line performance could be negatively affected due to a decline in consumer confidence as well as consumers' down-trading to brands in lower price ranges.

h. Instability in supplies of key materials

Approximately 60% of the raw material used in JT's manufacture of tobacco products in Japan is leaf tobacco from overseas, and the raw material the JT Group currently uses in its manufacture of tobacco products overseas is also leaf tobacco from overseas.

Materials, both raw and processed, are critical inputs to our products. Therefore, our ability to procure needed materials in the required quantities and at manageable costs can affect our business performance. Climate and other natural changes could affect the availability of agricultural products, such as tobacco leaves, and other natural materials procured for our beverages and processed food products. In addition to the raw inputs, global population increase and economic growth in the emerging countries could lead to an explosive increase in the consumption of resources. This could result in an increase in the costs of our raw and processed materials, as well as unavailability of those resources.

i. Difficulty in maintaining human resource competitiveness

The JT Group believes that a diversified employee base is a major factor of our competitiveness therefore, we seek to attract, develop, and retain talented people worldwide. In addition, because of our diverse business lines, our ability to attract new employees is highly competitive. However, in the particular case of tobacco business, we are aware of the negative social image placed on this business line, therefore, it is becoming major issues for us to recruit and retain talented people. Should the Group be unable to sufficiently fulfill such needs as retaining human resources, future business operations may become difficult, thus having a negative impact on the JT Group's business performance.

(2) Risks relating to the JT Group's tobacco business

a. Decreasing tobacco demand

In the Japanese domestic tobacco market, with the aging of the Japanese population, growing awareness about the health risks associated with smoking and the tightening of smoking-related regulations, total demand for cigarettes has continued to decline and JT expects this downward trend to continue unabated into the future. Demand overseas could also decrease depending on the economic conditions and other societal conditions, although the trends in demand will vary from region to region.

Should demand decrease, sales volumes of the domestic tobacco business and shipment volume of the international tobacco business may decrease, and this may negatively affect our business performance.

b. Competition with rival companies

The JT Group is competing fiercely in both the domestic and international tobacco businesses with rivals such as Phillip Morris International and British American Tobacco.

In the Japanese domestic tobacco market, competition has intensified partly due to the diversification of smoker preferences and aggressive marketing activities by rival companies ever since the easing of regulations relating to imported tobacco products in 1985 and the abolishment of tariffs on imported cigarettes in 1987.

In overseas tobacco markets, the JT Group expanded its business by building on its self-sustaining growth and by acquiring the non-US tobacco operations of RJR Nabisco and Gallaher Ltd. As a result, its competitive relationships with global players in the international tobacco business such as Phillip Morris International and British American Tobacco as well as strong firms operating in localized markets are observed.

Each tobacco market share fluctuates under multiple factors including competition, pricing strategies, changing smoker preferences, brand strengths and economic conditions occurring in different markets not to mention short-term fluctuations caused by temporary factors such as the introduction of new products by the JT Group and other companies and the special promotional activities effected for them. A lower market share due to these factors may negatively affect the JT Group's business performance.

c. Taxes levied on tobacco

Depending on their objectives, governments increase tobacco excises, VAT (value-added tax) and other taxes in most countries we operate, including Japan, to secure state budgets and also to promote public health.

The JT Group can predict neither increases nor changes in types of taxes or tax rates imposed on tobacco products in various countries.

Increases in tobacco taxes may, if accompanied by a hike in retail prices, push down demand or move consumers toward lower priced brands. On the other hand, if there is no retail price hike, such tax increases may cause the earnings structure of the tobacco business to deteriorate. As such, either case may negatively affect the JT Group’s business performance.

d. Regulations on tobacco products

The Tobacco Business Act, related acts and statutes and voluntary standards set forth the regulations for the sale and promotion activities of tobacco products in Japan that include the indication of warning labels on tobacco product advertisements and packages that urge caution over the relationship between the consumption of tobacco products and health. In November 2003, the Ordinance for Enforcement of the Tobacco Business Act was revised including the wording of the cautions over the relationship between the consumption of tobacco products and health indicated on tobacco product packages and, starting July 2005, all tobacco products sold in Japan have been in conformity to the revised regulations. In addition, the Japanese Minister of Finance has indicated a “Guideline for Advertising of Tobacco Products” based on the Tobacco Business Act which, in March 2004, was revised with tougher language (for details, see (4) c. (i), Note 2 below). The Tobacco Institute of Japan has established voluntary standards regarding the advertising and sales promotion activities for tobacco products. All member companies, including JT, comply with these standards. Recently, cases where smoking in public areas including restaurants and office buildings has been restricted by laws and regulations and the like are on the rise in Japan. From the perspective of passive smoking prevention, various measures are being implemented and promoted by the government and governing bodies since the Ministry of Health, Labour and Welfare’s establishment of the Health Promotion Act, which impose the facility manager the obligation to make efforts and the “Guidelines for Measures on Smoking in the Workplace” dealing with efforts at the workplace. JT expects such trend to continue in the future.

Even in overseas markets where JT Group’s tobacco products are sold, there is a rising trend in regulations regarding sales promoting activities and the marketing of tobacco products and smoking. For example, in the EU, a directive regarding tobacco products came into effect in July 2001 by which all laws, regulations and ordinances of EU member countries regarding the amount of tar, nicotine and carbon monoxide, warning labels on individual packages and outer wrappers, ingredients appearing on individual packages and descriptive expressions such as “mild,” “light,” etc. would be harmonized over the entire EU region. In addition, the World Health Organization (WHO) adopted the Framework Convention on Tobacco Control (“FCTC”) at its 56th World Health Assembly held in May 2003. The FCTC, whose purpose is to continuously and substantively control the proliferation of smoking, came into force in February 2005. (Japanese government accepted it in June 2004.) Its provisions include price and tax measures to reduce tobacco demand, non-price measures to reduce the demand for tobacco (such as regulations on packaging and labeling of tobacco products and regulations on tobacco advertising, promotion and sponsorship, etc.), measures relating to the reduction of the supply of tobacco, among others. Signatory nations are generally required to develop, implement, periodically update and review tobacco regulatory strategies, plans and programs. However, the content, scope and method of specific controls undertaken in these nations are ultimately legislated by each respective nation and not necessarily unambiguous. Besides the above, many official and non-official controls have also appeared on a general basis in many overseas markets. For example, in the U.K., laws including “Restrictions on the in-store display of tobacco products” and “Ban on sale of tobacco products through vending machines” are enforced. In Australia, individual packages of tobacco products must be of a prescribed color, and product names must be displayed on the packages in a prescribed location, font size, color and style. In addition to this, Australia’s plain packaging legislation, under which visual warning labels must take up 75% of the front side and 90% of the back side of packages, was passed in 2011, and a number of other countries are considering the implementation of similar measures.

Although it is impossible to predict the content of future laws, regulations and industry guidelines relating to sales activities, marketing and smoking, the JT Group expects regulations like the above and new regulations (including those of local governments) to diffuse across Japan and other countries where the Group sells its products.

JT Group’s position is to support any regulation relating to tobacco that is appropriate and reasonable, however, the strengthening of regulations like the aforementioned may negatively affect the Group’s earnings by reducing tobacco demand and engendering costs incurred for the compliance to new regulations, etc.

e. Prohibition of “mild,” “light” and other descriptive labeling

The aforementioned FCTC includes provisions regulating descriptive labeling such as “mild” and “light.” They stipulate that signatory countries must, within three years after entry into force within their country, adopt and implement effective measures to prevent promotion of tobacco products by any means that could create an erroneous impression about the characteristics, etc. of tobacco products including the use of terms, etc. that creates false impression that a particular tobacco product is less harmful than other tobacco products (these may include terms such as “mild” and “light”). Each signatory country is establishing various measures required by FCTC.

Measures vary among signatory countries including prohibiting the use of target words or expressions such as “mild” or “light” specifically enumerated or illustrated, or the use of words that would create a false impression without specifying target words or expressions. In the future, measures over descriptive labeling, etc. such as “mild” and “light” , which would include the measures to comply with the requirements under FCTC, may prohibit the use of the word “mild” in the brand name “Mild Seven,” thus rendering impossible the sale of “Mild Seven” brand products in those countries where such measures are established.

If such a case arises, the JT Group may have to spend enormous amounts of money and time on building a new brand that is comparable or commeasurable to “Mild Seven” with no guarantee that this new creation will have the same value and appeal, thus bearing the risk of negatively affecting the Group’s business performance.

With respect to Japan, in accordance with the Ordinance for Enforcement of the Tobacco Business Act revised in November 2003, all tobacco products bound for the domestic market labeled with “mild,” “light,” etc. after July 2005 are subject to certain necessary measures. The JT Group plans to continue using words like “mild” and “light” in Japan in accordance with the above Ordinance (for details, see (4) c. (i), Note 2 below).

f. Illicit product trading such as smuggling and counterfeiting

One of the most serious issues in the tobacco industry is the increase of illicit trade, including smuggling and counterfeit product distribution. Motivations for illicit trade are believed to be high profit margin of tobacco products and cross-border price gaps arising from different taxation systems and tax levels among countries. As historical evidence shows, illicit trade in a market tends to increase after a steep tax increase.

Illicitly traded products not only significantly damage the credibility of brands and the companies that own those brands, but also negatively affect governments’ tax revenues. Therefore, we and other tobacco companies are working together with governments to eliminate illicit trade.

The JT Group is making efforts towards countermeasures, such as by concluding cooperation agreements to counter illicit trade with the EU (including its member countries) and the governments of Canada and all its provinces and territories, respectively. Even so, growth in illicit trade such as smuggling and counterfeiting of tobacco products may negatively affect the JT Group’s business performance because of damage to its brand equity and other consequences of such illicit trade.

g. Litigation

JT and some of its subsidiaries are defendants in lawsuits filed by plaintiffs seeking damages for harm allegedly caused by smoking, the marketing of tobacco products, or exposure to tobacco smoke. As of the fiscal year end date, there were a total of 25 smoking and health-related cases pending in which one or more members of the JT Group were named as defendant, including cases for which JT may have certain indemnity obligations pursuant to the agreement for JT's acquisition of RJR Nabisco Inc.'s overseas (non-U.S.) tobacco operations. In addition, JT and some of its subsidiaries are also defendants in lawsuits other than the smoking and health-related cases.

We are unable to predict the outcome of currently pending or future lawsuits. If these actions result in a decision unfavorable to the JT Group, its business could be materially affected by, for example, the payment of monetary compensation. Moreover, regardless of the results of these lawsuits, critical media coverage may reduce social tolerance of smoking, strengthen public regulations concerning smoking and prompt the filing of a number of similar lawsuits against the JT Group, forcing it to bear litigation costs and materially affecting its business performance. In addition to the smoking and health-related litigation, the JT Group may be a party to further cases should litigation occur in the future. Such litigation cases may negatively affect the business performance or manufacture, sale, import and export, etc. of tobacco products by the JT Group should their outcomes prove unfavorable.

Regarding major litigation cases to which the JT Group is a party, please refer to "V. Accounting, 1. Financial statements, (1) Financial statements, Notes to consolidated financial statements, 39. Contingencies" and "40. Subsequent event."

(3) Risks relating to the JT Group's pharmaceutical and food businesses

a. Risks relating to pharmaceutical business

The following are various risks relating to the pharmaceutical business of the JT Group.

-The JT Group may fail to develop and launch commercially valuable pharmaceutical products. To this date, JT has never brought a pharmaceutical product to market that it has developed on its own.

-The JT Group may have to invest an enormous amount of time and funds in research and development before it successfully develops pharmaceutical products.

-The JT Group may be forced to abandon the clinical development of a pharmaceutical product that involves another company as a co-developer or a licensee on the basis of its or its partner company's judgment or due to some internal or external factors.

-Even if the JT Group succeeds in developing and launching a commercially valuable pharmaceutical product, research and development expenses may exceed the revenue generated from it.

-The JT Group may become dependent on a certain pharmaceutical product.

-The JT Group may fail to achieve efficient mass-production of pharmaceutical products.

-Even if a pharmaceutical product developed by the JT Group proves to be commercially successful, the success may be offset by competition with rival products developed by other companies in Japan or overseas, a government-mandated price reduction and other factors.

-The JT Group may become dependent on the license of pharmaceutical products developed by other companies and on revenues from such products.

-The JT Group may become dependent on a certain outside source for the supply of part of critical raw materials.

-If any problem arises regarding the quality of a pharmaceutical product of the JT Group or regarding information provided by the Group about such product, the Group may become the target of claims seeking product liability, etc., or may be forced to suspend sales of such product.

-JT's business performance may be affected by lawsuits concerning patents and other intellectual property rights.

-Regulation may be applied broadly, covering a full range of activities from the research and development stage to the post-launch stage of a new drug.

-The JT Group may become dependent on a certain business partner in research and development or sales of a pharmaceutical product.

-In relation to the JT Group’s use and management of radioactive or other hazardous substances, social or legal problems may arise, such as damage to the environment caused by such substances.

b. Risks relating to food business

The following are various risks relating to the food business of the JT Group.

-Food products developed by the JT Group may fail to meet consumer preferences and their product lives may prove to be short.

-The JT Group’s profit and loss may fluctuate due to fluctuations in the prices of raw materials for food products (including those due to changes in the exchange rate).

-The sales of JT’s food products may be affected by weather conditions.

-The regulation of the procurement, manufacture and sale of food products in Japan or overseas may be strengthened, including the possibility that additional costs may arise due to compliance with such regulation.

-The JT Group may be unable to compete with major companies with larger distribution networks, stronger development capabilities and more experience.

-The JT Group may be unable to engage in efficient marketing activities.

-The JT Group may be unable to produce, or outsource the production of, food products in an efficient, stable and effective manner.

-The JT Group may outsource the production of most beverage products to other domestic manufacturers, thus becoming dependant on outside sources.

-If any problem arises regarding the quality of the JT Group’s food products, it may cause health damage to customers, the Group may become the target of claims seeking product liability, etc., or the reputation of the Group and its products may be undermined.

(4) Other factors which may materially affect investment decisions

a. Relations with the Japanese government and the Minister of Finance

The JT Act obligates the government to continue to hold more than one-third of all JT shares issued. As of the end of the fiscal year ended in March 2012, the government held 50.01% of all JT shares issued.

In addition, the Minister of Finance has the authority to supervise JT under the JT Act and Tobacco Business Act. Under the JT Act, the scope of JT’s businesses includes the “manufacture, sale and importation of tobacco products and ancillary businesses, as well as businesses required for attaining the objective of JT,” and “business required for attaining the objective of JT” are subject to the Minister of Finance’s approval. Consequently, the Minister of Finance’s approval is required in order for JT to engage in new businesses outside the scope of currently-approved businesses (for details, see c. (ii) below).

Under the Securing Reconstruction Resources Act, which was promulgated on December 2, 2011, it is required for an examination to be made of the feasibility of selling JT shares by reassessing the framework under which the government holds the shares, while taking into consideration the framework of the country’s commitment to tobacco-related business based on the Tobacco Business Act and the like until the fiscal year ending March 31, 2023. In relation to this, in Article 16 of the general budget provisions for Special Account Budget in the fiscal year ending March 31, 2013, it is stated that, pursuant to Article 3 of the JT Act, the number of Japan Tobacco Inc. shares the special account for the national debt consolidation fund may dispose of in the fiscal year ending March 31, 2013 shall be no more than 1,666,666 shares (however, in the event of a share split or consolidation of shares occurring with respect to the shares, the maximum number of shares that may be disposed of is calculated by multiplying the ratio of said share split or consolidation. In the event of a share split or consolidation of two tiers or more, this shall be the ratio equivalent to the product of all tiers).

b. Purchasing of leaf tobacco

The Tobacco Business Act requires JT to annually enter into purchase contracts with tobacco growers regarding the aggregate cultivation area for specific varieties of leaf tobacco and the prices for leaf tobacco by variety and grade. JT must purchase all leaf tobacco produced pursuant to such contracts, except for any not suited for the manufacture of tobacco products. When JT decides the aggregate cultivation area and the prices of leaf tobacco for its contracts with tobacco growers, it is required to respect the opinion of the Leaf Tobacco Deliberative Council (*hatabako shingi kai*), which consists of members appointed by JT with the approval of the Ministry of Finance from among the representatives of domestic leaf tobacco growers and academic appointees (for details, see c. (i) below). Much like many other agricultural products in Japan, production costs for domestically-grown leaf tobacco is higher than those of foreign-grown leaf tobacco to the extent that the purchasing price for the former (before redrying) is approximately four times that of the latter (after redrying).

c. Legal matters relating to the business of filing company

(i) Tobacco Business Act (Act No. 68 of August 10, 1984)

	Description
1. Purpose	The object of this Act is, in consideration of the tax relating to tobacco products as a portion of the Treasury revenue incidental to the abolishment of the tobacco monopoly system, to promote a sound development of the tobacco industry in our country by making necessary adjustments in the production and purchase of domestically produced leaf tobacco as raw material for tobacco products and in business activities etc. of manufacture and sale of the tobacco products, whereby it will contribute to ensuring treasury revenue and a sound development of the national economy. (Article 1)
2. Cultivation and purchase of domestically grown leaf tobacco for use as raw material	(1) When intending to purchase the domestically produced leaf tobacco, Japan Tobacco Inc. (hereinafter, “JT”) shall enter into agreements in advance with those who intend to cultivate leaf tobacco for the purpose of selling it to JT regarding the cultivation area for each item of leaf tobacco and the prices for each item and each grade of the leaf tobacco. (Article 3) (2) JT shall purchase all leaf tobacco produced pursuant to such agreements, except those which are not suitable as raw materials for manufacture red tobacco. (3) In the case where JT intends to enter into an agreement, JT shall consult with the Leaf Tobacco Deliberative Council that JT establishes, and respect its opinion concerning the total cultivation area and the prices of leaf tobacco. (Articles 4 and 7) (4) The Leaf Tobacco Deliberative Council shall deliberate on the price of the leaf tobacco so that subsequent production of leaf tobacco is ensured, by taking into account the production costs, commodity prices and other economic conditions. (5) JT shall determine the regional breakdown of the aggregate cultivation area for the respective items of leaf tobacco seeking the opinion of the Japan Tobacco Growers Association (hereinafter, “JTGA”) and, within the scope of such regional breakdown, enter into agreements with growers. (Article 5) (6) If a member grower of a tobacco growers association entrusts JTGA with entering into an agreement regarding a fundamental matters of the agreements such as the price of leaf tobacco, JT shall establish said fundamental matters with JTGA and such agreement shall be deemed as a part of the agreements executed between JT and said grower. (Article 6)
3. Manufacture of tobacco products	(1) No tobacco products shall be manufactured by any party other than JT. (Article 8) (2) JT shall obtain the approval of the Minister of Finance on the maximum wholesale price for each item of tobacco products. (Article 9) (3) JT shall make efforts to ensure a smooth supply of tobacco products taking into account regional demand conditions for tobacco products. (Article 10)

	Description
4. Sale of tobacco products	(1) A party wanting to engage in the sale of tobacco products imported by themselves shall register with the Minister of Finance, who establishes necessary regulations relating to said registration and registered party (hereinafter, “Specified Distributor”). (Articles 11 to 19) (2) A party wanting to engage in the wholesaling of tobacco products shall, for the time being, register with the Minister of Finance, who establishes necessary regulations relating to said registration and registered party. (Articles 20 and 21) (3) A party wanting to engage in the retailing of tobacco products shall, for the time being, obtain the approval of the Minister of Finance, who establishes necessary regulations relating to said registration and registered party (hereinafter, “Retailer”). (Articles 22 to 32) (4) If JT and a Specified Distributor want to sell manufactured or imported tobacco products, the list price of each item, and any subsequent change thereof, shall be approved by the Minister of Finance for the time being. Necessary regulations are in place with respect to the approval: for example, the Minister of Finance shall grant approval unless it deems such price is unfair to consumers, etc. (Articles 33 to 35) (5) A Retailer is only permitted to sell tobacco products at list prices that have been approved by the Minister of Finance. (Article 36)
5. Other	(1) JT or a Specified Distributor shall indicate the wording as prescribed by Ordinance of the Ministry of Finance for warning consumers of the relationship between the consumption of tobacco products and health prior to the commencement of sale of the tobacco products that it manufactured or imported. (Article 39) (2) Advertisers of tobacco products shall give due consideration to the prevention of smoking by minors, etc. and make efforts lest such advertisement should be made to an excessive extent. The Minister of Finance may implement necessary measures with respect to advertisers. (Article 40)

Notes:

1. The so-called list price system is maintained for the time being as a means to prevent confusion in the distribution order, a well-established constant that materialized after the list price system was adopted in 1904.

   Tobacco is a luxury item different from the so-called commodities and services and, in a distribution market completely liberalized after the opening of import markets and other factors, JT and Specified Distributors stipulate prices on application (POA) to the Minister of Finance based on their respective, independent management decisions.

   Concerning the approval of list prices, the Ministry of Finance has the following view:

   “Pertaining to tobacco product list prices, under the Tobacco Business Act, in the event an application is made for the approval of list prices, the Minister of Finance may exceptionally deny approval if it deems such list price unfair to consumers or unfairly low in comparison with wholesale prices of domestic products or import prices of imported products. In all other cases, the Minister approves list prices in line with the spirit of Tobacco Business Act.”

2. In November 2003, the Ordinance for Enforcement of the Tobacco Business Act was revised and the wording of warnings concerning tobacco consumption and health indicated on tobacco product packages was changed to specify risks related to eight items, four of which are diseases associated with direct smoking (lung cancer, heart attack, stroke and emphysema), while the other four are smoking by pregnant women, passive smoking, addiction to smoking and youth smoking. Each tobacco product package must indicate, on its main surfaces, a warning regarding at least one of the four items associated with direct smoking and at least one of the other four items. The Ordinance stipulates, among others, (1) that these warnings must be rotated throughout the year in ways to ensure that they receive equal exposure on each product item and each type of package and (2) that the display area must occupy 30% or more of the main surfaces of the package.

   In addition, the Ordinance stipulates that when wording like “mild” and “light” are used on the package, they must be accompanied by a warning that clarifies that such words do not mean that the risk to their health is lower than other tobacco products so as to prevent consumers from misunderstanding the relationship between the consumption of tobacco products and health. JT has been adhering to this rule since July 1, 2005.

   In addition, in March 2004, the Ministry of Finance revised the “Guideline for Advertising of Tobacco Products,” which stipulates that the outdoor advertising of tobacco products (posters, billboards, etc.) shall generally be prohibited and specifies matters concerning the indication and content of the health warnings that accompany tobacco advertising.

(ii) Japan Tobacco Inc. Act (Act No. 69 of August 10, 1984)

	Description
1. Purpose	Japan Tobacco Inc. (“JT”) is a stock company whose purpose is to engage in business related to the manufacture, sale, and importation of tobacco products in order to attain the objectives set forth in Article 1 of the Tobacco Business Act. (Article 1)
2. Stock	The Japanese government must continue to hold more than one-third of all Japan Tobacco Inc. (“JT”) shares issued (excluding shares of a class for which it is provided that the voting rights may not be exercised for all the matters that are subject to resolution at the shareholders meeting; the same shall apply to the following items). (Article 2, paragraph 1) Whenever JT intends to solicit subscribers for an issuance of shares or subscription rights to shares of JT, or deliver shares (excluding own shares), subscription rights to shares (excluding subscription rights to treasury shares), or issuance of bonds with subscription rights to shares (excluding bonds with subscription rights to treasury shares) at the time of share exchange, the approval of the Minister of Finance is required. (Article 2, paragraph 2) The disposal of JT shares held by the government shall be effectuated within the maximum range stipulated by resolution of the Diet based on the budget of the corresponding year. (Article 3)
3. Scope of business	JT shall engage in the following businesses in order to attain the objectives stated in 1 above. (1) business of manufacture, sale and importation of tobacco products (2) business incidental or relating to the business in the preceding item (3) other business required for attaining the object of JT JT shall obtain authorization from the Minister of Finance before engaging in any business corresponding to (3) above. (Article 5)
4. Monitoring	(1) The appointment or dismissal of directors, executive officers (*sikkoyaku at a company with committees*), and auditors require authorization from the Minister of Finance. (Article 7) (2) Amendments to JT’s articles of incorporation, appropriations of surplus (except disposal of losses), and any merger, corporate split, or dissolution of JT require authorization from the Minister of Finance. (Article 8) (3) JT shall formulate a business plan prior to each business year and obtain authorization from the Minister of Finance. Any change thereof also requires authorization from same. (Article 9) (4) Within three months after the closing of each business year, JT shall issue its balance sheet, statement of income, and business report to the Minister of Finance. (Article 10) (5) Transfers of manufacturing facilities or similar material assets require authorization from the Minister of Finance. (Article 11) (6) The Minister of Finance shall monitor JT in accordance with this Act as well as the Tobacco Business Act and may implement necessary measures in the execution of same. (Articles 12 and 13)

Note: Previously, the Japanese government was required to continue to hold more than one-half of all JT shares issued. However, the JT Act has been revised based on the Securing Reconstruction Resources Act, which was promulgated on December 2, 2011, and the Japanese government must now continue to hold more than one-third of all JT shares issued.

(iii) Acts relating to tobacco excise taxes (including tobacco special excise taxes)

	Description			
	National Tobacco Excise Tax	National Tobacco Special Excise Tax	Local Tobacco Excise Tax	
1. Tax item (Note 1)	Tobacco Excise Tax	Tobacco Special Excise Tax	Prefectural Tobacco Excise Tax (also applies to Tokyo)	Municipal Tobacco Excise Tax (also applies to special wards)
2. Taxpayers (Note 2)	Manufacturers of tobacco products or those who removes tobacco products from bonded areas		Manufacturers of tobacco products, specified distributors or wholesalers selling to retailers	
3. Tax base (Note 3)	Number of cigarettes removed from the manufacturing site or bonded area (for tobacco products other than cigarettes, prescribed cigarette count conversion)		Number of cigarettes relating to sales to retailers (for tobacco products other than cigarettes, prescribed cigarette count conversion)	
4. Tax rate (Note 4)	¥5,302 per 1,000 cigarettes	¥820 per 1,000 cigarettes	¥1,504 per 1,000 cigarettes	¥4,618 per 1,000 cigarettes
Former third-class products (Note 5)	¥2,517 per 1,000 cigarettes	¥389 per 1,000 cigarettes	¥716 per 1,000 cigarettes	¥2,190 per 1,000 cigarettes
5. Declaration and payment (Note 6)	Tobacco product manufacturers are to declare and pay taxes for each month's shipment by the end of the following month. Parties removing tobacco products from bonded areas are to declare and pay taxes by the time of extraction		For sales of tobacco products relating to sales locations of retailers located within a given prefecture, a declaration and payment of taxes is to be made to that prefecture for each month's transfer by the end of the following month	For sales of tobacco products relating to sales locations of retailers located within a given municipality, a declaration and payment of taxes is to be made to that municipality for each month's transfer by the end of the following month

Notes:

1. Article 3 of the Tobacco Excise Tax Act, Article 4 of the Act Concerning Special Measures for Financing Debt Transferred to the General Accounts, and Article 1, paragraph 2 and Articles 4 and 5 of the Local Tax Act
2. Article 4 of the Tobacco Excise Tax Act, Article 5 of the Act Concerning Special Measures for Financing Debt Transferred to the General Accounts, and Article 74-2, paragraph 1 and Article 465, paragraph 1 of the Local Tax Act
3. Article 10 of the Tobacco Excise Tax Act, Article 7 of the Act Concerning Special Measures for Financing Debt Transferred to the General Accounts, and Articles 74-4 and 467 of the Local Tax Act
4. Article 11, paragraph 1 of the Tobacco Excise Tax Act, Article 8, paragraph 1 of the Act Concerning Special Measures for Financing Debt Transferred to the General Accounts, and Articles 74-5 and 468 of the Local Tax Act
5. Article 2 of the Supplemental Provisions of the Tobacco Excise Tax Act, Article 8, paragraph 2 of the Act Concerning Special Measures for Financing Debt Transferred to the General Accounts, and Articles 12-2 and 30-2 of the Supplemental Provisions of the Local Tax Act
6. Articles 17 to 20 of the Tobacco Excise Tax Act, Article 12 of the Act Concerning Special Measures for Financing Debt Transferred to the General Accounts, and Articles 74-10 and 473 of the Local Tax Act
7. Concerning "4. Tax rate"

   The term "Former third-class products" refers to tobacco products stipulated as third-class cigarettes in the Tobacco Product Price Act, repealed on April 1, 1985. These are same products as those at the time of abolishment, and, for the time being, the aforementioned tax rates are applied.
8. (i) In the event the tax system relating to tobacco subject to high excise taxes is examined, on a general basis, as part of a revision of the tax system made in the course of reorganizing government budgets each year and the tax system is revised, a decision is made upon the deliberation and resolution of the legislature subsequent to the determination of government policy through deliberation by the Tax System Council and other bodies. When determining government policy, with respect to the National Tobacco Excise Tax, a bill is presented upon cabinet approval of a summary of the tax reform initially reported to the cabinet as a broad outline. For the Local Tobacco Excise Tax, a bill is presented upon determination of policy in the course of establishing local financing measures during budget reorganization.

   (ii) See the following page for revisions to the tax system relating to tobacco after the April 1985 transfer from the monopoly profit system to the tobacco consumption tax system.

[Main movements relating to the tobacco tax system and JT’s responses]

Month/Year	Item	Description	JT’s response
May 1986	1986 Tax Reform	Tax increase equivalent to ¥900 per 1,000 cigarettes	Fixed price revised by amount equivalent to tax increase
April 1989	1989 Tax Reform	Following the introduction of the consumption tax, “tobacco consumption tax” changed to “tobacco excise tax” and taxation formula unified to a unit tax	Basically, fixed price revision unnecessary
April 1997	1997 Tax Reform	[Revision of Local Tax Act] Local Tobacco Excise Tax revenue transferred from the Prefectural Tobacco Excise Tax to the Municipal Tobacco Excise Tax	Fixed price revision unnecessary
		[Revision of Consumption Tax Act] Consumption tax rate revised from 3% to 5%	Prices raised by ¥10 per pack for some brands in an effort to revise fixed prices overall by the amount equivalent to the consumption tax rate revision
December 1998	1998 Tax Reform	Act Concerning Special Measures for Financing Debt Transferred to the General Accounts established and ¥820 per 1,000 cigarettes of Tobacco Special Excise Tax introduced	Basically, price per cigarette raised by ¥1
May 1999	1999 Tax Reform	[Revision of Special Taxation Measures Act and Local Tax Act] Tax revenue transferred from Tobacco Excise Tax to Prefectural Tobacco Excise Tax and Municipal Tobacco Excise Tax	Fixed price revision unnecessary
July 2003	2003 Tax Reform	Acts revising a portion of the Income Tax Act, Local Tax Act, among others, established and tax increase by ¥820 per 1,000 cigarettes	Price per cigarette raised by approx. ¥1
July 2006	2006 Tax Reform	Acts revising a portion of the Income Tax Act, Local Tax Act, among others, established and tax increase by ¥852 per 1,000 cigarettes	Amount equivalent to tax increase shifted to fixed price of all brands with some prices increased higher than said amount
October 2010	2010 Tax Reform	Acts revising a portion of the Income Tax Act, Local Tax Act, among others, established and tax increase by ¥3,500 per 1,000 cigarettes	With exception of some brands, prices increased higher than the amount equivalent to tax increase

5. Important operational contracts, etc.

No items to report

6. Research and development activities

Research and development activities are mainly undertaken at JT's Tobacco Science Research Center and Central Pharmaceutical Research Institute, which have approximately 770 staffers.

Research and development expenses for the entire JT Group over the fiscal year amounts to ¥51.5 billion and the research objectives and research and development expenses by each segment are as follows.

Please note that the aforementioned research and development expenses includes ¥0.7 billion relating to basic research not affiliated to any segment (plant biotechnology related research, etc.) and conducted by JT corporate division.

(1) Domestic and international tobacco businesses

We are committed to strengthening our R&D capabilities to ensure a long-term competitive advantage. Our focus areas in the R&D activities are the development of new leaf tobacco varieties, improvement of tobacco leaf processing, enhancement of taste, upgrade of manufacturing technology, and continuous progress on emerging product development capabilities. We aim to add value to our products in these focus areas in a cost efficient manner. We have established a global research platform in Japan which, focuses on the fundamental research and product technology development. To best meet consumers' needs and preferences, our market teams are continuously engaged in the product development.

Research and development expenses relating to the domestic tobacco business amounts to ¥20.0 billion with that of the international tobacco business amounting to ¥5.2 billion.

(2) Pharmaceutical business

R&D activities are the foundation of the JT's pharmaceutical business and are critical for our long-term growth and profitability. Our R&D activities focus mainly on the fields of glucose and lipid metabolism, virus research and immune disorders and inflammation.

Through the pharmaceutical business the JT Group invested ¥24.9 billion in R&D during the year ended March 31, 2012 and ¥23.4 billion in the year ended March 31, 2011.

(3) Food business

Regarding R&D in the food business, we devote our efforts to the development of innovative products that meet consumers' needs and preferences.

Research and development expenses for the food business is ¥0.6 billion.

7. Analysis of financial position, operating results and cash flow position

(1) Significant accounting policies

a. Adoption of IFRS

Having acquired RJR Nabisco's non-U.S. tobacco operations in 1999 and Gallaher Group Plc. in the United Kingdom in 2007, the JT Group has been growing steadily as a global company and is now operating in more than 120 countries and territories. In this context, the JT Group has decided to opt for an early adoption of the IFRS from the year ended March 31, 2012. A decision based on the Japanese authorities' permission for the listed companies conducting financial and business activities internationally to adopt IFRS voluntarily from the year ended March 31, 2010. Upon the adoption of IFRS, the JT Group aims to diversify the group's sources of financing through international markets and to improve quality of business management. As the financial statements for the year ended March 31, 2012 include comparatives for the previous year (ended March 31, 2011) and as of the date of transition (April 1, 2010), these comparative figures are restated in accordance with IFRS from Japanese GAAP. For the details of the exemption provisions applied and the adjustments made, please refer to "V. Accounting, 1. Financial statement, (1) Financial statements, Notes to consolidated financial statements, 3. Significant accounting policies" and "41. First-time adoption of International Financial Reporting Standards."

b. Significant accounting estimates and judgment on estimates

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

The estimates and assumptions are continuously reviewed by the management. The effects of a change in the estimates and assumptions are recognized prospectively, including the period reviewed.

As for the estimates and assumptions that may have a material effect on the amounts recognized in the consolidated financial statements of the JT Group, please refer to "V. Accounting, 1. Financial statements, (1) Financial statements, Notes to consolidated financial statements, 4. Significant accounting estimates and judgment on estimates."

c. Closing date of foreign subsidiaries in the international tobacco business

The closing date of the JTIH Group, which operates the JT Group's international tobacco business, is December 31. Although there is a three-month difference between the fiscal year of the JTIH Group (the year from January 1 to December 31) and that of JT (the year from April 1 to March 31), since seasonal and periodical fluctuations of the performance of the Group's international tobacco business have been relatively small, the impact from this difference in the reporting period on the Group's consolidated financial position and operating results is limited. With respect to significant transactions or events that occurred during the time gap, the Group makes necessary adjustments and appropriate arrangements in order to assist the users of financial statements to properly understand and assess the consolidated financial position and business performances of the Group.

For more details, please refer to "V. Accounting, 1. Financial statements, (1) Financial statements, Notes to consolidated financial statements, 2. Basis of preparation, (5) Reporting period of JT International Holding B.V. and its subsidiaries."

(2) Analysis of business results for the fiscal year

a. 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 domestic tobacco business caused by the impact of the earthquake and the tax and price increase for tobacco products, along with the strong yen, despite the favorable pricing in the domestic and the international tobacco businesses.

b. Cost of sales, other operating income, share of profit in investments accounted for using the equity method, selling, general and administrative expenses

Cost of sales decreased by ¥61.8 billion, or 6.5%, from the previous fiscal year to ¥892.0 billion, while other operating income increased by ¥27.9 billion, or 135.1%, from the previous fiscal year to ¥48.5 billion. Share of profit in investments accounted for using the equity method decreased by ¥0.3 billion, or 12.1%, from the previous fiscal year to ¥2.0 billion. Selling, general and administrative expenses increased by ¥6.0 billion, or 0.8%, from the previous fiscal year to ¥733.2 billion.

c. Operating profit and 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 grower's voluntarily ceasing cultivation and business restructuring costs in the international tobacco business. This was mainly driven by a favorable pricing in the 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 after excluding the depreciation, the amortization, compensation payment for leaf tobacco growers who voluntarily ceases the cultivation, business restructuring costs in the international tobacco business, and 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.

d. Profit attributable to owners of the parent company

As a result of 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 resulting from 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 in the non-consolidated statement of income for the previous fiscal year.

(3) Basis policies of financing activities

JT Group's basic policies of financing activities are as follows.

<Group Cash Management Systems>

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

<External financing>

Short-term working capital needs are normally financed through short-term borrowings from banks; mid- to long-term financing is done through long-term debt or equity, or a combination of both.

For stable and efficient financing, we continue to diversify our financing means as well as the financial institutions, and set up stable financing means, such as commitment facilities and a commercial paper programs.

<External investments>

Investments with financial institutions should be transacted ensuring safety, liquidity and optimal yield. Speculative dealings in pursuit of profit margin are not allowed.

<Financial risk management>

We are exposed to financial risks such as credit risk, liquidity risk, foreign exchange risk, interest rate risk, and market price risk. We manage such risks according to our risk management policies and procedures to avoid or mitigate such risks. The major financial risk management status is reported quarterly to the Executive Committee.

It is our policy that derivatives are only used if it is intended to mitigate risks of transactions for actual business needs, and speculative and trading transactions are not allowed.

For more details on financial risk management, please refer to “V. Accounting, 1. Financial statements, (1) Financial statements, Notes to consolidated financial statements, 35. Financial instruments, (2) Financial risk management to (7) Market price fluctuation risk.”

(4) Analysis of capital resources and liquidity of funds

a. Funding requirements

Funds are allocated for capital expenditure, working capital and acquiring external capital resources as well as the repayment of loans and the payment of interest, dividends and income taxes.

b. Resources of funds

The necessary funds are mainly procured from net cash flows from operating activities, loans from financial institutions and bond and commercial paper issuances.

<Cash flows>

Net cash flows from operating activities in the fiscal year ended March 31, 2012 came to ¥551.6 billion, while net cash flows used in investing activities and financing activities were ¥103.8 billion and ¥279.1 billion, respectively. Cash and cash equivalents on a consolidated basis at March 31, 2012 after adjusting the effect of exchange rate changes, increased by ¥160.5 billion from the previous fiscal year to ¥404.7 billion (end of previous fiscal year balance of ¥244.2 billion).

<Interest-bearing debt>

Amounts of interest-bearing debt of the JT Group to be repaid or redeemed as of March 31, 2012 are as follows.

(Billions of yen)

	Book value	Policy cash flows	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term borrowings as loans	43.5	43.5	43.5	–	–	–	–	–
Long-term borrowings as loans (current portion)	78.2	78.2	78.2	–	–	–	–	–
Long-term borrowings as loans	49.3	49.3	–	20.6	1.1	27.2	0.0	0.4
Bonds (current portion)	90.1	90.1	90.1	–	–	–	–	–
Bonds	230.5	230.6	–	0.1	150.5	40.0	–	40.0
Total	491.5	491.7	211.8	20.7	151.6	67.2	0.0	40.4

Long-term debt

Bonds issued (including the current portion) as of March 31, 2011 and as of March 31, 2012 accounted for ¥452.2 billion and ¥320.5 billion respectively and long-term borrowings as loans from financial institutions (including the current portion) accounted for ¥173.9 billion and ¥127.5 billion respectively. Annual interest rates applicable to yen-denominated long-term borrowings outstanding as of March 31, 2011 and March 31, 2012 ranged from 0.93% to 5.30% and from 0.93% to 5.30%, respectively. Annual interest rates for long-term borrowings denominated in other currencies ranged from 0.43% to 9.00% for those outstanding as of March 31, 2011 and from 0.43% to 9.00% for those outstanding as of March 31, 2012.

As of March 31, 2012, our long-term debt was rated Aa3 by Moody's Japan K.K., A+ by Standard & Poor's Ratings Japan K.K., and AA by Rating and Investment Information, Inc. (R&I), all with a "stable" outlook. These ratings are among the highest ratings for international tobacco companies.

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

Short-term debt

Short-term funds are financed by short-term borrowings from financial institutions, commercial paper, or a combination of both. Short-term borrowings totaled ¥70.1 billion as of March 31, 2011 and ¥43.5 billion as of March 31, 2012, of which borrowings denominated in the currencies other than Japanese yen were ¥55.9 billion and ¥32.0 billion, respectively. There was no commercial paper outstanding as of March 31, 2011 and as of March 31, 2012. Annual interest rates applicable to yen-denominated short-term borrowings ranged from 0.48% to 2.25% as of March 31, 2011, and from 0.48% to 2.20% as of March 31, 2012. Annual interest rates applicable to short-term borrowings denominated in other currencies ranged from 0.76% to 17.00% as of March 31, 2011, and from 1.60% to 27.00% as of March 31, 2012.

c. Liquidity

We have historically had, and expect to continue to have, significant cash flows from operating activities. Cash flows from operating activities were ¥406.8 billion in the year ended March 31, 2011 and ¥551.6 billion in the year ended March 31, 2012. We expect that cash generated from operating activities will continue to be stable and cover funds needed for regular business activities, while we may utilize debt financing, primarily borrowings from financial institutions or the issuance of bonds, as needed. On March 31, 2012, we had ¥513.5 billion in committed lines of credit from major financial institutions both domestic and international, of which 85.0% was unused. In addition, we have a domestic commercial paper program, a domestic bond shelf registration, and uncommitted lines of credit.

III. Facilities

1. Outline of capital expenditures

In this fiscal year, we made capital expenditures totaling ¥119.0 billion.

In the 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 for developing and enhancing production and sales facilities.

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

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

2. Main facilities

Main facilities of the JT Group (JT and its consolidated subsidiaries) are as follows.

(1) Filing company (JT)

(As of March 31, 2012)

Office and factory name (Location)	Segment	Description	Book value (Millions of yen)						Number of employees (Person)
			Land		Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total	
			Size (thousand m^2)	Amount					
Kita-kanto Factory (Utsunomiya-shi, Tochigi) *1	Domestic Tobacco	Tobacco manufacturing facilities	150	2,062	4,403	18,645	373	25,483	393
Tokai Factory (Iwata-shi, Shizuoka) *1	Domestic Tobacco	Tobacco manufacturing facilities	223	2,309	6,364	10,546	411	19,630	343
Kansai Factory (Fushimi-ku, Kyoto-shi)	Domestic Tobacco	Tobacco manufacturing facilities	116	5,831	6,754	19,008	586	32,179	495
Kyushu Factory (Chikushino-shi, Fukuoka)	Domestic Tobacco	Tobacco manufacturing facilities	166	4,042	2,874	7,220	374	14,510	249
Other factories (6) (Municipality) *1	Domestic Tobacco	Mainly tobacco manufacturing facilities	606	3,113	7,995	14,623	741	26,472	717
Tobacco Science Research Center (Aoba-ku, Yokohama-shi) *1	Domestic Tobacco	Research and development facilities	35	642	3,570	1	1,059	5,272	73
Central Pharmaceutical Research Institute (Takatsuki-shi, Osaka)	Pharmaceutical	Research and development facilities	95	2,730	15,054	7	1,279	19,069	577
Head Office (Minato-ku, Tokyo)	General administration	Other	7	21,487	24,326	19	1,799	47,630	1,666
Domestic Sales Offices (25) (Municipality)	Domestic Tobacco (includes administration)	Other, etc.	76	4,681	4,333	1,035	2,574	12,623	1,028

(2) Domestic subsidiaries

(As of March 31, 2012)

Office and factory name (Location)	Segment	Description	Book value (Millions of yen)						Number of employees (Person)
			Land		Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total	
			Size (thousand m^2)	Amount					
TS Network Co., Ltd. Head Office and other 32 distribution bases, etc. (Head Office: Taito-ku, Tokyo) *1	Domestic Tobacco	Distribution facilities	5	458	4,404	1,779	501	7,142	1,350
Japan Filter Technology Co., Ltd. Head Office and other 3 factories, etc. (Head Office: Shibuya-ku, Tokyo) *1	Domestic Tobacco	Material manufacturing facilities	164	2,199	3,665	6,505	164	12,533	455
Torii Pharmaceutical Co., Ltd. Head Office, other factories and branch offices, etc. (Head Office: Chuo-ku, Tokyo) *2	Pharmaceutical	Pharmaceuticals manufacturing facility and other	59	702	3,724	1,725	533	6,685	927
Japan Beverage Holdings Inc. Head Office and other business locations, etc. (Head Office: Shinjuku-ku, Tokyo) *1, *2	Food	Sales and distribution facilities	58	3,055	1,621	1,652	11,212	17,541	156
TableMark Co., Ltd. Head Office and other 8 factories, etc. (Head Office: Chuo-ku, Tokyo) *1, *2	Food	Frozen food production facilities	216	6,390	11,002	8,858	431	26,681	1,545

(3) Foreign subsidiaries

(As of December 31, 2011)

Office and factory name (Location)	Segment	Description	Book value (Millions of yen)						Number of employees (Person)
			Land		Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total	
			Size (thousand m^2)	Amount					
Gallaher Ltd. (U.K.)	International Tobacco	Tobacco manufacturing facilities	536	3,708	7,916	10,975	1,177	23,776	1,582
LLC Petro (Russia) *2	International Tobacco	Tobacco manufacturing facilities	187	20	6,390	19,075	1,102	26,587	1,512
Liggett-Ducat CJSC (Russia) *2	International Tobacco	Tobacco manufacturing facilities	32	—	77	4,302	322	4,700	935
JT International Germany GmbH (Germany)	International Tobacco	Tobacco manufacturing facilities	345	239	8,854	16,554	1,171	26,818	1,615
JTI Tütün Urunleri Sanayi A.S. (Turkey)	International Tobacco	Tobacco manufacturing facilities	180	144	1,558	5,634	58	7,393	410
JTI-Macdonald Corp. (Canada)	International Tobacco	Tobacco manufacturing facilities	47	16	913	2,597	206	3,733	498

Notes: 1. Companies marked with *1 have land leased to entities other than the Group companies.
2. Companies marked with *2 have land leased from entities other than the Group companies.
3. Book values include lease assets.
4. Among the other 6 factories shown in (1) Filing company (JT), the Hofu Factory closed at the end of March 2012.

3. Plans for new installation and retirement of facilities

Regarding the mid- to long-term resource allocation of the JT Group, we will place top priority on business investments that will lead to sustainable profit growth in the mid- to long-term based on our management principles. Of the reportable segments, we position the domestic and international tobacco businesses as the core business and profit growth engine and place top priority on business investments that will lead to their sustainable profit growth. Meanwhile, regarding the pharmaceutical and food businesses, we will devote efforts to strengthening business foundations to generate future profits, so we will make investments to that end.

Based on this policy, we plan capital expenditures (facility construction and expansion) totaling ¥169 billion in the year following the fiscal year ending March 2013.

As JT and JT Group companies have wide-ranging plans for capital expenditure, figures are disclosed by segment.

Our actual capital expenditures may differ significantly from the planned figures mentioned above as a result of a number of factors including those discussed in "II. Review of operations, 4. Business and other risks."

Segment	The capital expenditure plan for the year ending March 31, 2013 (Billions of yen)	Main purpose of investment	Funding
Japanese Domestic Tobacco business	85.0	Expenditures for the development and reinforcement of production and sales facilities for strengthening brand equity	Internally generated funds
International Tobacco business	50.0	Expenditures for the improvement of product specifications, the expansion of production capacity and the maintenance and upgrading of facilities	Same as above
Pharmaceuticals	5.0	Expenditures for the development and reinforcement of R&D capabilities	Same as above
Food	20.0	Expenditures for the development and reinforcement of production and sales facilities	Same as above

Notes: 1. Consumption taxes are not included.
2. There were no plans for sales or retirement of important facilities except for the regular renewal of facilities.

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

IV. Filing company

1. Information on the Company (JT)'s shares

(1) Total number of shares authorized, etc.

a. Total number of shares authorized

Class	Total number of shares authorized (Share)
Common stock	40,000,000
Total	40,000,000

Note: By resolution of the meeting of the Board of Directors held on April 13, 2012, following a stock split, JT will change its articles of incorporation to increase the total number of shares authorized in accordance with the split ratio of the stock split, effective July 1, 2012. This will result in an increase in the total number of shares authorized by 7,960,000,000 shares to 8,000,000,000 shares.

b. Number of shares issued

Class	Number of shares issued (Share; as of March 31, 2012)	Number of shares issued (Share; as of the date of filing: June 22, 2012)	Name of financial instruments exchange where the stock of JT is traded or the name of authorized financial instruments firms association where JT is registered	Details
Common stock	10,000,000	10,000,000	Tokyo Stock Exchange (First Section) Osaka Securities Exchange (First Section) (Note 3)	(Note 4)
Total	10,000,000	10,000,000	–	–

Notes: 1. The provisions of Article 2 of the JT Act prescribe that the Japanese government must continue to hold more than one-third of all JT shares issued (excluding shares of a class for which it is provided that the voting rights may not be exercised for all the matters that are subject to resolution at the shareholders meeting).

2. By resolution of the meeting of the Board of Directors held on April 13, 2012, JT will conduct a stock split of 200-for-1, effective July 1, 2012. This will result in an increase in the total number of shares issued by 1,990,000,000 shares to 2,000,000,000 shares.

3. JT applied for delisting from the Nagoya Stock Exchange, the Fukuoka Stock Exchange and the Sapporo Securities Exchange on April 16, 2012, and have delisted its share on May 28, 2012.

4. JT's standard class of shares with no rights limitations. By resolution of the meeting of the Board of Directors held on April 13, 2012, JT will adopt a unit share system which sets a share trading unit to 100 shares, effective July 1, 2012.

(2) Status of subscription rights to shares

Subscription rights to shares issued pursuant to Companies Act are as follows.

a. Resolution of a meeting of the Board of Directors on December 21, 2007

	As of March 31, 2012	As of May 31, 2012
Number of subscription rights to shares	402 units	402 units
Of which, the number of treasury subscription rights to shares	–	–
Class of shares to be issued upon exercise of subscription rights to shares	Common stock (JT's standard class of shares with no rights limitations.)	Same as left
Number of shares to be issued upon exercise of subscription rights to shares	402 shares (Note 1)	402 shares (Note 1)
Paying due upon exercise of subscription rights to shares	¥1 per share	Same as left
Exercise period of subscription rights to shares	From January 9, 2008 to January 8, 2038	Same as left
Issue price of shares in cases where shares will be issued as a result of exercise of subscription rights to shares	¥581,269 per unit	Same as left
Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares	a. Capital amount that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be a half of the maximum capital increase amount obtained by the calculation pursuant to Article 17, paragraph 1 of the Corporate Accounting Rules. If the obtained figure has a fraction less than ¥1, the figure is rounded up to the nearest yen. b. Capital reserves that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be the amount obtained by subtracting the capital amount to be increased as specified in a. above from the maximum capital increase amount described in a. above.	Same as left
Conditions for exercising subscription rights to shares	a. The person who is a holder of subscription rights to shares and is recorded in the registry of subscription rights to shares (hereinafter, "Subscription rights to shares Holder") may exercise his/her subscription rights to shares only if he/she forfeit his/her all position as director (including *sikkoyaku* at a company with committees), auditor and executive officer (*sikkoyakuin*) of JT. b. In cases where Subscription rights to shares Holders waive their subscription rights to shares, they cannot exercise those subscription rights to shares.	Same as left
Assignment of subscription rights to shares	The approval of the Board of Directors is required for the assignment of subscription rights to shares.	Same as left
Matters regarding surrogate payments	–	–
Provisions for acquiring subscription rights to shares	(Note 2)	Same as left
Matters regarding delivery of subscription rights to shares accompanied by reorganization	(Note 3)	Same as left

Notes: 1. The class of shares to be issued upon exercise of subscription rights to shares shall be common stock. The number of shares to be issued upon exercise of each stock acquisition right (hereinafter, "Number of Shares Granted") shall be one.

However, in cases where JT conducts stock split (including stock allotment without contribution; hereinafter, the same shall apply to description of stock split) or stock consolidation of common stock of JT after the date on which JT allots subscription rights to shares (hereinafter, "Allotment Date"), the Number of Shares Granted shall be adjusted according to the following formula.

$$\text{Number of Shares Granted after adjustment} = \text{Number of Shares Granted before adjustment} \times \text{Ratio of stock split or stock consolidation}$$

Any fraction of less than one share that occurs as a result of the above adjustment shall be rounded down to two decimal places.

In the case of a stock split, the Number of Shares Granted after adjustment shall be applied on and after the date following the base date (if the base date is not specified, on and after the effective date), while in the case of stock consolidation, it shall be applied on and after the effective date. However, in cases where stock split is conducted subject to approval of the proposal to reduce surplus and increase capital or reserve fund at the General Meeting of Shareholders of JT and where the base date for stock split is set on or before the date of conclusion of that General Meeting of Shareholders, the Number of Shares Granted after adjustment shall be applied retrospectively to the date following that base date, on and after the date following the date of conclusion of that General Meeting of Shareholders.

In addition, in cases where the adjustment of the Number of Shares Granted is proper, JT shall conduct adjustments deemed necessary after the Allotment Date.

When adjusting the Number of Shares Granted, JT shall notify Subscription rights to shares Holders or make public notice of necessary information by the date before the date on which the Number of Shares Granted after adjustment is applied. However, in cases where the notice or public notice by the date before the date of the application is impracticable, JT shall later do so as soon as possible.

2. In cases where proposal a., b. or c. below is approved at the General Meeting of Shareholders of JT (if a resolution by the General Meeting of Shareholders is not necessary, it is read as “in cases where the resolution of a meeting of the Board of Directors or the decision by the representative executive officer (*sikkoyaku* at a company with committees) is made”), JT may acquire subscription rights to shares on the date separately provided for by the Board of Directors.

   In this case, JT shall, in exchange for acquiring each stock acquisition right, deliver money at the amount obtained by multiplying the value per share calculated according to the following formula by the Number of Shares Granted (if adjusted pursuant to Note 1 above, the Number of Shares Granted after adjustment) to the Subscription rights to shares Holders of respective such subscription rights to shares.

   Value per share = Closing price for regular transactions of common stock of JT on the Tokyo Stock Exchange (if there is no closing price, the base price thereof on the following business day) on the date on which such proposal is approved at the General Meeting of Shareholders of JT (if a resolution by the General Meeting of Shareholders is not necessary, the resolution of a meeting of the Board of Directors or the decision by the representative executive officer (*sikkoyaku* at a company with committees)) – ¥1

   a. Proposal to ask approval of a contract of merger where JT is not to be the surviving company
   b. Proposal to ask approval of a contract or plan of company split where JT would be the split company
   c. Proposal to ask approval of a share exchange contract or share transfer plan where JT becomes a wholly-owned subsidiary

3. In cases where JT merges (limited to cases where JT is to be extinguished as a result of the merger), splits and absorbs or splits and incorporates (limited to cases where JT becomes the split company in either case), or exchanges or transfers shares (limited to cases where JT becomes a wholly-owned subsidiary in either case) (collectively, hereinafter, “Reorganization”), JT shall, in each case, deliver subscription rights to shares of the companies as listed in Article 236, paragraph 1, item (viii), sub-items (a) to (e) of the Companies Act (hereinafter, the “Company Subject to Reorganization”) to the Subscription rights to shares Holders that have subscription rights to shares existing immediately before the effective date of the Reorganization, which is either the effective date of absorption-type merger when it is an absorption-type merger, the consolidation date of a company as a result of the consolidated-type merger when it is a consolidated-type merger, the effective date of absorption-type company split when it is an absorption-type company split, the incorporation date of a company as a result of the incorporation-type company split when it is an incorporation-type company split, the effective date of share exchange when it is a share exchange, or the incorporation date of a wholly-owning parent company as a result of the share transfer when it is a share transfer (hereinafter, “Remaining Subscription rights to shares”). However, it is subject to a condition that the provision that the subscription rights to shares of the Company Subject to Reorganization shall be delivered pursuant to the provisions of the items below, is specified in the absorption-type merger contract, consolidated-type merger contract, absorption-type company split contract, incorporation-type company split plan, share exchange contract or share transfer plan.

   a. Number of subscription rights to shares to be delivered of the Company Subject to Reorganization
      Subscription rights to shares whose number is identical to the number of the Remaining Subscription rights to shares held by Subscription rights to shares Holder
   b. Class of shares of the Company Subject to Reorganization to be issued upon exercise of subscription rights to shares
      Common stock of the Company Subject to Reorganization
   c. Number of shares of the Company Subject to Reorganization to be issued upon exercise of subscription rights to shares
      To be determined in the same manner as Note 1 above, taking into consideration terms and other conditions of the Reorganization.
   d. Value of property to be contributed when subscription rights to shares are exercised
      The value of the property to be contributed when each stock acquisition right to be delivered is exercised shall be the amount obtained by multiplying the paid-in amount after Reorganization as specified below by the number of shares of the Company Subject to Reorganization to be issued upon exercise of each stock acquisition right, which is decided pursuant to c. above. The paid-in amount after Reorganization shall be ¥1 per share of the shares of the Company Subject to Reorganization that would be delivered by exercising the delivered subscription rights to shares.
   e. Period during which subscription rights to shares can be exercised
      From the effective date of the Reorganization to the expiration date of the period during which such subscription rights to shares can be exercised as specified in “Exercise period of subscription rights to shares” mentioned above.
   f. Matters regarding capital and capital reserves that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares
      To be determined in the same manner as “Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares” mentioned above.
   g. Restrictions on transferring of subscription rights to shares
      Transferring the subscription rights to shares is subject to approval of the Board of Directors of the Company Subject to Reorganization.
   h. Provisions for acquiring subscription rights to shares
      To be determined in the same manner as Note 2 above.
   i. Other conditions for exercising subscription rights to shares
      To be determined in the same manner as “Conditions for exercising subscription rights to shares” mentioned above.

b. Resolution of a meeting of the Board of Directors on September 19, 2008

	As of March 31, 2012	As of May 31, 2012
Number of subscription rights to shares	547 units	547 units
Of which, the number of treasury subscription rights to shares	–	–
Class of shares to be issued upon exercise of subscription rights to shares	Common stock (JT's standard class of shares with no rights limitations.)	Same as left
Number of shares to be issued upon exercise of subscription rights to shares	547 shares (Note 1)	547 shares (Note 1)
Paying due upon exercise of subscription rights to shares	¥1 per share	Same as left
Exercise period of subscription rights to shares	From October 7, 2008 to October 6, 2038	Same as left
Issue price of shares in cases where shares will be issued as a result of exercise of subscription rights to shares	¥285,904 per unit	Same as left
Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares	a. Capital amount that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be a half of the maximum capital increase amount obtained by the calculation pursuant to Article 17, paragraph 1 of the Corporate Accounting Rules. If the obtained figure has a fraction less than ¥1, the figure is rounded up to the nearest yen. b. Capital reserves that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be the amount obtained by subtracting the capital amount to be increased as specified in a. above from the maximum capital increase amount described in a. above.	Same as left
Conditions for exercising subscription rights to shares	a. The person who is a holder of subscription rights to shares and is recorded in the registry of subscription rights to shares (hereinafter, "Subscription rights to shares Holder") may exercise his/her subscription rights to shares only if he/she forfeit his/her all position as director (including *sikkoyaku* at a company with committees), auditor and executive officer (*sikkoyakuin*) of JT. b. In cases where Subscription rights to shares Holders waive their subscription rights to shares, they cannot exercise those subscription rights to shares.	Same as left
Assignment of subscription rights to shares	The approval of the Board of Directors is required for the assignment of subscription rights to shares.	Same as left
Matters regarding surrogate payments	–	–
Provisions for acquiring subscription rights to shares	(Note 2)	Same as left
Matters regarding delivery of subscription rights to shares accompanied by reorganization	(Note 3)	Same as left

Notes: 1. to 3. Same as the Notes 1. to 3. of subscription rights to shares pursuant to a. Resolution of a meeting of the Board of Directors on December 21, 2007.

c. Resolution of a meeting of the Board of Directors on September 28, 2009

	As of March 31, 2012	As of May 31, 2012
Number of subscription rights to shares	1,153 units	1,153 units
Of which, the number of treasury subscription rights to shares	–	–
Class of shares to be issued upon exercise of subscription rights to shares	Common stock (JT's standard class of shares with no rights limitations.)	Same as left
Number of shares to be issued upon exercise of subscription rights to shares	1,153 shares (Note 1)	1,153 shares (Note 1)
Paying due upon exercise of subscription rights to shares	¥1 per share	Same as left
Exercise period of subscription rights to shares	From October 14, 2009 to October 13, 2039	Same as left
Issue price of shares in cases where shares will be issued as a result of exercise of subscription rights to shares	¥197,517 per unit	Same as left
Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares	a. Capital amount that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be a half of the maximum capital increase amount obtained by the calculation pursuant to Article 17, paragraph 1 of the Corporate Accounting Rules. If the obtained figure has a fraction less than ¥1, the figure is rounded up to the nearest yen. b. Capital reserves that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be the amount obtained by subtracting the capital amount to be increased as specified in a. above from the maximum capital increase amount described in a. above.	Same as left
Conditions for exercising subscription rights to shares	a. The person who is a holder of subscription rights to shares and is recorded in the registry of subscription rights to shares (hereinafter, "Subscription rights to shares Holder") may exercise his/her subscription rights to shares only if he/she forfeit his/her all position as director (including *sikkoyaku* at a company with committees), auditor and executive officer (*sikkoyakuin*) of JT. b. In cases where Subscription rights to shares Holders waive their subscription rights to shares, they cannot exercise those subscription rights to shares.	Same as left
Assignment of subscription rights to shares	The approval of the Board of Directors is required for the assignment of subscription rights to shares.	Same as left
Matters regarding surrogate payments	–	–
Provisions for acquiring subscription rights to shares	(Note 2)	Same as left
Matters regarding delivery of subscription rights to shares accompanied by reorganization	(Note 3)	Same as left

Notes: 1. to 3. Same as the Notes 1. to 3. of subscription rights to shares pursuant to a. Resolution of a meeting of the Board of Directors on December 21, 2007.

d. Resolution of a meeting of the Board of Directors on September 17, 2010

	As of March 31, 2012	As of May 31, 2012
Number of subscription rights to shares	979 units	979 units
Of which, the number of treasury subscription rights to shares	–	–
Class of shares to be issued upon exercise of subscription rights to shares	Common stock (JT's standard class of shares with no rights limitations.)	Same as left
Number of shares to be issued upon exercise of subscription rights to shares	979 shares (Note 1)	979 shares (Note 1)
Paying due upon exercise of subscription rights to shares	¥1 per share	Same as left
Exercise period of subscription rights to shares	From October 5, 2010 to October 4, 2040	Same as left
Issue price of shares in cases where shares will be issued as a result of exercise of subscription rights to shares	¥198,386 per unit	Same as left
Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares	a. Capital amount that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be a half of the maximum capital increase amount obtained by the calculation pursuant to Article 17, paragraph 1 of the Corporate Accounting Rules. If the obtained figure has a fraction less than ¥1, the figure is rounded up to the nearest yen. b. Capital reserves that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be the amount obtained by subtracting the capital amount to be increased as specified in a. above from the maximum capital increase amount described in a. above.	Same as left
Conditions for exercising subscription rights to shares	a. The person who is a holder of subscription rights to shares and is recorded in the registry of subscription rights to shares (hereinafter, "Subscription rights to shares Holder") may exercise his/her subscription rights to shares only if he/she forfeit his/her all position as director (including *sikkoyaku* at a company with committees), auditor and executive officer (*sikkoyakuin*) of JT. b. In cases where Subscription rights to shares Holders waive their subscription rights to shares, they cannot exercise those subscription rights to shares.	Same as left
Assignment of subscription rights to shares	The approval of the Board of Directors is required for the assignment of subscription rights to shares.	Same as left
Matters regarding surrogate payments	–	–
Provisions for acquiring subscription rights to shares	(Note 2)	Same as left
Matters regarding delivery of subscription rights to shares accompanied by reorganization	(Note 3)	Same as left

Notes: 1. to 3. Same as the Notes 1. to 3. of subscription rights to shares pursuant to a. Resolution of a meeting of the Board of Directors on December 21, 2007.

e. Resolution of a meeting of the Board of Directors on September 16, 2011

	As of March 31, 2012	As of May 31, 2012
Number of subscription rights to shares	1,038 units	1,038 units
Of which, the number of treasury subscription rights to shares	–	–
Class of shares to be issued upon exercise of subscription rights to shares	Common stock (JT's standard class of shares with no rights limitations.)	Same as left
Number of shares to be issued upon exercise of subscription rights to shares	1,038 shares (Note 1)	1,038 shares (Note 1)
Paying due upon exercise of subscription rights to shares	¥1 per share	Same as left
Exercise period of subscription rights to shares	From October 4, 2011 to October 3, 2041	Same as left
Issue price of shares in cases where shares will be issued as a result of exercise of subscription rights to shares	¥277,947 per unit	Same as left
Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares	a. Capital amount that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be a half of the maximum capital increase amount obtained by the calculation pursuant to Article 17, paragraph 1 of the Corporate Accounting Rules. If the obtained figure has a fraction less than ¥1, the figure is rounded up to the nearest yen. b. Capital reserves that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be the amount obtained by subtracting the capital amount to be increased as specified in a. above from the maximum capital increase amount described in a. above.	Same as left
Conditions for exercising subscription rights to shares	a. The person who is a holder of subscription rights to shares and is recorded in the registry of subscription rights to shares (hereinafter, "Subscription rights to shares Holder") may exercise his/her subscription rights to shares only if he/she forfeit his/her all position as director (including *sikkoyaku* at a company with committees), auditor and executive officer (*sikkoyakuin*) of JT. b. In cases where Subscription rights to shares Holders waive their subscription rights to shares, they cannot exercise those subscription rights to shares.	Same as left
Assignment of subscription rights to shares	The approval of the Board of Directors is required for the assignment of subscription rights to shares.	Same as left
Matters regarding surrogate payments	–	–
Provisions for acquiring subscription rights to shares	(Note 2)	Same as left
Matters regarding delivery of subscription rights to shares accompanied by reorganization	(Note 3)	Same as left

Notes: 1. to 3. Same as the Notes 1. to 3. of subscription rights to shares pursuant to a. Resolution of a meeting of the Board of Directors on December 21, 2007.

(3) Exercise of bond certificates with subscription rights to shares with exercise price amendment clause

No items to report

(4) Details of rights plan

No items to report

(5) Trends in total number of shares issued, capital stock, etc.

Date	Fluctuation in the number of shares issued (Thousands of shares)	Balance of shares issued (Thousands of shares)	Fluctuation in capital stock (Millions of yen)	Balance of capital stock (Millions of yen)	Fluctuation in capital reserve (Millions of yen)	Balance of capital reserve (Millions of yen)
April 1, 2006	8,000	10,000	–	100,000	–	736,400

Notes: 1. The stock split of 5-for-1 was conducted as of April 1, 2006. Consequently, the balance of shares issued increased by 8,000 thousand shares to 10,000 thousand shares.

2. The stock split of 200-for-1 will be conducted as of July 1, 2012. Consequently, the balance of shares issued will be increased by 1,990,000 thousand shares to 2,000,000 thousand shares.

(6) Shareholder composition

(As of March 31, 2012)

Category	Shareholder composition								Shares less than one unit (Share)
	Public sector	Financial institutions	Financial instruments business operators	Other corporations	Foreign investors		Individuals, etc.	Total	
					Companies, etc.	Individuals			
Number of shareholders (Person)	1	100	38	361	678	9	50,808	51,995	–
Number of shares held (Share)	5,001,335	1,349,531	109,792	51,472	2,734,744	38	753,088	10,000,000	–
Holding rate of shares (%)	50.01	13.50	1.10	0.51	27.35	0.00	7.53	100.00	–

Notes: 1. 478,526 treasury shares are included in “Individuals, etc.”

2. The number of “Other corporations” includes 168 shares in the name of Japan Securities Depository Center, Inc.

(7) Status of major shareholders

(As of March 31, 2012)

Name of shareholder	Address	Number of shares held (Share)	Percentage of number of shares held in the total number of shares issued (%)
The Minister of Finance	1-1, Kasumigaseki 3-chome, Chiyoda-ku, Tokyo, Japan	5,001,335	50.01
Japan Trustee Services Bank, Ltd. (Trust Account)	8-11, Harumi 1-chome, Chuo-ku, Tokyo, Japan	226,192	2.26
State Street Bank and Trust Company (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	P.O.BOX 351 BOSTON, MASSACHUSETTS 02101 U.S.A. (11-1, Nihonbashi 3-chome, Chuo-ku, Tokyo, Japan)	210,864	2.11
The Master Trust Bank of Japan, Ltd. (Trust Account)	11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo, Japan	193,972	1.94
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	Harumi Island Triton Square Office Tower Z, 8-12, Harumi 1-chome, Chuo-ku, Tokyo, Japan	169,000	1.69
State Street Bank and Trust Company (Standing proxy: Mizuho Corporate Bank, Ltd., Settlement Sales Department)	P.O.BOX 351 BOSTON, MASSACHUSETTS 02101 U.S.A. (16-13, Tsukishima 4-chome, Chuo-ku, Tokyo, Japan)	140,185	1.40
Goldman Sachs and Company Regular Account (Standing proxy: Goldman Sachs Japan Co., Ltd.)	200 WEST STREET NEW YORK, NY, USA (Roppongi Hills Mori Tower, 10-1, Roppongi 6-chome, Minato-ku, Tokyo, Japan)	119,353	1.19
Government of Singapore Investment Corporation Pte Ltd. (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	168 ROBINSON ROAD #37-01 CAPITAL TOWER SINGAPORE 068912 (11-1, Nihonbashi 3-chome, Chuo-ku, Tokyo, Japan)	118,306	1.18
The Chase Manhattan Bank 385036 (Standing proxy: Mizuho Corporate Bank, Ltd., Settlement Sales Department)	360 N. CRESCENT DRIVE BEVERLYHILLS, CA 90210 U.S.A. (16-13, Tsukishima 4-chome, Chuo-ku, Tokyo, Japan)	88,944	0.89
Mellon Bank, N.A. as Agent for its Client Melon Omnibus US Pension (Standing proxy: Mizuho Corporate Bank, Ltd., Settlement Sales Department)	ONE BOSTON PLACE BOSTON, MA 02108 (16-13, Tsukishima 4-chome, Chuo-ku, Tokyo, Japan)	88,414	0.88
Total	–	6,356,565	63.57

Note: In addition to the above, JT held 478,526 shares of common stock as treasury stock.

(8) Status of voting rights

a. Shares issued

(As of March 31, 2012)

Classification	Number of shares (Share)	Number of voting rights	Details
Shares without voting rights	–	–	–
Shares with restricted voting rights (Treasury stock, etc.)	–	–	–
Shares with restricted voting rights (Other)	–	–	–
Shares with full voting rights (Treasury stock, etc.)	Common stock 478,526	–	(Note 2)
Shares with full voting rights (Other)	Common stock 9,521,474	9,521,474	(Note 2)
Odd shares	–	–	–
Total number of shares issued	10,000,000	–	–
Total number of voting rights	–	9,521,474	–

Notes: 1. The number of "Shares with full voting rights (Other)" includes 168 shares in the name of Japan Securities Depository Center, Inc. "Number of voting rights" includes 168 units of voting rights related to shares with full voting rights in its name.

2. JT's standard class of shares with no rights limitations. By resolution of the meeting of the Board of Directors held on April 13, 2012, JT will adopt a unit share system which sets a share trading unit to 100 shares, effective July 1, 2012.

b. Treasury stock, etc.

(As of March 31, 2012)

Name of shareholder	Address	Number of shares held under own name (Share)	Number of shares held under the name of others (Share)	Total number of shares held (Share)	Percentage of number of shares held in the total number of shares issued (%)
Japan Tobacco Inc.	2-1, Toranomon 2-chome, Minato-ku, Tokyo, Japan	478,526	–	478,526	4.79
Total	–	478,526	–	478,526	4.79

(9) Stock options

JT has adopted a system of stock options that involves the issuance of subscription rights to shares in accordance with the Companies Act.

Details are as follows.

(By resolution of the Board of Directors at a meeting held on December 21, 2007)

The Board of Directors at a meeting held on December 21, 2007, resolved to issue subscription rights to shares as share remuneration type stock options to JT Directors and Executive Officers (*sikkoyakuin*) in accordance with the Companies Act.

Resolution date	December 21, 2007
Positions and number of persons granted	Directors 11 persons Executive Officers (*sikkoyakuin*) (excluding persons serving as Director) 16 persons
Class of shares to be issued upon exercise of subscription rights to shares	See “(2) Status of subscription rights to shares”
Number of shares	233 shares to Directors, 193 shares to Executive Officers (*sikkoyakuin*), total 426 shares (1 share per stock acquisition right) (Note)
Paying due upon exercise of subscription rights to shares	See “(2) Status of subscription rights to shares”
Exercise period of subscription rights to shares	Same as above
Conditions for exercising subscription rights to shares	Same as above
Assignment of subscription rights to shares	Same as above
Matters regarding surrogate payments	–
Matters regarding delivery of subscription rights to shares accompanied by reorganization	See “(2) Status of subscription rights to shares”

Note: In cases where JT conducts stock split (including stock allotment without contribution; hereinafter, the same shall apply to description of stock split) or stock consolidation of common stock of JT after the date on which JT allots subscription rights to shares (hereinafter, “Allotment Date”), the number of shares to which each stock acquisition right applies (hereinafter, “Number of Shares Granted”) shall be adjusted according to the following formula.

$$\text{Number of Shares Granted after adjustment} = \text{Number of Shares Granted before adjustment} \times \text{Ratio of stock split or stock consolidation}$$

Any fraction of less than one share that occurs as a result of the above adjustment shall be rounded down to two decimal places.

In the case of a stock split, the Number of Shares Granted after adjustment shall be applied on and after the date following the base date (if the base date is not specified, on and after the effective date), while in the case of stock consolidation, it shall be applied on and after the effective date. However, in cases where stock split is conducted subject to approval of the proposal to reduce surplus and increase capital or reserve fund at the General Meeting of Shareholders of JT and where the base date for stock split is set on or before the date of conclusion of that General Meeting of Shareholders, the Number of Shares Granted after adjustment shall be applied retrospectively to the date following that base date, on and after the date following the date of conclusion of that General Meeting of Shareholders.

In addition, in cases where the adjustment of the Number of Shares Granted is proper, JT shall conduct adjustments deemed necessary after the Allotment Date.

When adjusting the Number of Shares Granted, JT shall notify holders of subscription rights to shares being recorded in the registry of subscription rights to shares or make public notice of necessary information by the date before the date on which the Number of Shares Granted after adjustment is applied. However, in cases where the notice or public notice by the date before the date of the application is impracticable, JT shall later do so as soon as possible.

(By resolution of the Board of Directors at a meeting held on September 19, 2008)

The Board of Directors at a meeting held on September 19, 2008, resolved to issue subscription rights to shares as share remuneration type stock options to JT Directors and Executive Officers (*sikkoyakuin*) in accordance with the Companies Act.

Resolution date	September 19, 2008
Positions and number of persons granted	Directors 11 persons Executive Officers (*sikkoyakuin*) (excluding persons serving as Director) 14 persons
Class of shares to be issued upon exercise of subscription rights to shares	See “(2) Status of subscription rights to shares”
Number of shares	315 shares to Directors, 232 shares to Executive Officers (*sikkoyakuin*), total 547 shares (1 share per stock acquisition right) (Note)
Paying due upon exercise of subscription rights to shares	See “(2) Status of subscription rights to shares”
Exercise period of subscription rights to shares	Same as above
Conditions for exercising subscription rights to shares	Same as above
Assignment of subscription rights to shares	Same as above
Matters regarding surrogate payments	–
Matters regarding delivery of subscription rights to shares accompanied by reorganization	See “(2) Status of subscription rights to shares”

Note: Same as the Note of (By resolution of the Board of Directors at a meeting held on December 21, 2007).

(By resolution of the Board of Directors at a meeting held on September 28, 2009)

The Board of Directors at a meeting held on September 28, 2009, resolved to issue subscription rights to shares as share remuneration type stock options to JT Directors and Executive Officers (*sikkoyakuin*) in accordance with the Companies Act.

Resolution date	September 28, 2009
Positions and number of persons granted	Directors 9 persons Executive Officers (*sikkoyakuin*) (excluding persons serving as Director) 14 persons
Class of shares to be issued upon exercise of subscription rights to shares	See “(2) Status of subscription rights to shares”
Number of shares	626 shares to Directors, 527 shares to Executive Officers (*sikkoyakuin*), total 1,153 shares (1 share per stock acquisition right) (Note)
Paying due upon exercise of subscription rights to shares	See “(2) Status of subscription rights to shares”
Exercise period of subscription rights to shares	Same as above
Conditions for exercising subscription rights to shares	Same as above
Assignment of subscription rights to shares	Same as above
Matters regarding surrogate payments	–
Matters regarding delivery of subscription rights to shares accompanied by reorganization	See “(2) Status of subscription rights to shares”

Note: Same as the Note of (By resolution of the Board of Directors at a meeting held on December 21, 2007).

(By resolution of the Board of Directors at a meeting held on September 17, 2010)

The Board of Directors at a meeting held on September 17, 2010, resolved to issue subscription rights to shares as share remuneration type stock options to JT Directors and Executive Officers (*sikkoyakuin*) in accordance with the Companies Act.

Resolution date	September 17, 2010
Positions and number of persons granted	Directors 9 persons Executive Officers (*sikkoyakuin*) (excluding persons serving as Director) 14 persons
Class of shares to be issued upon exercise of subscription rights to shares	See “(2) Status of subscription rights to shares”
Number of shares	521 shares to Directors, 458 shares to Executive Officers (*sikkoyakuin*), total 979 shares (1 share per stock acquisition right) (Note)
Paying due upon exercise of subscription rights to shares	See “(2) Status of subscription rights to shares”
Exercise period of subscription rights to shares	Same as above
Conditions for exercising subscription rights to shares	Same as above
Assignment of subscription rights to shares	Same as above
Matters regarding surrogate payments	–
Matters regarding delivery of subscription rights to shares accompanied by reorganization	See “(2) Status of subscription rights to shares”

Note: Same as the Note of (By resolution of the Board of Directors at a meeting held on December 21, 2007).

(By resolution of the Board of Directors at a meeting held on September 16, 2011)

The Board of Directors at a meeting held on September 16, 2011, resolved to issue subscription rights to shares as share remuneration type stock options to JT Directors and Executive Officers (*sikkoyakuin*) in accordance with the Companies Act.

Resolution date	September 16, 2011
Positions and number of persons granted	Directors 8 persons Executive Officers (*sikkoyakuin*) (excluding persons serving as Director) 15 persons
Class of shares to be issued upon exercise of subscription rights to shares	See “(2) Status of subscription rights to shares”
Number of shares	514 shares to Directors, 524 shares to Executive Officers (*sikkoyakuin*), total 1,038 shares (1 share per stock acquisition right) (Note)
Paying due upon exercise of subscription rights to shares	See “(2) Status of subscription rights to shares”
Exercise period of subscription rights to shares	Same as above
Conditions for exercising subscription rights to shares	Same as above
Assignment of subscription rights to shares	Same as above
Matters regarding surrogate payments	–
Matters regarding delivery of subscription rights to shares accompanied by reorganization	See “(2) Status of subscription rights to shares”

Note: Same as the Note of (By resolution of the Board of Directors at a meeting held on December 21, 2007).

2. Acquisition of treasury stock

[Class of shares] No items to report

(1) Acquisition by resolution of the General Meeting of Shareholders

No items to report

(2) Acquisition by resolution of the Board of Directors

No items to report

(3) Items not based on resolutions of the General Meeting of Shareholders or Board of Directors

No items to report

(4) Status of disposal and ownership of acquired treasury stock

Category	Fiscal year ended March 31, 2012		From April 1, 2012 until the filing date of this Annual Securities Report	
	Number of shares (Share)	Total disposal value (Millions of yen)	Number of shares (Share)	Total disposal value (Millions of yen)
Acquired treasury stock offered for subscription	–	–	–	–
Acquired treasury stock that were disposed	–	–	–	–
Acquired treasury stock transferred for merger, share exchange and company split	–	–	–	–
Other	–	–	–	–
Treasury stock held	478,526	–	478,526	–

Note: The number of shares and total disposal value in the “From April 1, 2012 until the filling date of this Annual Securities Report” column does not include transfers by the exercise of subscription rights to shares from June 1, 2012 until the filing date of this Annual Securities Report.

3. Dividend policy

JT 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. Furthermore, taking into consideration further pursuit of competitive returns for shareholders, JT has put in place targets for the consolidated dividend payout ratio and adjusted earnings per share (EPS) growth rate.

Regarding the consolidated dividend payout ratio, taking global players in the Fast-Moving Consumer Goods (FMCG) business as its benchmark, JT aims to realize a consolidated dividend payout ratio of 40% by the fiscal year ending March 31, 2014, and following this in the medium term, a ratio of 50%.

It is also a basic policy of JT to pay an interim dividend and year-end dividend annually, with the former determined by the Board of Directors and the latter by the General Meeting of Shareholders.

In light of business performance in the current fiscal year, the year-end dividend for the fiscal year was ¥6,000 per share. Therefore, the total annual dividend, including the interim dividend of ¥4,000, is ¥10,000 per share.

Also, internal reserves will be prepared not only for present and future business investments and to acquire external resources but also for the purchase of own shares and other objectives.

JT’s articles of incorporation stipulate that JT may pay interim dividends to shareholders with the record date of September 30 each year, upon a resolution by the Board of Directors.

The dividend for the 27th term is as follows.

Resolution date	Total amount of dividends (Millions of yen)	Cash dividends per share (Yen)
Meeting of the Board of Directors held on October 31, 2011	38,086	4,000.00
Annual General Meeting of Shareholders held on June 22, 2012	57,129	6,000.00

4. Trends in share price

(1) Highest and lowest share prices for the most recent 5 years by term

Term	23rd term	24th term	25th term	26th term	27th term
Accounting period	From April 1, 2007 to March 31, 2008	From April 1, 2008 to March 31, 2009	From April 1, 2009 to March 31, 2010	From April 1, 2010 to March 31, 2011	From April 1, 2011 to March 31, 2012
Highest (Yen)	708,000	555,000	358,000	352,000	474,500
Lowest (Yen)	492,000	216,000	227,000	243,900	282,600

Note: The yearly highest and lowest share prices were those recorded on the first section of the Tokyo Stock Exchange.

(2) Monthly highest and lowest share prices for the most recent 6 months

Month	October 2011	November 2011	December 2011	January 2012	February 2012	March 2012
Highest (Yen)	403,000	398,500	374,000	411,500	444,000	474,500
Lowest (Yen)	348,500	348,000	348,500	370,000	372,000	415,000

Note: The monthly highest and lowest share prices were those recorded on the first section of the Tokyo Stock Exchange.

5. Status of officers

Title	Post	Name	Date of birth	Summary of career	Term of office	Number of shares held (Share)
Chairman of the Board		Hiroshi Kimura	April 23, 1953	April 1976 Joined the Company (Japan Tobacco and Salt Public Corporation) January 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. June 1999 Member of the Board June 2001 Retired from Member of the Board June 2005 Member of the Board June 2006 President, Chief Executive Officer and Representative Director June 2012 Chairman of the Board (Current Position)	2 years since June 2012	133
* President, Chief Executive Officer and Representative Director		Mitsuomi Koizumi	April 15, 1957	April 1981 Joined the Company (Japan Tobacco and Salt Public Corporation) June 2001 Vice President of Corporate Planning Division June 2003 Senior Vice President, and Head of Human Resources and Labor Relations Group June 2004 Senior Vice President, and Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters June 2006 Executive Vice President, and Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters June 2007 Member of the Board, Executive Vice President, and Head of Marketing & Sales General Division, Tobacco Business Headquarters July 2007 Member of the Board, Executive Vice President, and Chief Marketing & Sales Officer, Tobacco Business Headquarters June 2009 Representative Director and Executive Deputy President June 2012 President, Chief Executive Officer and Representative Director (Current Position)	2 years since June 2012	95

Title	Post	Name	Date of birth	Summary of career			Term of office	Number of shares held (Share)
* Representative Director and Executive Deputy President		Yasushi Shingai	January 11, 1956	April	1980	Joined the Company (Japan Tobacco and Salt Public Corporation)	2 years since June 2012	86
				July	2001	Vice President of Financial Planning Division		
				June	2004	Senior Vice President, and Head of Finance Group, Vice President of Financial Planning Division		
				July	2004	Senior Vice President, and Chief Financial Officer		
				June	2005	Member of the Board, Senior Vice President, and Chief Financial Officer		
				June	2006	Member of the Board Executive Vice President, JT International S.A.		
				June	2011	Member of the Board, Senior Vice President, and Executive Vice President in charge of International Tobacco Business		
				June	2011	Representative Director and Executive Deputy President (Current Position)		
* Representative Director and Executive Deputy President		Noriaki Okubo	May 22, 1959	April	1983	Joined the Company (Japan Tobacco and Salt Public Corporation)	2 years since June 2012	42
				April	2000	Vice President of Business Development Dept., Pharmaceutical Division		
				June	2002	Vice President of Business Planning Dept., Pharmaceutical Division		
				June	2004	Member of the Board, Senior Vice President, and President, Pharmaceutical Business		
				June	2006	Member of the Board, Executive Vice President, and President, Pharmaceutical Business		
				June	2009	Member of the Board, Senior Executive Vice President, and President, Pharmaceutical Business		
				May	2010	Member of the Board, Senior Executive Vice President, and President, Pharmaceutical Business, Vice President of Business Planning Dept., Pharmaceutical Division		
				January	2011	Member of the Board, Senior Executive Vice President, and President, Pharmaceutical Business		
				June	2012	Representative Director and Executive Deputy President (Current Position)		

Title	Post	Name	Date of birth	Summary of career	Term of office	Number of shares held (Share)
* Representative Director and Executive Deputy President		Akira Saeki	August 25, 1960	April 1985 Joined the Company June 2005 Vice President of Corporate Strategy Division June 2007 Senior Vice President, Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters May 2008 Senior Vice President, Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters, Head of China Division, Tobacco Business June 2008 Senior Vice President, Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters, Chief Corporate, Scientific & Regulatory Affairs Officer, Tobacco Business, Head of China Division, Tobacco Business July 2008 Senior Vice President, Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters, Chief Corporate, Scientific & Regulatory Affairs Officer, Tobacco Business July 2009 Senior Vice President, Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters, Chief Corporate, Scientific & Regulatory Affairs Officer, Tobacco Business June 2010 Executive Vice President, and Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters June 2012 Representative Director and Executive Deputy President (Current Position)	2 years since June 2012	46

Title	Post	Name	Date of birth	Summary of career	Term of office	Number of shares held (Share)
* Member of the Board and Executive Deputy President		Hideki Miyazaki	January 22, 1958	April 1980 Joined Nomura Securities Co., Ltd. July 2005 Joined the Company January 2006 Deputy Chief Financial Officer June 2008 Senior Vice President, and Chief Financial Officer, Vice President, Tax Division October 2009 Senior Vice President, and Chief Financial Officer May 2010 Senior Vice President, and Chief Financial Officer, Vice President, Treasury Division June 2010 Executive Vice President and Chief Financial Officer, Vice President, Treasury Division July 2010 Executive Vice President and Chief Financial Officer, Vice President, Treasury Division and Vice President, Procurement Planning Division August 2010 Executive Vice President and Chief Financial Officer June 2012 Member of the Board and Executive Vice President (Current Position)	2 years since June 2012	32
Member of the Board		Mutsuo Iwai	October 29, 1960	April 1983 Joined the Company (Japan Tobacco and Salt Public Corporation) June 2003 Vice President of Corporate Planning Division July 2004 Vice President of Corporate Strategy Division June 2005 Senior Vice President, and Vice President of Food Business Division, Food Business June 2006 Member of the Board, Executive Vice President, and President, Food Business June 2008 Executive Vice President, and Chief Strategy Officer June 2010 Member of the Board, Executive Vice President, and Chief Strategy Officer July 2010 Member of the Board, Executive Vice President, and Chief Strategy Officer, Executive Vice President in charge of Food Business June 2011 Member of the Board (Current Position) Executive Vice President, JT International S.A. (Current Position)	2 years since June 2012	80

Title	Post	Name	Date of birth	Summary of career	Term of office	Number of shares held (Share)
Member of the Board		Motoyuki Oka	September 15, 1943	April 1966 Joined Sumitomo Corporation June 1994 Director, Sumitomo Corporation April 1998 Managing Director, Sumitomo Corporation April 2001 Senior Managing Director, Sumitomo Corporation June 2001 President, Chief Executive Officer, Sumitomo Corporation June 2007 Chairman of the Board of Directors, Sumitomo Corporation June 2012 Advisor, Sumitomo Corporation (Current Position) Member of the Board, the Company (Current Position)	2 years since June 2012	0
Member of the Board		Main Kohda	April 25, 1951	September 1995 Started independently as Novelist January 2003 Member of Financial System Council, Ministry of Finance Japan April 2004 Visiting professor, Faculty of Economics, Shiga University March 2005 Member of the Council for Transport Policy, Ministry of Land, Infrastructure, Transport and Tourism November 2006 Member of the Tax Commission, Cabinet Office, Government of Japan June 2010 Member of the Board of Governors, Japan Broadcasting Corporation (Current Position) June 2012 Member of the Board, the Company (Current Position)	2 years since June 2012	0
Standing Auditor		Hisao Tateishi	December 23, 1946	April 1971 Joined Ministry of Finance July 1997 Director-General, Kanto-Shinetsu Regional Taxation Bureau, National Tax Agency July 1999 Deputy Director-General, Personnel Bureau, Management and Coordination Agency January 2001 Deputy Director-General, Personnel and Pension Bureau, Ministry of Internal Affairs and Communications July 2001 Standing Director, Japan Foundation for Regional Vitalization July 2003 Standing Director, Federation of National Public Service, Personnel Mutual Aid Associations September 2005 Executive Director, Federation of National Public Service, Personnel Mutual Aid Associations June 2007 Standing Auditor, the Company (Current Position)	4 years since June 2011	31

Title	Post	Name	Date of birth	Summary of career	Term of office	Number of shares held (Share)
Standing Auditor		Futoshi Nakamura	November 23, 1957	April 1981 Joined the Company (Japan Tobacco and Salt Public Corporation) July 2004 Head of Procurement Planning Division July 2005 Senior Manager of Operational Review and Business Assurance Division September 2005 Senior Manager of Operational Review and Business Assurance Division Vice President, JT International Holding B.V. July 2009 Senior Manager of Accounting Division July 2010 Head of Operational Review and Business Assurance Division June 2012 Standing Auditor, the Company (Current Position)	3 years since June 2012	5
Auditor		Koichi Ueda	December 17, 1943	April 1967 Judicial Apprentice April 1969 Appointed as Public Prosecutor June 2006 Superintending Public Prosecutor, the Tokyo High Public Prosecutors Office December 2006 Took mandatory retirement January 2007 Registered as an attorney at law April 2007 Specially Appointed Professor of Meiji University Law School (Current Position) January 2009 Representative Director, The Resolution and Collection Corporation March 2009 President and Representative Director, The Resolution and Collection Corporation June 2009 Auditor, the Company (Current Position)	4 years since June 2011	10
Auditor		Yoshinori Imai	December 3, 1944	April 1968 Joined Japan Broadcasting Corporation June 1995 Bureau Chief of General Bureau for Europe May 2000 Director General, Planning & Broadcasting Department June 2003 Executive Editor and Programme Host January 2008 Executive Vice President January 2011 Retired from Executive Vice President April 2011 Visiting Professor, Ritsumeikan University (Current Position) June 2011 Auditor, the Company (Current Position)	4 years since June 2011	2
Total						562

Notes: 1. Directors Motoyuki Oka and Main Kohda are Outside Directors provided for by Article 2, item (xv) of the Companies Act.
2. Auditors Hisao Tateishi, Koichi Ueda and Yoshinori Imai are Outside Auditors provided for by Article 2, item (xvi) of the Companies Act.
3. Persons with the title marked with * concurrently serve as Executive Officer (*sikkoyakuin*).

(Status of Executive Officers (*sikkoyakuin*))

JT has introduced the Executive Officer (*sikkoyakuin*) System since June 2001 in order to realize prompt and proper decision-making and business execution. The following 22 persons were appointed at the meeting of the Board of Directors held on June 22, 2012.

Title	Name	Post
President	Mitsuomi Koizumi	
Executive Deputy President	Yasushi Shingai	Compliance, Strategy, HR, General Administration, Legal and Operational Review & Business Assurance
Executive Deputy President	Noriaki Okubo	Pharmaceutical and Food Businesses
Executive Deputy President	Akira Saeki	President, Tobacco Business
Executive Deputy President	Hideki Miyazaki	CSR, Finance and Communications
Senior Executive Vice President	Kenji Iijima	Chief Marketing & Sales Officer, Tobacco Business
Senior Executive Vice President	Ryoji Chijiiwa	Compliance and General Affairs
Executive Vice President	Shinichi Murakami	Head of Domestic Leaf Tobacco General Division, Tobacco Business
Senior Vice President	Kazuhito Yamashita	Chief Corporate, Scientific & Regulatory Affairs Officer, Tobacco Business
Senior Vice President	Masahiko Sato	Head of Manufacturing General Division, Tobacco Business
Senior Vice President	Atsuhiro Kawamata	Head of China Division, Tobacco Business
Senior Vice President	Junichi Haruta	Head of Central Pharmaceutical Research Institute, Pharmaceutical Business
Senior Vice President	Ryoko Nagata	Head of Beverages Business
Senior Vice President	Masamichi Terabatake	Chief Strategy Officer
Senior Vice President	Yasuyuki Tanaka	Chief Communications Officer
Senior Vice President	Yasuyuki Yoneda	Chief R&D Officer, Tobacco Business
Senior Vice President	Junichi Fukuchi	Head of Tobacco Business Planning Division, Tobacco Business
Senior Vice President	Muneaki Fujimoto	President, Pharmaceutical Business
Senior Vice President	Chito Sasaki	Chief Human Resources Officer
Senior Vice President	Naohiro Minami	Chief Financial Officer
Senior Vice President	Haruhiko Yamada	Chief General Affairs Officer
Senior Vice President	Kiyohide Hirowatari	Chief Legal Officer

* Job titles of Executive Officers are outlined in accordance with HR personnel appointment on July 1, 2012.

6. Status of corporate governance, etc.

(1) Status of corporate governance

a. Basic concept on the corporate governance

JT recognizes that prompt and proper decision-making and business execution are vital to increasing our corporate value and responding appropriately to new challenges to come in the future, as the business and social environment change. Based on this recognition, JT has been striving hard to enhance corporate governance as a top management priority.

b. Implementation status of measures concerning corporate governance (as of the date of filing)

i. Corporate governance system

(a) Organization of JT

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

In order to maintain a high quality of business execution, JT has adopted the Executive Officer (*sikkoyakuin*) System, under which Executive Officers (*sikkoyakuin*) appointed by the Board of Directors execute business in their respective areas of responsibility, in accordance with a company-wide business strategy decided by the Board, by exercising the authority delegated to them. In addition, the Chairman of the Board has been positioned as a non-executive director in order to concentrate on the function of supervising management while also serving as the chairman of meetings of the Board of Directors. At the general meeting of shareholders on June 22, 2012, JT appointed two outside directors in order to strengthen the supervisory function of the Board of Directors and enhance transparency over its management.

Moreover, as part of its efforts to enhance corporate governance, JT has established the Advisory Committee, which comprises outside experts and outside directors, and advises the management team from a broad perspective with regard to how JT should operate in the medium to long term, and other issues of similar importance.

Meanwhile, 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.

JT has adopted the Audit Board System under which Auditors, in their capacity as independent agents with a mandate from shareholders, examine the performance of duties by Directors and Executive Officers (*sikkoyakuin*) in order to ensure sound and sustainable growth, and maintain and enhance public trust in JT. Moreover, the standing auditor of JT, Mr. Futoshi Nakamura is eligible as an auditor with profound expertise and experience concerning financial and accounting affairs including his past experience as the head of JT's Operational Review and Business Assurance Division after engaging in the accounting division and corporate treasury division.

(b) Internal control system and risk management system

JT has been endeavoring to ensure appropriate business operations through efforts to enhance compliance, internal audits and risk management, and implementing measures to ensure the effectiveness of audits, such as improving arrangements and procedures for reporting the necessary matters to Auditors, as is required of a company adopting the Audit Board System.

We will continue these efforts while reviewing and revising the current system as necessary, and ensure appropriate business execution by taking the following steps:

<System to ensure that Directors and employees perform their duties in accordance with laws, regulations and JT's articles of incorporation>

With regard to the compliance system, JT has established the Guidelines for Conduct based on internal rules concerning compliance in order to ensure that directors, executive officers (*sikkoyakuin*) and employees comply with laws, regulations, JT's articles of incorporation, the social norms, etc., and set up the 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. Meanwhile, the Compliance Office is charged with overseeing efforts to improve the company-wide compliance system, identify compliance problems and enhance the effectiveness of the compliance system by enlightening Directors, Executive Officers (*sikkoyakuin*) and employees about compliance through various compliance education programs.

Regarding the internal reporting system (whistle-blower system), JT has a counter through which employees may report any misconduct they have detected. The Compliance Office is charged with investigating reported cases and implementing company-wide measures to prevent the recurrence of misconduct after holding consultations with the departments and divisions concerned. Matters of particular importance shall be referred to the Compliance Committee for deliberation.

In order to ensure the reliability of its financial reporting, JT is operating a relevant internal control system that it has established in accordance with the Financial Instruments and Exchange Act. By allocating a sufficient level of staff to the task of evaluating financial results and reporting them, JT is striving to maintain and improve the reliability of its financial reporting.

The internal audit system is overseen by the Operational Review and Business Assurance Division (staffed with 21 members as of the end of this fiscal year), which examines and evaluates systems for supervising and managing the overall operations of JT and the status of business execution from the viewpoints of legality and rationality, in order to protect JT's assets and improve management efficiency.

<System for storage and management of information on the performance of duties by the Directors>

JT makes sure to properly store and manage the minutes of Annual General Meetings of Shareholders, meetings of the Board of Directors, and meetings of the Executive Committee, in line with laws, regulations and internal rules.

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

<Rules on management of risk of loss and procedures/arrangements for other matters>

JT has established internal rules on the management of risk of loss relating to monetary and financial affairs, and ensures that relevant reports are made to the Board of Directors on a quarterly basis.

With regard to risk of loss relating to other affairs, the relevant departments and divisions specified by the Responsibilities/Authorities Allocation Rules conduct proper management, identifying risk and reporting it to the Executive Committee or referring it to the Committee for deliberation, depending on the importance of the identified risk.

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 JT Group companies – in light of the importance of internal control procedures and arrangements and the risks involved – from an objective viewpoint, in its capacity as an entity independent of the organizations responsible for business execution, and reports its findings and present proposals to the President, as well as reporting to the Board of Directors.

To prepare 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 Planning Division, and make prompt and proper responses under the leadership of senior management and through close cooperation between the relevant departments and divisions.

<System to ensure that directors perform their duties efficiently>

The Board of Directors meets once a month in principle and on more occasions if 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. Meanwhile, 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.

JT has adopted the Executive Officer (*sikkoyakuin*) System, under which Executive Officers (*sikkoyakuin*) appointed by the Board of Directors execute business in their respective areas of responsibility, in accordance with a company-wide business strategy decided by the Board, by exercising the authority delegated to them.

Moreover, in order to ensure that business operations are managed in ways that contribute to the business efficiency and flexibility of JT as a whole, basic matters concerning JT's organization, allocation of duties to officers and staff and the roles of individual divisions are specified by the relevant internal rules. Meanwhile, in order to enable prompt decision-making, the departments and divisions responsible for business execution are specified by the "Responsibilities/Authorities Allocation Rules."

<System to ensure the appropriateness of business operations within 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. We have specified the functions and rules necessary for group management based on a group management policy, in order to optimize the operations of the JT Group as a whole.

Moreover, we have been enhancing our systems for compliance (including the internal consultation and reporting system), ensuring the reliability of financial reporting, risk management, and internal audits, in cooperation with the JT Group companies.

<System for assisting auditors and reporting to auditors, and other systems to ensure effective auditing>

JT has allocated sufficient staff to the Auditor's Office as an organization supporting the auditors in performing their duties. In addition, JT makes sure to review and reform the staffing structure as necessary based on consultations with the Audit Board. The Audit Board is involved in the selection of personnel of the Auditor's Office in order to ensure the office's independence from Directors.

When Directors and Executive Officers (*sikkoyakuin*) detect any matter that may cause substantial damage to the company, they are due to report it to the Audit Board. Moreover, when Directors, Executive Officers (*sikkoyakuin*) 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.

As Auditors are allowed to attend not only meetings of the Board of Directors but also other important meetings, they usually attend meetings of the Executive Committee. When Directors, Executive Officers (*sikkoyakuin*) and employees are asked by Auditors to compile important documents available for their perusal, to accept field audits and to submit reports, they are due to respond to the request in a prompt and appropriate manner.

Furthermore, Directors are due to cooperate with audits and ensure the provision of funds necessary for covering audit-related expenses so as to secure their effectiveness. The Operational Review and Business Assurance Division and the Compliance Office maintain cooperation with Auditors by exchanging information.

(c) Implementation status of audits by Auditors and Independent Auditor

- JT has an Audit Board System under which Auditors, in their capacity as independent agents with a mandate from shareholders, examine the performance of duties by Directors and Executive Officers (*sikkoyakuin*) in order to ensure sound and sustainable growth, and maintain and enhance public trust in JT.
- JT has employed Deloitte Touche Tohmatsu LLC as its Independent Auditor and Deloitte Touche Tohmatsu LLC has conducted audits based on the Companies Act and the Financial Instruments and Exchange Act. The certified public accountants who audited JT's financial statements for fiscal year ended March 31, 2012 and the persons who assisted the auditing work are as follows.

(Certified public accountants)
Yasuyuki Miyasaka, Satoshi Iizuka, Koji Ishikawa

(Assistants for the audit work)
Certified public accountants: 15 persons, Junior accountants: 8 persons, Others: 8 persons

While Auditors, internal audit organizations including the Operational Review and Business Assurance Division, and the Independent Auditor conduct audits individually, they endeavor to enhance their cooperation in order to ensure appropriate audits, for example by sharing information on the results of their respective audits. Also, Auditors, internal audit organizations including the Operational Review and Business Assurance Division, and the Independent Auditor cooperate with JT's Internal Control Division to ensure appropriate business execution by exchanging information when necessary as per "(b) Internal control system and risk management system."

(d) Outside directors and outside auditors

- Numbers of outside directors and outside auditors as well as their human, capital, business or other relationships of interest

  JT has two outside directors and three outside auditors.

  Mr. Motoyuki Oka, one of the outside directors, is an advisor to Sumitomo Corporation. Although JT did business, such as purchasing manufacturing machinery, with Sumitomo Corporation, at which Mr. Oka served as chairman and representative director until June 22, 2012, the value of the business was equivalent to just around 0.1% of JT's consolidated revenue in the business year ended March 2012. Therefore, we have concluded that this business relationship is not so relevant as to generate any special relationship of interest.

  Other than the above, there are no human, capital, business or other relationships of interest between JT and the outside directors and outside auditors.

- Outside directors appointed and functions and roles of outside directors in corporate governance of the filing company

  JT has appointed Mr. Motoyuki Oka and Ms. Main Kohda as outside directors. We expect that Mr. Oka will reflect his abundant experience and extensive insight into the management of global companies in the management of JT. As for Ms. Kohda, we expect that she will reflect in the management of JT her abundant insight into international finance, her extensive experience in teaching as a university professor and serving on governmental advisory bodies, etc., and her deep insight and objective point of view developed through her activities as a fiction writer, as well of other literary works. We believe that they will supervise business execution from a fair and independent standpoint.

- Outside auditors appointed and functions and roles of outside auditors in corporate governance of the filing company

  Outside auditors are appointed in light of their significant experience in their respective backgrounds and broad perspective. JT has appointed Mr. Hisao Tateishi, Mr. Koichi Ueda and Mr. Yoshinori Imai as outside auditors. Mr. Tateishi has gained abundant experience and developed a broad perspective through his many years of engagement in administrative work and his performance of duties on the board of the Federation of National Public Service Personnel Mutual Aid Associations. Mr. Ueda has gained abundant experience and developed a broad perspective through his service in the judicial world. Mr. Imai has gained management experience and developed a global perspective during his tenure as Vice Chairman of Japan Broadcasting Corporation. We expect that their experiences and perspectives will be reflected in their audit activity, and we believe that they will maintain objective and neutral surveillance over the management of JT by conducting audits from a fair and independent standpoint.

- Independence of outside directors and outside auditors

  At a Board of Directors meeting on April 26, 2012, JT established a set of criteria for evaluating the independence of outside executives. According to this set of criteria, a person who fits any of the following descriptions is prohibited from serving at JT as an independent executive.

1. A person who belongs or belonged to JT or an affiliate or sister company of JT
2. A person who belongs to a corporation or other organization of which JT is a major shareholder
3. A person who is a major shareholder of JT or who belongs to a corporation or other organization which is a major shareholder of JT
4. A person who is a major supplier or customer of JT (the term person is a corporation or other organization, the prohibition also applies to a person who belongs thereto)
5. A large-lot creditor of JT, including a major loan lender (when the creditor is a corporation or other organization, the prohibition also applies to a person belonging thereto)
6. A certified public accountant who serves as an auditor or an audit advisor of JT, or a person who belongs to an auditing firm which serves as an auditor or an audit advisor of JT
7. A person who receives a large amount of fees from JT in exchange for providing professional services concerning legal, financial and tax affairs or business consulting services (the term person is a corporation or other organization, the prohibition also applies to a person who belongs thereto)

8. A person who receives a large amount of donation from JT (the term person is a corporation or other organization, the prohibition also applies to a person who belongs thereto)
9. A person who has fit any of the descriptions in 2. to 8. above in the recent past
10. A close relative of a person who fits any of the following descriptions
    (1) A person who fits any of the descriptions in 2. to 8. above (the term person is a corporation or other organization, the prohibition also applies to a person who performs important job duties therefore)
    (2) A director, auditor, audit advisor, executive officer or employee of JT or an affiliate or sister company of JT.
    (3) A person who has fit the descriptions in (1) or (2) in the recent past

    JT has designated Mr. Motoyuki Oka and Ms. Main Kohda, who are outside directors, and Mr. Koichi Ueda and Mr. Yoshinori Imai, who are outside auditors, as independent executives as defined by financial instruments exchanges, based on its judgment that in light of the above set of criteria, there is no risk of conflict of interest arising between them and ordinary shareholders.

- Key points of the partial exemption of liability and liability limitation agreement

  JT's articles of incorporation stipulate that JT may enter into an agreement with outside directors to limit the scope of their liabilities in advance to the extent permitted by the Companies Act and JT may exempt directors from liabilities to the extent permitted by the same act. This provision is intended to enable directors to fulfill their expected role and make it easier to appoint the right persons from a broad choice both within and outside the company. As of the date of submission, JT has such liability limiting agreements with its outside directors and outside auditors.

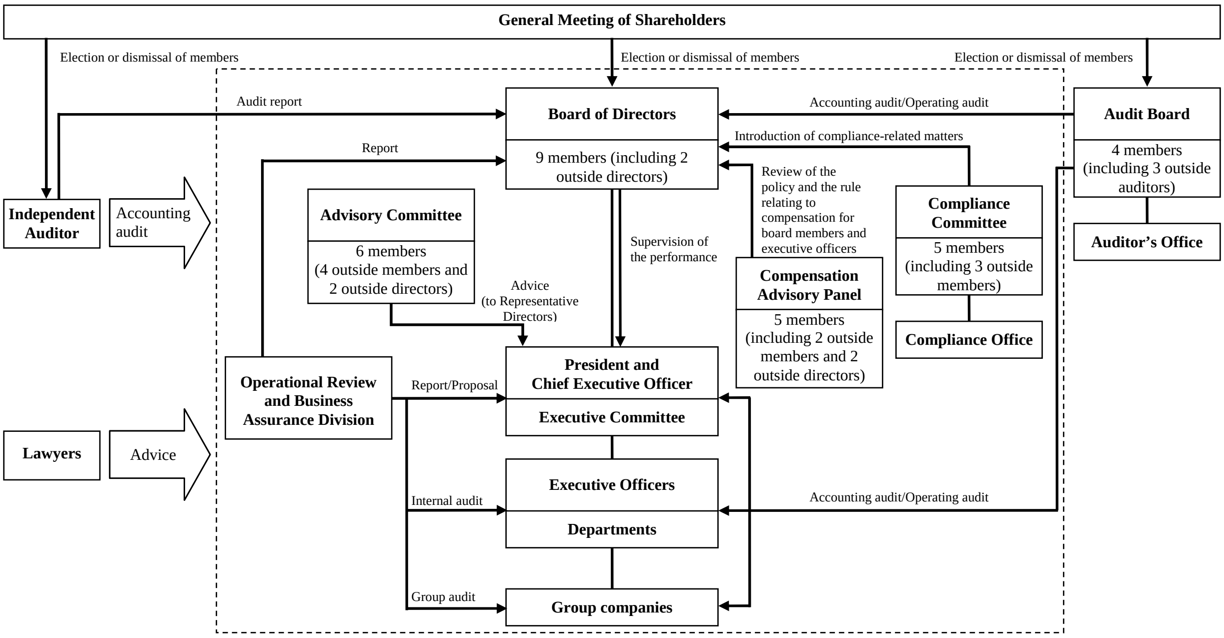
(e) Advisory Committee

JT has established the Advisory Committee, comprising 4 outside experts and 2 outside directors, to advise the Representative Directors from a broad perspective with regard to the JT Group’s direction in the mid- to long term, and other issues of similar importance. The Advisory Committee normally meets quarterly and discusses broad topics including the JT Group’s management strategy, management plans and financial results, with some on-site visits.

Members of Advisory Committee (as of July 1, 2012)

Member	Kazuo Inamori	Founder and Chairman Emeritus, Kyocera Corporation
Member	Sakutaro Tanino	Former Japanese Ambassador to India and China/ Vice President, Japan-China Friendship Center
Member	Tomijiro Morita	Senior Advisor, The Dai-ichi Life Insurance Co., Ltd.
Member	Sakue Mizukoshi	Corporate Advisor, Seven & i Holdings Co., Ltd.
Associate member	Motoyuki Oka	JT’s outside director (Advisor, Sumitomo Corporation)
Associate member	Main Kohda	JT’s outside director (Novelist)

The status of the development of JT’s corporate governance system is represented as the following schematic depiction. (As of July 1, 2012)



ii. Remuneration for Directors and Auditors

Remuneration for Directors and Auditors for the fiscal year ended March 31, 2012 are as follows.

(a) Total amount of remuneration and other payments, total amount of remuneration and other payments by type and number to be paid by Director and Auditor category

Category	Total amount of remuneration and other payments (Millions of yen)	Total amount of remuneration and other payments by type (Millions of yen)			Number to be paid (Person)
		Basic remuneration	Directors' bonus	Stock option grants	
Directors	608	352	113	143	9
Auditors (excluding Outside Auditors)	35	35	–	–	1
Outside Directors and Outside Auditors	59	59	–	–	4
Total	703	447	113	143	14

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.

(b) Total amount of consolidated remuneration and other payments for individuals whose consolidated remuneration and other payments amount to ¥100 million or more

Name	Category	Company	Amount of consolidated remuneration and other payments by type (Millions of yen)			Total (Millions of yen)
			Basic remuneration	Directors' bonus	Stock option grants	
Hiroshi Kimura	Representative Director	Filing company	68	30	28	125
Yasushi Shingai	Representative Director	Filing company	36	18	18	108
	Executive Vice President	JT International S.A.	20	17	–	

Notes: Regarding remuneration for Mr. Yasushi Shingai as Executive Vice President of JT International S.A.
1. A portion of the remuneration is paid in Swiss francs. (1 franc = ¥90.19)
2. The figure in the executive bonus column is the part of the bonus that corresponds to the period of service between April 1, 2011 to May 31, 2011.
3. In addition to the remuneration, JT International S.A. is responsible for paying ¥8 million which represents the amount of fringe benefits, tax and social security expenses concerning the expatriate duties.

(c) Policy on determining the amount of remuneration and other payments for Directors and Auditors and calculation method thereof, and the method for establishing said policy

JT has a Compensation Advisory Panel, acting as an advisory body for the Board of Directors established voluntarily in order to enhance the objectiveness and transparency of our executive remuneration system. The Compensation Advisory Panel deliberates and reports in response to the consultation request with regard to the compensation for our directors and executive officers (*sikkoyakuin*) including its policy, framework, and calculation method. The Compensation Advisory Panel meets at least annually and monitors the executive compensation status. The Compensation Advisory Panel comprises 5 members; 2 outside experts, 2 outside directors and the Chairman of the Board of Directors, who acts as chairman of the Compensation Advisory Panel.

Outside members of the Compensation Advisory Panel (As of July 1, 2012)

Morio Ikeda	Advisor, Shiseido Company, Limited
Norio Ichino	Advisor, Tokyo Gas Co., Ltd.
Motoyuki Oka	JT's outside director (Advisor, Sumitomo Corporation)
Main Kohda	JT's outside director (Novelist)

Based on deliberation by the Compensation Advisory Panel, our basic concept of executive remuneration for senior officers is set 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 senior officers to achieve performance
- Linking the remuneration to mid- and long-term corporate value
- Ensuring transparency based on an objective and quantitative framework

In accordance with the above concept, remuneration for the senior officers comprises (1) “basic monthly pay,” (2) an “executive bonus” linked to our business performance in the relevant year, and (3) “stock option grants,” the value of which is linked to our medium-to long-term corporate value. In 2007, JT introduced a stock option program in stock compensation style as an incentive linked to the mid- to long term corporate value of JT.

Remuneration for the directors is structured as follows:

Remuneration for the directors also serving as executive officers (*sikkoyakuin*) comprises “basic monthly pay,” an “executive bonus,” and “stock option grants,” as their duty is to achieve targets of their assigned business through their daily execution of business. As for the president and the executive vice presidents, if the amount of their “executive bonus” is a standard amount, the total amount of “executive bonus” and “stock option grants” is set at slightly less than 80% of the aggregate amount of their “basic monthly pay.” For other directors, this amount is set at approximately 70% of their basic monthly pay.

Remuneration for the directors not serving as executive officers (*sikkoyakuin*) excluding outside directors comprises “basic monthly pay” and “stock option grants” as their duties require them to participate in decision making regarding group-wide management strategies and perform a supervisory function.

Remuneration for outside directors, which is not linked to business performance from the perspective of maintaining their independence, comprises only “basic monthly pay.”

Remuneration for the auditors comprises basic monthly pay alone, in light of their major duty of conducting compliance audits.

The upper ceilings of the total annual remuneration for JT’s directors and auditors were approved at our 22nd Annual General Meeting of Shareholders held in June 2007. The limit for directors is ¥870 million and that for auditors is ¥190 million. In addition, the upper limit on total annual stock options for the directors was approved at the same shareholders’ meeting. The limit is 800 options in number and ¥200 million in value. The number of options 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.

Remuneration for the directors and auditors is determined by the resolution at the Board of Directors and by the consultation among the auditors, respectively, within the approved ceilings, based on the report of the management’s remuneration issued by the third party, after setting a benchmark as the compensation level of domestic peer manufacturers which scale and profit are as same as us and which presents business in global, and discussion by the Compensation Advisory Panel.

iii. Share ownership

(a) Number of issues and balance sheet amount for investment stocks whose purpose of holding is other than for net investment

58 issues, ¥31,845 million

(b) Issue, number of shares, balance sheet amount and purpose of holding for investment stocks whose purpose of holding is other than for net investment

(Fiscal year ended March 31, 2011)

Specified investment stocks

Issue	Number of shares (Share)	Balance sheet amount (Millions of yen)	Purpose of holding
KT&G Corporation	2,864,904	12,382	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Seven & i Holdings Co., Ltd.	852,000	1,808	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Mizuho Financial Group, Inc.	12,750,700	1,760	Policy-based investment whose purpose is stable bank transactions and strengthened relations over the long term
Mitsubishi UFJ Financial Group, Inc.	3,511,050	1,348	Policy-based investment whose purpose is stable bank transactions and strengthened relations over the long term
DOUTOR-NICHIRES Holdings Co., Ltd.	1,320,000	1,327	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Sumitomo Mitsui Financial Group, Inc.	340,901	882	Policy-based investment whose purpose is stable bank transactions and strengthened relations over the long term
Central Japan Railway Company	1,000	659	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
NIPPON TELEGRAPH AND TELEPHONE CORPORATION	153,000	571	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
OKAMURA CORPORATION	1,206,000	564	Held for policy-based investment under business alliance with JT for joint venture, etc.
NIPPON EXPRESS CO., LTD.	1,730,400	552	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Electric Power Development Co., Ltd.	213,600	547	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
West Japan Railway Company	1,330	427	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Japan Airport Terminal Co., Ltd.	400,000	420	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
The Sumitomo Trust and Banking Company, Limited	818,000	353	Policy-based investment whose purpose is stable bank transactions and strengthened relations over the long term
MEGMILK SNOW BRAND Co., Ltd.	246,900	314	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term

Issue	Number of shares (Share)	Balance sheet amount (Millions of yen)	Purpose of holding
DAICEL CHEMICAL INDUSTRIES, LTD.	602,000	309	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
HOKKAN HOLDINGS LIMITED	1,000,000	295	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
KEY COFFEE INC.	200,000	292	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Tokyo Automatic Machinery Works, Ltd.	2,700,000	284	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Tomoku Co., Ltd.	1,000,000	264	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Nifco Inc.	110,000	219	Held for policy-based investment under business alliance with JT for joint venture, etc.
Tokio Marine Holdings, Inc.	42,500	95	Policy-based investment whose purpose is stable casualty insurance transactions and strengthened relations over the long term
CMK CORPORATION	145,200	53	Held for policy-based investment under business alliance with JT for joint venture, etc.
MS&AD Insurance Group Holdings, Inc.	26,200	50	Policy-based investment whose purpose is stable casualty insurance transactions and strengthened relations over the long term
Hitachi, Ltd.	94,000	41	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
NEC Corporation	145,000	26	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
ITOCHU-SHOKUHIN Co., Ltd.	100	0	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term

(Fiscal year ended March 31, 2012)

Specified investment stocks

Issue	Number of shares (Share)	Balance sheet amount (Millions of yen)	Purpose of holding
KT&G Corporation	2,864,904	16,700	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Seven & i Holdings Co., Ltd.	852,000	2,094	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Mizuho Financial Group, Inc.	12,750,700	1,721	Policy-based investment whose purpose is stable bank transactions and strengthened relations over the long term
Mitsubishi UFJ Financial Group, Inc.	3,511,050	1,447	Policy-based investment whose purpose is stable bank transactions and strengthened relations over the long term
DOUTOR-NICHIRES Holdings Co., Ltd.	1,320,000	1,437	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Sumitomo Mitsui Financial Group, Inc.	340,901	928	Policy-based investment whose purpose is stable bank transactions and strengthened relations over the long term
OKAMURA CORPORATION	1,206,000	695	Held for policy-based investment under business alliance with JT for joint venture, etc.
Central Japan Railway Company	1,000	682	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
NIPPON TELEGRAPH AND TELEPHONE CORPORATION	153,000	575	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
NIPPON EXPRESS CO., LTD.	1,730,400	559	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Electric Power Development Co., Ltd.	213,600	479	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
West Japan Railway Company	133,000	442	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Japan Airport Terminal Co., Ltd.	400,000	436	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
MEGMILK SNOW BRAND Co., Ltd.	246,900	381	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Sumitomo Mitsui Trust Holdings, Inc.	1,218,820	322	Policy-based investment whose purpose is stable bank transactions and strengthened relations over the long term

Issue	Number of shares (Share)	Balance sheet amount (Millions of yen)	Purpose of holding
Daicel Corporation	602,000	321	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
KEY COFFEE INC.	200,000	298	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Tokyo Automatic Machinery Works, Ltd.	2,700,000	292	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Nifco Inc.	110,000	249	Held for policy-based investment under business alliance with JT for joint venture, etc.
HOKKAN HOLDINGS LIMITED	1,000,000	243	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Tomoku Co., Ltd.	1,000,000	230	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
Tokio Marine Holdings, Inc.	42,500	97	Policy-based investment whose purpose is stable casualty insurance transactions and strengthened relations over the long term
Hitachi, Ltd.	94,000	50	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
MS&AD Insurance Group Holdings, Inc.	26,200	45	Policy-based investment whose purpose is stable casualty insurance transactions and strengthened relations over the long term
NEC Corporation	145,000	25	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
ITOCHU-SHOKUHIN Co., Ltd.	100	0	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term

(c) Investment stocks whose purpose for holding is net investment

No items to report

iv. Number of Directors

JT’s articles of incorporation stipulate that the number of Directors must be 15 or less.

v. Appointment of Directors

JT’s articles of incorporation stipulate that Directors must be appointed by a majority of the shareholder votes cast on an occasion where shareholders representing at least one-third of the total voting rights are present.

vi. Matters to be decided by the Board of Directors without referral to General Meeting of Shareholders

Acquisition of treasury stock

In order to enable flexible management that meets changes in business environment, JT’s articles of incorporation stipulate that JT may acquire its treasury stock through means such as market trading, upon a resolution by the Board of Directors under Article 165, paragraph 2 of the Companies Act.

Interim dividends

In order to enable profits to be returned to shareholders in a flexible manner, JT’s articles of incorporation stipulate that JT may pay interim dividends to shareholders, upon a resolution by the Board of Directors under Article 454, paragraph 5 of the Companies Act.

vii. Requirements for special resolutions at General Meeting of Shareholders

In order to facilitate the smooth conduct of General Meeting of Shareholders with an easier validity requirement for special resolutions, JT’s articles of incorporation stipulate that a resolution as specified by Article 309, paragraph 2 of the Companies Act is valid if it is supported by at least two-thirds of the votes cast at a General Meeting of Shareholders attended by shareholders representing at least one-third of JT’s total voting rights (compared with the usual requirement of “at least half”).

(2) Audit fees

a. Audit fees paid to certified public accountants, etc.

(Millions of yen)

Classification	Fiscal year ended March 31, 2011		Fiscal year ended March 31, 2012	
	Fees for audit attestation services	Fees for non-audit services	Fees for audit attestation services	Fees for non-audit services
JT	282	76	310	134
Consolidated subsidiaries in Japan	215	0	188	2
Total	496	76	498	136

Note: Fees paid to Deloitte Touche Tohmatsu LLC

b. Other important fees

(Millions of yen)

Classification	Fiscal year ended March 31, 2011		Fiscal year ended March 31, 2012	
	Fees for audit attestation services	Fees for non-audit services	Fees for audit attestation services	Fees for non-audit services
JTIH Group	683	284	679	368

Note: Fees paid to member firms of Deloitte Touche Tohmatsu Limited

Fiscal year ended March 31, 2011

Our foreign subsidiaries receive accounting audits mainly by Deloitte Touche Tohmatsu Limited member firms, which Tohmatsu belongs to. In particular, fees paid by the JTIH Group for the accounting audit of their financial statements and the non-audit services are significant.

Fiscal year ended March 31, 2012

Our foreign subsidiaries receive accounting audits mainly by Deloitte Touche Tohmatsu Limited member firms, which Tohmatsu belongs to. In particular, fees paid by the JTIH Group for the accounting audit of their financial statements and the non-audit services are significant.

c. Non-audit services to filing company

Fiscal year ended March 31, 2011

Non-audit services for which fees are paid by JT to certified public accountants, etc. include advisory services pertaining to IFRS.

Fiscal year ended March 31, 2012

Non-audit services for which fees are paid by JT to certified public accountants, etc. include advisory services pertaining to IFRS.

d. Policy for determining audit fees

The audit fee is determined through the necessary and sufficient negotiations with auditors based on the audit plan and audit fee estimates provided by them. More specifically, the audit fee is determined based on the overall information by confirming that the focused audit areas under the audit plan and the scope of group-wide audit and review considering changes in consolidation status are appropriately reflected in the audit hours, and comparing the actual hours to planning in the prior audits.

Consent from the Audit Board is acquired before the determination of the audit fee to ensure the independence of auditors.

V. Accounting

1. Preparation policy of the consolidated and non-consolidated financial statements

(1) The consolidated financial statements of the Japan Tobacco Inc.(hereinafter referred to as the "Company") are prepared in accordance with International Financial Reporting Standards (hereinafter referred to as "IFRS") pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of 1976; hereinafter referred to as the Ordinance on CFS).

(2) The non-consolidated financial statements of the Company are prepared based on the Ordinance on Terminology, Forms, and Preparation Methods of Financial Statements (Ordinance of the Ministry of Finance No. 59 of 1963; hereinafter referred to as the Ordinance on FS).

(3) With the revision of the Ordinance on CFS (Cabinet Office Ordinance No. 73 of December 11, 2009), the preparation of consolidated financial statements in accordance with IFRS allowed. Therefore, the consolidated financial statements are prepared in accordance with IFRS in the consolidation fiscal year ended March 31, 2012 and thereafter.

(4) Figures stated in the consolidated and non-consolidated financial statements are rounded to the nearest million yen.

2. Audit Certification

In accordance with the provisions of Article 193-2 (1) of the Financial Instruments and Exchange Act, the consolidated financial statements and the non-consolidated financial statements for the fiscal year ended March 31, 2012 were audited by Deloitte Touche Tohmatsu LLC.

3. Special Effort to Ensure the Appropriateness of Consolidated Financial Statements, and Development of a System for Fair Preparation of Consolidated Financial Statements, in accordance with IFRS

The Company is making special effort to ensure appropriateness of consolidated financial statements, and developing a system for the appropriate preparation of consolidated financial statements, in accordance with IFRS. The content thereof is as follows:

(1) In order to develop a system, which is capable of responding to changes of accounting standards adequately, we strive to accumulate expert knowledge by assigning employees with sufficient knowledge on IFRS, and participating in organizations, such as the Financial Accounting Standards Foundation and attending their seminars.

(2) In order to prepare appropriate consolidated financial statements in accordance with IFRS, we established IFRS Group Accounting Guidelines and we comply with them. The IFRS Group Accounting Guidelines are revised and updated as needed after obtaining press releases and standards issued by the International Accounting Standards Board, understanding the latest standards and examining their impact on our results.

1. Financial Statements

(1) 【Financial Statements】

①【Consolidated Statement of Financial Position】

(Millions of yen)

	Notes	Date of transition to IFRS As of April 1, 2010	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Assets				
Current assets				
Cash and cash equivalents	8	154,369	244,240	404,740
Trade and other receivables	9	308,091	311,202	327,767
Inventories	10	531,948	488,609	446,617
Other financial assets	11	21,629	37,349	27,361
Other current assets	12	147,084	137,910	123,163
Subtotal		1,163,120	1,219,310	1,329,649
Non-current assets held-for-sale	13	1,366	39,553	1,401
Total current assets		1,164,486	1,258,863	1,331,050
Non-current assets				
Property, plant and equipment	14,21	648,580	639,324	619,536
Goodwill	15	1,388,144	1,176,114	1,110,046
Intangible assets	15	394,690	330,194	306,448
Investment property	17	81,087	36,477	67,387
Retirement benefit assets	24	5,234	6,769	14,371
Investments accounted for using the equity method	18	23,311	19,072	18,447
Other financial assets	11	83,502	62,661	67,548
Deferred tax assets	19	122,107	125,726	132,174
Total non-current assets		2,746,655	2,396,338	2,335,957
Total assets		3,911,142	3,655,201	3,667,007

(Millions of yen)

	Notes	Date of transition to IFRS As of April 1, 2010	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Liabilities and equity				
Liabilities				
Current liabilities				
Trade and other payables	20	301,880	311,787	298,663
Bonds and borrowings	21	301,683	218,037	211,766
Income tax payables		54,058	65,651	42,501
Other financial liabilities	21	13,221	8,446	8,039
Provisions	22	3,948	4,184	5,686
Other current liabilities	23	433,459	463,088	590,717
Subtotal		1,108,250	1,071,192	1,157,373
Liabilities directly associated with non-current assets held-for-sale	13	—	6,297	101
Total current liabilities		1,108,250	1,077,490	1,157,474
Non-current liabilities				
Bonds and borrowings	21	558,584	478,154	279,750
Other financial liabilities	21	29,339	14,832	20,994
Retirement benefit liabilities	24	285,002	311,917	315,020
Provisions	22	5,628	4,512	4,448
Other non-current liabilities	23	97,982	94,135	92,235
Deferred tax liabilities	19	98,655	72,850	82,460
Total non-current liabilities		1,075,190	976,400	794,906
Total liabilities		2,183,440	2,053,889	1,952,380
Equity				
Share capital	25	100,000	100,000	100,000
Capital surplus	25	736,407	736,410	736,410
Treasury shares	25	(74,575)	(94,574)	(94,574)
Other components of equity	25	12,609	(250,745)	(376,363)
Retained earnings		880,243	1,034,054	1,268,577
Equity attributable to owners of the parent company		1,654,683	1,525,145	1,634,050
Non-controlling interests		73,019	76,166	80,576
Total equity		1,727,702	1,601,311	1,714,626
Total liabilities and equity		3,911,142	3,655,201	3,667,007

②【Consolidated Statement of Income】

(Millions of yen)

	Notes	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Revenue	6,27	2,059,365	2,033,825
Cost of sales	15,24,38	(953,860)	(892,034)
Gross profit		1,105,506	1,141,791
Other operating income	28,38	20,630	48,512
Share of profit in investments accounted for using the equity method	18	2,330	2,047
Selling, general and administrative expenses	7,13,14,15,17,24,29,34,38	(727,144)	(733,169)
Operating profit	6	401,321	459,180
Financial income	30,35	9,870	5,603
Financial costs	24,30,35	(25,949)	(23,429)
Profit before income taxes		385,242	441,355
Income taxes	19	(136,506)	(112,795)
Profit for the year		248,736	328,559
Attributable to			
Owners of the parent company		243,315	320,883
Non-controlling interests		5,421	7,676
Profit for the year		248,736	328,559
Earnings per share			
Basic (Yen)	32	25,414.33	33,700.97
Diluted (Yen)	32	25,407.09	33,687.78

Reconciliation from operating profit to Adjusted EBITDA

(Millions of yen)

	Notes	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Operating profit		401,321	459,180
Depreciation and amortization		117,954	118,845
Impairment losses on goodwill		87	—
Restructuring-related income		(11,254)	(29,932)
Restructuring-related costs		13,920	29,039
Adjusted EBITDA	6	522,029	577,132

③【Consolidated Statement of Comprehensive Income】

(Millions of yen)

	Notes	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Profit for the year		248,736	328,559
Other comprehensive income			
Exchange differences on translation of foreign operations	31	(256,784)	(130,331)
Net gain (loss) on derivatives designated as cash flow hedges	31	–	(166)
Net gain (loss) on revaluation of available-for-sale securities	31	(6,458)	–
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	31,35	–	4,750
Actuarial gains (losses) on defined benefit retirement plans	24,31	(34,461)	(10,669)
Other comprehensive income (loss), net of taxes		(297,703)	(136,416)
Comprehensive income (loss), for the year		(48,967)	192,143
Attributable to:			
Owners of the parent company		(54,486)	185,425
Non-controlling interests		5,519	6,718
Comprehensive income (loss) for the year		(48,967)	192,143

④【Consolidated Statement of Changes in Equity】

(Millions of yen)

		Equity attributable to owners of the parent company						
						Other components of equity		
	Notes	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, 2010		100,000	736,407	(74,575)	565	–	–	12,044
Profit for the year		–	–	–	–	–	–	–
Other comprehensive income (loss)		–	–	–	–	(257,262)	–	(6,290)
Comprehensive income (loss) for the year		–	–	–	–	(257,262)	–	(6,290)
Acquisition of treasury shares	25	–	–	(20,000)	–	–	–	–
Disposal of treasury shares	25	–	3	1	(4)	–	–	–
Share-based payments	34	–	–	–	203	–	–	–
Dividends	26	–	–	–	–	–	–	–
Changes in the ownership interest in a subsidiary without a loss of control		–	–	–	–	–	–	–
Transfer from other components of equity to retained earnings		–	–	–	–	–	–	–
Other increase (decrease)		–	–	–	–	–	–	–
Total transactions with the owners		–	3	(19,999)	199	–	–	–
As of March 31, 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)	–
Acquisition of treasury shares	25	–	–	–	–	–	–	–
Disposal of treasury shares	25	–	–	–	–	–	–	–
Share-based payments	34	–	–	–	265	–	–	–
Dividends	26	–	–	–	–	–	–	–
Changes in the ownership interest in a subsidiary without a loss of control		–	–	–	–	–	–	–
Transfer from other components of equity to retained earnings		–	–	–	–	–	–	–
Other increase (decrease)		–	–	–	–	–	–	–
Total transactions with the owners		–	–	–	265	–	–	–
As of March 31, 2012		100,000	736,410	(94,574)	1,028	(387,228)	(309)	–

(Millions of yen)

	Notes	Equity attributable to owners of the parent company: Other components of equity: Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	Actuarial gains (losses) on defined benefit retirement plans	Total	Retained earnings	Total	Non-controlling interests	Total equity
As of April 1, 2010		–	–	12,609	880,243	1,654,683	73,019	1,727,702
Profit for the year		–	–	–	243,315	243,315	5,421	248,736
Other comprehensive income (loss)		–	(34,248)	(297,801)	–	(297,801)	98	(297,703)
Comprehensive income (loss) for the year		–	(34,248)	(297,801)	243,315	(54,486)	5,519	(48,967)
Acquisition of treasury shares	25	–	–	–	–	(20,000)	–	(20,000)
Disposal of treasury shares	25	–	–	(4)	–	–	–	–
Share-based payments	34	–	–	203	–	203	–	203
Dividends	26	–	–	–	(55,565)	(55,565)	(1,666)	(57,230)
Changes in the ownership interest in a subsidiary without a loss of control		–	–	–	225	225	(58)	167
Transfer from other components of equity to retained earnings		–	34,248	34,248	(34,248)	–	–	–
Other increase (decrease)		–	–	–	85	85	(647)	(563)
Total transactions with the owners		–	34,248	34,447	(89,503)	(75,052)	(2,371)	(77,423)
As of March 31, 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
Comprehensive income for the year		4,684	(10,009)	(135,458)	320,883	185,425	6,718	192,143
Acquisition of treasury shares	25	—	—	—	—	—	—	—
Disposal of treasury shares	25	—	—	—	—	—	—	—
Share-based payments	34	—	—	265	—	265	—	265
Dividends	26	—	—	—	(76,172)	(76,172)	(2,138)	(78,310)
Changes in the ownership interest in a subsidiary without a loss of control		—	—	—	(366)	(366)	(137)	(503)
Transfer from other components of equity to retained earnings		(89)	10,009	9,920	(9,920)	—	—	—
Other increase (decrease)		—	—	—	—	—	(80)	(80)
Total transactions with the owners		(89)	10,009	10,185	(86,458)	(76,273)	(2,355)	(78,628)
As of March 31, 2012		10,146	—	(376,363)	1,268,577	1,634,050	80,576	1,714,626

⑤【Consolidated Statement of Cash Flows】

(Millions of yen)

	Notes	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Cash flows from operating activities			
Profit before income taxes		385,242	441,355
Depreciation and amortization		117,954	118,845
Impairment losses		6,181	7,013
Interest and dividend income		(3,671)	(3,646)
Interest expense		17,087	14,377
Share of profit in investments accounted for using the equity method		(2,330)	(2,047)
(Gain) losses on sale and disposal of property, plant and equipment, intangible assets and investment property		(5,864)	(22,444)
(Increase) decrease in trade and other receivables		(27,665)	(30,207)
(Increase) decrease in inventories		6,724	27,388
Increase (decrease) in trade and other payables		25,579	(5,365)
Increase (decrease) in retirement benefit liabilities		(8,221)	(9,686)
(Increase) decrease in prepaid tobacco excise taxes		(8,983)	(1,785)
Increase (decrease) in tobacco excise tax payables		27,627	148,260
Increase (decrease) in consumption tax payables		14,952	14,807
Other		(1,772)	(13,002)
Subtotal		542,844	683,863
Interest and dividends received		5,053	6,181
Interest paid		(18,670)	(16,006)
Income taxes paid		(122,380)	(122,464)
Net cash flows from operating activities		406,847	551,573
Cash flows from investing activities			
Purchase of securities		(33,508)	(5,697)
Proceeds from sale and redemption of securities		36,488	21,622
Purchase of property, plant and equipment		(129,970)	(95,705)
Proceeds from sale of property, plant and equipment		8,733	1,919
Proceeds from sale of investment property		10,079	34,545
Purchase of intangible assets		(13,909)	(18,252)
Payments into time deposits		(25,299)	(46,648)
Proceeds from withdrawal of time deposits		21,169	34,854
Purchase of investments in subsidiaries	7	—	(33,622)
Proceeds from sale of investments in subsidiaries		—	730
Payments for sale of investments in subsidiaries		(647)	—
Other		871	2,450
Net cash flows from investing activities		(125,993)	(103,805)

	Notes	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
			(Millions of yen)
Cash flows from financing activities			
Dividends paid to owners of the parent company	26	(55,558)	(76,165)
Dividends paid to non-controlling interests		(1,666)	(2,138)
Capital contribution from non-controlling interests		584	629
Increase (decrease) in short-term borrowings and commercial paper		(172,083)	(2,408)
Proceeds from long-term borrowings		62,946	—
Repayments of long-term borrowings		(23,207)	(59,879)
Proceeds from issuance of bonds		79,793	—
Redemption of bonds		(50,300)	(133,333)
Repayments of finance lease obligations		(6,199)	(5,268)
Acquisition of treasury shares		(20,000)	—
Payments for acquisition of interests in subsidiaries from non-controlling interests		(81)	(503)
Proceeds from sale of interests in subsidiaries to non-controlling interests		391	—
Other		0	—
Net cash flows from financing activities		(185,379)	(279,064)
Net increase (decrease) in cash and cash equivalents		95,476	168,704
Cash and cash equivalents at the beginning of the year	8	154,369	244,240
Effect of exchange rate changes on cash and cash equivalents		(5,604)	(8,204)
Cash and cash equivalents at the end of the year	8	244,240	404,740

【Notes to Consolidated Financial Statements】

1. Reporting Entity

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

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

The Group's consolidated financial statements for the year ended March 31, 2012, were approved on June 22, 2012 by Mitsuomi Koizumi, President and Chief Executive Officer, and Naohiro Minami, Chief Financial Officer.

2. Basis of Preparation

(1) Compliance with IFRS and First-time Adoption

The Group's consolidated financial statements, which satisfy all the requirements concerning the "Specified Company" prescribed in Item 1-(a) to (c) and (4)-(3) of Paragraph 1 of Article 1-2 of the "Regulations for Consolidated Financial Statements", are prepared in accordance with IFRS pursuant to the provision of Article 93 of the same regulations.

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. The effect of transition to IFRS on the Group's financial position, operating results, and cash flows for the date of transition and the year ended March 31, 2011, is stated in "41. First-time Adoption of International Financial Reporting Standards"

Except for IFRS that have not been early adopted and exemptions permitted under IFRS 1 "First-time Adoption of International Financial Reporting Standards" (hereinafter referred to as "IFRS 1"), the Group's accounting policies are in accordance with IFRS effective as of March 31, 2012. The exemptions applied are stated in "3. Significant Accounting Policies."

(2) Basis of Measurement

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

(3) Functional Currency and Presentation Currency

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

(4) Early Adoption of New Accounting Standards

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

IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement" (hereinafter referred to as "IAS 39") and provides two measurement categories for financial instruments: amortized 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.

For the date of transition and the year ended March 31, 2011, financial instruments are accounted for in accordance with the previous accounting principles (Japanese GAAP), applying the exemption IFRS 1 regarding retrospective application of IFRS 7 "Financial Instruments: Disclosures" (hereinafter referred to as "IFRS 7") and IFRS 9.

The effect of changes in accounting policies for financial instruments on the consolidated financial statements at the beginning of the year ended March 31, 2012 (April 1, 2011) is immaterial.

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

The fiscal year end date of JT International Holding 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, is December 31, hence the Group consolidates financial results of the JTIH Group for the period from January1, 2011 to December 31, 2011 into the Group's consolidated financial results for the year ended March 31, 2012.

Under the consolidation process of the Group, consolidation for the JTIH Group (sub-consolidation) is conducted first, and then, the process of consolidation for the whole Group is performed. The JTIH Group is a unified business operation unit operating the Group's international tobacco business and manages budgets and actual results on a sub-consolidation basis, and as a unified financial reporting unit, takes a major role in ensuring the accuracy and quality of the Group's consolidated financial reporting.

Under such consolidation process, in order to unify the financial reporting periods across the whole Group, maintaining the same level of quality of the Group's consolidated financial reporting and satisfying the statutory schedule prescribed under the Companies Act of Japan, it is required to shorten the current closing schedule further across the Group. To achieve this objective, it is necessary to review and improve the closing processes and systems for the consolidation and change the structure

across the Group, such as conducting the process of subconsolidation of the JTIH Group, changing the reporting process to the Company, restructuring the processes of consolidation and preparation of consolidated financial statements, including notes to financial statements, carrying out the proper assignment of personnel resources and developing talents and reviewing the approval process for financial reporting. Due to the aforementioned reasons, the management of the Company concludes that it is currently difficult and impracticable to unify the reporting periods.
However, the Group is aiming to achieve the unification of reporting periods at the earliest possible date through promoting a groupwide effort in order to enhance and improve the efficiency of the closing and management systems.
Although there is a three month difference between the fiscal year end of the JTIH Group and that of the Company, since seasonal and periodical fluctuations of the performance of the Group's international tobacco business have been relatively small, the impact from such mismatch of the reporting periods on the Group's consolidated financial position and operating results is limited. With respect to significant transactions or events occurring during the time gap, the Group makes necessary adjustments and appropriate arrangements in order to assist the users of financial statements to properly understand and assess the consolidated financial positions and results of operations of the Group.

3. Significant Accounting Policies

(1) Basis of Consolidation

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

A. Subsidiaries

A subsidiary is an entity that is controlled by the Group and control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The acquisition date of a subsidiary is the date on which the Group obtained control of the subsidiary, and the subsidiary is included in the consolidation from the date of acquisition until the date on which the Group loses control.
In cases where the accounting policies applied by a subsidiary are different from those applied by the Group, adjustments are made to the subsidiary's financial statements, if necessary.
All intergroup balances, transactions, income and expenses are eliminated on consolidation. Comprehensive income for subsidiaries is attributed to owners of the parent company and non-controlling interests even if this results in the non-controlling interests having a deficit balance.
The consolidated financial statements include the financial statements of subsidiaries whose fiscal year end date is different from that of the parent company since it is impracticable to unify the fiscal year end date. The difference between the fiscal year end date of the subsidiaries and that of the parent company does not exceed three months.
In cases where the financial statements of subsidiaries used for preparing the consolidated financial statements have different fiscal year end dates from that of the Company, necessary adjustments are made for the effects of significant transactions or events occurring between the fiscal year end dates of the subsidiaries and that of the Company.

B. Associates

An associate is an entity of which the Group has significant influence over its financial and operating policy. Investments in associates are accounted for using the equity method from the date on which the Group has the significant influence until the date on which it ceases to have the significant influence.
The consolidated financial statements include investments in associates with different fiscal year end dates from that of the parent company since, primarily due to relations with other shareholders, it is impracticable to unify the fiscal year end dates. Necessary adjustments are made for the effects of significant transactions or events occurring between the fiscal year end dates of the associates and that of the Company.

C. Joint Ventures

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

(2) Business Combination

Business combinations are accounted for using the acquisition method. Consideration transferred in a business combination is measured as the sum of the acquisition-date fair value of the assets transferred, the liabilities assumed and equity instruments issued by the Company in exchange for control over an acquiree. Any excess of the consideration of acquisition over the fair value of identifiable assets and liabilities is recognized as goodwill in the consolidated statement of financial position. If the consideration of acquisition is lower than the fair value of the identifiable assets and liabilities, the difference is immediately recognized as profit in the consolidated statement of income. Acquisition-related costs incurred are recognized as expenses. The additional acquisition of non-controlling interests after obtaining control is accounted for as a capital transaction and no goodwill is recognized with respect to such transaction.

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 amount of goodwill under the previous accounting principles (Japanese GAAP) as at the date of transition becomes the carrying amount for the opening consolidated statement of financial position.

(3) Foreign Currency Translation

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

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

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

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

As the Group has adopted the exemption provision in IFRS 1, the cumulative amount of translation differences for the prior to the date of transition is transferred to retained earnings.

(4) Financial Instruments

For the date of transition and for the year ended March 31, 2011,the previous accounting principles (Japanese GAAP) were applied for financial instruments pursuant to the exemption in IFRS 1 regarding retrospective application of IFRS 7 and IFRS 9. For the year ended March 31, 2012, IFRS 7 and IFRS 9 are applied, and new accounting policies are as follows:

A. Financial Assets

(i) Initial Recognition and Measurement

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

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

・The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows

・The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

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

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

(ii) Subsequent Measurement

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

(a) Financial Assets Measured at Amortized Cost

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

(b) Other Financial Assets

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

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

However, changes in the fair value of equity instruments designated as measured at fair value through other comprehensive income are recognized as other comprehensive income and the amount in other comprehensive income 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.

B. Impairment of Financial Assets

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

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

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

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

C. Financial Liabilities

(i) Initial Recognition and Measurement

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

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

(ⅱ) Subsequent Measurement

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

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

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

(b) Financial Liabilities Measured at Amortized Cost

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

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

· The best estimate of expenditure required to settle the obligation as of the end of the fiscal year, and

· The amount initially recognized less cumulative amortization.

(ⅲ) Derecognition

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

D. Offsetting of Financial Instruments

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

E. Derivatives and Hedge Accounting

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

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

Hedges that 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 in the consolidated statement of comprehensive income, while the ineffective portion is recognized immediately as profit or loss in the consolidated statement of income.

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

When forecast transactions or firm commitment are no longer expected to occur, any related cumulative gain or loss that has been recognized in equity as other comprehensive income is reclassified to profit or loss. When hedging instruments expire, are sold, 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 a hedge of net investment in foreign operations is accounted for similarly to a cash flow hedge. The effective portion of gains or losses on hedging instruments is recognized as other comprehensive income in the consolidated statement of comprehensive income, while the ineffective portion is recognized as profit or loss in the consolidated statement of income. At the time of the disposal of the foreign operations, any related cumulative gain or loss that has been recognized in equity as other comprehensive income is reclassified to profit or loss.

F. Fair Value of Financial Instruments

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

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

The previous accounting principles (Japanese GAAP) applied for the date of transition and for the year ended March 31, 2011 are as follows.

A. Securities

Securities are classified as held-to-maturity debt securities or available-for-sale securities. Held-to-maturity debt securities are measured at amortized cost. Available-for-sale marketable securities are measured at fair value, with unrealized gains and losses, net of applicable taxes, recognized in other comprehensive income in the consolidated statement of comprehensive income.

The cost of available-for-sale marketable securities sold is determined based on the moving-average method. Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For a significant impairment in value that is judged unrecoverable, the carrying amount of securities is reduced to fair value with a resulting charge to profit or loss.

B. Derivative financial instruments and hedge accounting

Derivative financial instruments are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivatives are recognized in the consolidated statement of income. For derivatives which qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and hedged items, gains or losses on derivatives are deferred until the corresponding hedged items are recognized in earnings.

The Group's trade payables that are denominated in foreign currencies and have been hedged by foreign exchange forward contracts are translated at the foreign exchange rate stipulated in the contracts. Interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements are recognized and included in the interest expense or income. Cross currency swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements are recognized and included in interest expense or income, and long-term debts that are denominated in foreign currencies and have been hedged by interest rate and currency swap contracts are translated at the foreign exchange rate stipulated in the contracts.

(5) Cash and Cash Equivalents

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

(6) Inventories

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

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

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

(7) Property, Plant and Equipment

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

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

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

Buildings and structures: 38 to 50 years

· Machinery and vehicles: 10 to 15 years

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

(8) Goodwill and Intangible Assets

A. Goodwill

Goodwill is stated at acquisition cost less accumulated impairment losses.

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

B. Intangible Assets

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

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

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

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

・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 whenever there is any indication of impairment.

(9) Leases

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

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

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

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

(10) Investment Property

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

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

(11) Impairment of Non-financial Assets

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

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

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

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

(13) Employee Retirement Benefits

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

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

For each plan the Group calculates the present value of defined benefit obligations, 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 for the period corresponding to the discount period at the end of the fiscal year on high-rating corporate bonds. Liabilities or assets for defined benefit plans are calculated by the present value of the defined benefit obligation, deducting unrecognized past service cost and the fair value of any plan assets (including adjustments for the asset ceiling for defined benefit plan and minimum funding requirements, if necessary).Expected return on plan assets and interest costs are recognized as financial costs.

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

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 in IFRS 1, cumulative amount of actuarial gains and losses in relation to defined benefit plans are recognized in full in retained earnings in the opening consolidated statement of financial position as of the date of IFRS transition.

(14) Share-based Payments

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

(15) Provisions

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

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

In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets," the Group recognizes a provision for restructuring when it has a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main scheme to those affected by it.

Restructuring provisions include only the direct expenditures arising from the restructuring, which meet both of:

・necessarily entailed by the restructuring;

・not associated with the ongoing activities of the entity.

(16) Revenue

A. Sale of Goods

The Group mainly engages in the sale of tobacco products, prescription drugs, 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 to customers. 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 turnover where the Group is involved as an agency, including tobacco excise taxes, is deducted from revenue, the Group recognizes only the economic benefit inflow, excluding such amount as revenue in the consolidated statements of income.

B. Interest Income

Interest income is recognized using the effective interest rate method

C. Dividend Income

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

D. Royalties

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

(17) Government Grants

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

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

(18) Borrowing Costs

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

With regard to the borrowing costs for construction projects that started before the date of transition, the Group has adopted the exemption for capitalized cost in IFRS 1, and the Group continued to recognize them as expense.

(19) Income Taxes

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

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

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

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

・the initial recognition of goodwill

・the initial recognition of assets or liabilities in transactions that are not business combinations and at the time of transaction, affect neither accounting profit nor taxable profit or tax loss

・deductible temporary differences arising from investments in subsidiaries and associates, and interests in joint venture to the extent that it is probable that the timing of the reversal of the temporary difference in the foreseeable future and it is not probable that future taxable profits will be available against which they can be utilized.

・taxable temporary differences arising from investments in subsidiaries and associates, and interests in joint venture to the extent that the timing of the reversal of the temporary difference is controlled and that it is probable the temporary difference will not reverse in the foreseeable future.

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

(20) Treasury Shares

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

(21) Earnings per Share

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

(22) Dividends

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

(23) Contingencies

A. Contingent Liabilities

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

B. Contingent Assets

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

(24) Adjusted Financial Measures

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

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

“Restructuring-related income” and “Restructuring-related costs”are adjustment items recognized in line with the execution of a restructuring program.

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

4. Significant Accounting Estimates and Judgments

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

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

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

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

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

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

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

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

B. Employee Retirement Benefits and Mutual Pension Benefits

The Group has various types of retirement benefit plans, including defined benefit plans.

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

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

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

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

C. Provisions

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

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

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

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

D. Income Taxes

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

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

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

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

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

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

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

E. Contingencies

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

The content of contingencies is indicated in "39. Contingencies."

5. New Accounting Standards Not Yet Adopted by the Group

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

IFRS		Mandatory adoption (From the year beginning)	To be adopted by the Group	Description of New Standards/Amendments
IFRS1	First-time Adoption of International Financial Reporting Standards	July 1, 2011	Fiscal year ending March 2013	Guidance for companies facing serious hyperinflation
		January 1, 2013	Fiscal year ending March 2014	Exemption related to government grants
		January 1, 2013	Fiscal year ending March 2014	Provision related to reapplication of IFRS 1
		January 1, 2013	Fiscal year ending March 2014	Exemption related to adjustment of borrowing costs recognized before the application of IFRS
IFRS7	Financial Instruments: Disclosures	July 1, 2011	Fiscal year ending March 2013	Disclosure regarding transfer of financial assets
		January 1, 2013	Fiscal year ending March 2014	Disclosure related to offsetting of financial assets and liabilities, related notes are necessary during the
IFRS10	Consolidated financial statements	January 1, 2013	Fiscal year ending March 2014	Amendment for definition of control, elements of control and basis of existence of control to be applied, regardless of the nature of the investee
IFRS11	Joint Arrangements	January 1, 2013	Fiscal year ending March 2014	Regarding arrangements of which two or more parties have joint control, provide the classification of a joint arrangement based on legal form, contractual arrangement on assets or liabilities and other facts and conditions, not based on only legal form of the arrangement Provide accounting treatment for each classification
IFRS12	Disclosure of Interests in Other Entities	January 1, 2013	Fiscal year ending March 2014	Expansion of the scope of the disclosure of ownership of interests in other entities, including unconsolidated structured entities
IFRS13	Fair Value Measurement	January 1, 2013	Fiscal year ending March 2014	Guidance of fair value measurement to be applied by all standards and unify the definition of fair value which was previously provided separately in each standard
IAS1	Presentation of Financial Statements	July 1, 2012	Fiscal year ending March 2014	Revision to the presentation of items in other comprehensive income
		January 1, 2013	Fiscal year ending March 2014	Provision for comparative information. When it is disclosed though not required under IFRS, related notes of that period is required.
IAS12	Income Taxes	January 1, 2012	Fiscal year ending March 2013	Establishment of the exemption regarding deferred tax assets/liabilities of investment property measured at fair value
IAS16	Property, plant and equipment	January 1, 2013	Fiscal year ending March 2014	Clarification of treatment related to servicing equipment
IAS19	Employee Benefits	January 1, 2013	Fiscal year ending March 2014	Revision to recognition and presentation of actuarial gains and losses, past service cost, interest cost and others, and revision to

disclosure of retirement benefits

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

IFRS		Mandatory adoption (From the year beginning)	To be adopted by the Group	Description of New Standards/Amendments
IAS27	Separate Financial Statements	January 1, 2013	Fiscal year ending March 2014	Transfer of the provisions regarding consolidation to IFRS 10
IAS28	Investments in Associates and Joint Ventures	January 1, 2013	Fiscal year ending March 2014	Amendments based on IFRS 10, IFRS 11 and IFRS 12
IAS32	Financial Instruments: Disclosure	January 1, 2013	Fiscal year ending March 2014	Clarification of accounting treatment of income taxes related to dividend paid to the equity financial instruments holder
		January 1, 2014	Fiscal year ending March 2015	Clarification of conditions on offset disclosure and addition of guidelines
IAS34	Interim Financial Reporting	January 1, 2013	Fiscal year ending March 2014	Clarification of conditions on segment disclosure on interim financial reporting
IFRIC20	Stripping Costs in the Production Phase of a Surface Mine	January 1, 2013	Fiscal year ending March 2014	Accounting treatment for waste removal costs that are incurred in surface mining activity during the production phase of the mine (Not applicable for costs incurred during the

6. Operating Segments

(1) Outline of Reportable Segments

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

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

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

(2) Revenues and Performances for Reportable Segments

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

For the year ended March 31, 2011

(Millions of yen)

	Reportable Segments					Other (Note 3)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco (Note 2)	Pharmaceuticals	Food	Total			
Revenue								
External revenue (Note 4)	665,819	963,520	44,105	367,457	2,040,901	18,464	—	2,059,365
Intersegment revenue	30,115	37,909	—	117	68,140	9,374	(77,515)	—
Total revenue	695,934	1,001,429	44,105	367,574	2,109,042	27,838	(77,515)	2,059,365
Segment profit (loss)								
Adjusted EBITDA (Note 1)	247,184	277,878	(9,761)	17,725	533,026	(6,356)	(4,641)	522,029
Other items								
Depreciation and amortization	42,790	51,638	3,544	16,485	114,456	3,648	(150)	117,954
Impairment losses on other than financial assets	728	345	—	3,197	4,270	1,912	—	6,181
Reversal of impairment losses on other than financial assets	—	—	—	—	—	—	—	—
Share of profit (loss) in investments accounted for using the equity method	20	2,339	—	(36)	2,323	6	—	2,330
Capital expenditures	55,428	60,907	6,194	24,953	147,481	3,230	(2,310)	148,401

For the year ended March 31, 2012

(Millions of yen)

	Reportable Segments					Other (Note 3)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco (Note 2)	Pharmaceuticals	Food	Total			
Revenue								
External revenue (Note 4)	646,187	966,255	47,407	359,420	2,019,269	14,556	－	2,033,825
Intersegment revenue	28,115	27,497	－	92	55,704	9,257	(64,961)	－
Total revenue	674,303	993,752	47,407	359,512	2,074,973	23,813	(64,961)	2,033,825
Segment profit (loss)								
Adjusted EBITDA (Note 1)	262,257	314,755	(10,031)	19,987	586,968	(8,852)	(983)	577,132
Other items								
Depreciation and amortization	39,567	55,227	3,465	17,528	115,788	3,376	(319)	118,845
Impairment losses on other than financial assets	314	4,610	－	413	5,336	1,677	－	7,013
Reversal of impairment losses on other than financial assets	5	－	－	77	82	－	－	82
Share of profit (loss) in investments accounted for using the equity method	31	1,922	－	13	1,966	81	－	2,047
Capital expenditures	56,224	39,141	3,897	15,410	114,671	4,321	(0)	118,992

Reconciliation from adjusted EBITDA to Profit before income taxes

For the year ended March 31, 2011

(Millions of yen)

	Reportable Segments					Other (Note 3)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco (Note 2)	Pharmaceuticals	Food	Total			
Adjusted EBITDA (Note 1)	247,184	277,878	(9,761)	17,725	533,026	(6,356)	(4,641)	522,029
Depreciation and amortization	(42,790)	(51,638)	(3,544)	(16,485)	(114,456)	(3,648)	150	(117,954)
Impairment losses on goodwill	—	—	—	(87)	(87)	—	—	(87)
Restructuring-related income(Note 5)	—	190	—	2,932	3,122	8,132	—	11,254
Restructuring-related costs(Note 5)	(2,046)	(578)	—	(7,712)	(10,336)	(3,583)	—	(13,920)
Operating profit (loss)	202,347	225,852	(13,305)	(3,627)	411,268	(5,455)	(4,492)	401,321
Financial income								9,870
Financial costs								(25,949)
Profit before income taxes								385,242

For the year ended March 31, 2012

(Millions of yen)

	Reportable Segments					Other (Note 3)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco (Note 2)	Pharmaceuticals	Food	Total			
Adjusted EBITDA (Note 1)	262,257	314,755	(10,031)	19,987	586,968	(8,852)	(983)	577,132
Depreciation and amortization	(39,567)	(55,227)	(3,465)	(17,528)	(115,788)	(3,376)	319	(118,845)
Impairment losses on goodwill	—	—	—	—	—	—	—	—
Restructuring-related income(Note 5)	—	564	—	—	564	29,368	—	29,932
Restructuring-related costs(Note 5)	(13,426)	(7,737)	—	(434)	(21,597)	(7,443)	—	(29,039)
Operating profit (loss)	209,265	252,355	(13,497)	2,024	450,147	9,697	(664)	459,180
Financial income								5,603
Financial costs								(23,429)
Profit before income taxes								441,355

(Note 1) For adjusted EBITDA, the depreciation and amortization, impairment losses on goodwill, and restructuring-related income and costs are excluded from operating profit (loss).

(Note 2) The foreign subsidiaries group, which includes a core company of JT International S.A., that is part of the "International Tobacco Business" segment has December 31 as its fiscal year end date and the profit or loss for the period from January 1 to December 31 is included in the years ended March 31, 2011 and 2012, respectively.

(Note 3) "Other" includes business activities relating to rent of real estate and corporate expenses relating to corporate communication and operation of the head office.

(Note 4) Core revenue as part of the Domestic Tobacco Business and the International Tobacco Business are as follows

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Domestic tobacco	632,159	611,925
International tobacco	887,798	894,636

(Note 5) "Restructuring-related income" includes restructuring income of gains on sale of real estates.
"Restructuring-related costs" includes restructuring costs of closing down the factory, cooperation fee for terminating leaf tobacco farming and adjustment amount of ceasing classification as non-current assets held-for-sale.
The breakdown of restructuring income is described in "28. Other Operating Income" and restructuring cost is described in "29. Selling, General and Administrative Expenses."
The breakdown of restructuring-related costs is as follows:

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Restructuring costs	13,920	14,052
Cooperation fee for terminating leaf tobacco farming	—	12,469
Adjustment of ceasing classification as non-current assets held-for-sale	—	2,518
Restructuring-related costs	13,920	29,039

Restructuring costs for the year ended March 31, 2011 include costs of closing down of Odawara Factory in Domestic Tobacco Business, and costs for sale and liquidation of subsidiaries for business integration and measures for the rationalization in International Tobacco Business and Foods Business.

Restructuring costs for the year ended March 31, 2012 include costs of closing down of Hofu Factory in Domestic Tobacco Business and Hainburg factory in International Tobacco Business.

(3) Geographic Information

The regional breakdown of non-current assets and external revenues is as follows.

Non-current Assets

(Millions of yen)

	Date of transition to IFRS As of April 1, 2010	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Japan	562,776	518,479	556,102
Overseas	1,949,726	1,663,630	1,547,315
Consolidated	2,512,502	2,182,109	2,103,417

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

External Revenue

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Japan	1,080,027	1,051,702
Overseas	979,339	982,123
Consolidated	2,059,365	2,033,825

(Note) The sales revenue is segmented by the sales destination.

(4) Major Customers Information

The International Tobacco Business of the Group sells products to Megapolis Group that engages in distribution and wholesale business in Russia and other countries. The external revenue from the group is ¥207,361 million (10.1% of consolidated sales revenue) for the year ended March 31, 2011 and ¥236,050 million (11.6% of consolidated sales revenue) for the year ended March 31, 2012.

7. Business Combination

Acquisition of Haggar Cigarette & Tobacco Factory Ltd. (The Republic of the Sudan) ("HCTF") and Haggar Cigarette & Tobacco Factory Ltd. (The Republic of South Sudan) ("South HCTF")

(1) Summary of business combination

On October 31, 2011, the Group acquired 100% and 99% of the outstanding shares of HCTF and South HCTF which have operations in the Republic of the Sudan and the Republic of South Sudan respectively. Through this acquisition, the Group will be able to further expand its footprint in the Sudan market.

(2) Financial impact of the Group

Since the acquisition date, the acquired business had contributed to consolidated revenue of ¥1,272 million and consolidated operating profit of ¥450 million. Had the business been acquired on January 1,2011, the Group estimates that total consolidated revenue would have increased by ¥6,543 million to ¥2,040,369 million and total consolidated operating profit would have increased by ¥1,557 million to ¥460,737 million.

(3) Consideration and detail (Total of two companies)

(Millions of yen)

	Total consideration
Cash	33,463
Consideration adjustment (Note 1)	(1,060)
Contingent consideration (Note 2)	1,944
Total consideration	34,346

(Note 1) Under the Share Purchase Agreement, the Group shall be repaid from the former owners in respect of the equivalent amount of net debt of HCTF and South HCTF as of October 31, 2011. The equivalent amount of net debt specified under the Share Purchase Agreement is determined as the total debt amount less cash and cash equivalents.

(Note 2) The Group agreed with the former owners of HCTF and South HCTF regarding contingent consideration as a part of the Share Purchase Agreement. Additional payments will be made over three years (from 2012 to 2014), depending on the achievement of the performance requirements.

(4) Cash out for the acquisition of subsidiaries (Total of two companies)

(Millions of yen)

	Net cash out for the acquisition of subsidiaries
Cash consideration	33,463
Cash and cash equivalents in subsidiaries acquired	(709)
Net cash out for the acquisition of subsidiaries	32,754

(5) Fair value of the assets acquired and liabilities assumed

(Millions of yen)

	Fair value
Current assets	2,341
Non-current assets	8,653
Total assets acquired	10,995
Current liabilities	(3,220)
Non-current liabilities	(2,779)
Total liabilities	(6,000)
Total equity	4,995
Goodwill	29,352

Goodwill of ¥29,352 million represents future economic benefit for an expansion of customer sales network and synergy of business integration. Transaction costs of ¥148 million are expensed as incurred and recognized in "Selling, general and administrative expenses."

8. Cash and Cash Equivalents

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

(Millions of yen)

	Date of transition to IFRS As of April 1, 2010	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Cash and deposits	147,589	104,820	108,797
Short-term investments	6,780	139,420	295,943
Total	154,369	244,240	404,740

IFRS 9 has been applied from the beginning of the year ended March 31, 2012 (April 1, 2011) and cash and cash equivalents are classified as financial assets measured at amortized cost.

9. Trade and Other Receivables

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

(Millions of yen)

	Date of transition to IFRS As of April 1, 2010	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Note and Account receivables	296,296	301,371	311,803
Other	14,991	12,196	17,693
Allowance for doubtful accounts	(3,196)	(2,364)	(1,729)
Total	308,091	311,202	327,767

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

IFRS 9 has been applied from the beginning of the year ended March 31, 2012 (April 1, 2011) and trade and other receivables are classified as financial assets measured at amortized cost.

10. Inventories

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

(Millions of yen)

	Date of transition to IFRS As of April 1, 2010	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Merchandise and finished goods(Note 1)	131,966	108,542	112,477
Leaf tobacco(Note 2)	359,152	343,198	294,813
Other	40,829	36,869	39,327
Total	531,948	488,609	446,617

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

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

11. Other Financial Assets

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

(Millions of yen)

	Date of transition to IFRS As of April 1, 2010	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Derivative assets	9,029	6,809	1,941
Equity securities	51,147	33,437	39,106
Debt securities	7,998	24,307	8,835
Time deposits	7,856	11,978	24,306
Other	64,222	47,436	34,858
Allowance for doubtful accounts	(35,122)	(23,958)	(14,137)
Total	105,131	100,010	94,909
Current assets	21,629	37,349	27,361
Non-current assets	83,502	62,661	67,548
Total	105,131	100,010	94,909

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

IFRS 9 has been applied from the beginning of the year ended March 31, 2012 (April 1, 2011) and derivative assets are classified as financial assets measured at fair value through profit or loss excluding that to which hedge accounting is applied, equity securities are classified as financial assets measured at fair value through other comprehensive income, and time deposits and debt securities are classified as financial assets measured at amortized cost.

(2) Major stock name of financial assets measured at fair value through other comprehensive income and their fair values are as follows:

(Millions of yen)

Company name	Fiscal year ended March 31, 2012
KT&G Corporation	16,700
Seven & i Holdings Co., Ltd.	2,094
Mizuho Financial Group, Inc.	1,721
Mitsubishi UFJ Financial Group, Inc.	1,447
DOUTOR・NICHIRES Holdings Co., Ltd.	1,437
Mitsubishi Shokuhin Co., Ltd	1,269

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

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

Fair value at the time of sale and cumulative gain or loss that is recognized in equity through other comprehensive income is as follows:

(Millions of yen)

Fiscal year ended March 31, 2012	
Fair Value	Cumulative gain or loss recognized in equity as other comprehensive income(Note)
695	(89)

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

12. Other Current Assets

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

(Millions of yen)

	Date of transition to IFRS As of April 1, 2010	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Prepaid tobacco excise taxes	98,423	91,494	87,261
Prepaid expenses	11,135	10,138	10,736
Consumption tax payables	10,686	10,785	6,702
Other	26,840	25,492	18,465
Total	147,084	137,910	123,163

13. Non-current Assets Held-for-Sale

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

Breakdown of Major Assets and Liabilities

(Millions of yen)

	Date of transition to IFRS As of April 1, 2010	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Non-current assets held-for-sale			
Property, plant and equipment	—	0	302
Investment property	1,366	39,553	1,098
Total	1,366	39,553	1,401
Liabilities directly associated with non-current assets held-for-sale			
Long-term guarantee deposits	—	6,297	101
Total	—	6,297	101

Non-current assets held-for-sale as of March 31, 2011 are mainly rental properties, including Shinagawa Seaside Forest in Japan, which are currently actively marketed for sale. Long-term guarantee deposits related to the rental properties are included in “Liabilities directly associated with non-current assets held-for-sale.

”Other non-current assets held-for-sale are idle properties and are being marketed for sale. With regard to the assets and assets which have been sold, impairment losses of ¥1,577 million are recognized in “Selling, general and administrative expenses” in the consolidated statement of income for the year ended March 31, 2011.

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

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

For Shinagawa Seaside Forest in Japan, classified as non-current assets held-for-sale as of March 31, 2011, the Group continues to conduct the sales activities, however, since more than one year from the date of classification has elapsed, the Group ceased to classify it as non-current assets held-for-sale and transferred it to investment property.

14. Property, Plant and Equipment

(1) Schedule of Property, Plant and Equipment

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

(Millions of yen)

Acquisition Cost	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of April 1, 2010	634,801	671,376	171,736	41,906	1,519,819
Individual acquisition	20,286	62,697	21,824	27,748	132,555
Capitalization of borrowing costs(Note)	—	—	—	23	23
Transfer to investment property	(8,819)	(1,572)	(3,553)	—	(13,944)
Transfer to non-current assets held-for-sale	(3,459)	(12)	(46)	—	(3,517)
Sale or disposal	(22,802)	(23,752)	(31,364)	(372)	(78,290)
Exchange differences on translation of foreign operations	(14,016)	(34,269)	(5,966)	(4,219)	(58,470)
Other	11,447	15,945	(52)	(35,984)	(8,644)
As of March 31, 2011	617,438	690,412	152,580	29,101	1,489,531
Individual acquisition	15,207	34,579	22,750	26,417	98,952
Capitalization of borrowing costs(Note)	—	—	—	23	23
Acquisition through business combinations	767	908	21	85	1,781
Transfer to investment property	(23,175)	(286)	(344)	—	(23,805)
Transfer to non-current assets held-for-sale	(1,169)	(35)	(2)	—	(1,206)
Sale or disposal	(8,406)	(50,323)	(14,817)	(253)	(73,799)
Exchange differences on translation of foreign operations	(8,175)	(23,288)	(2,670)	(1,524)	(35,657)
Other	1,500	18,679	(2,285)	(22,729)	(4,834)
As of March 31, 2012	593,988	670,645	155,232	31,120	1,450,985

(Note) The capitalization rates calculating the borrowing costs for capitalization are 10.4% for the year ended March 31, 2011 and 3.7% for the year ended March 31, 2012, respectively.

(Millions of yen)

Accumulated Depreciation and Accumulated Impairment Losses	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of April 1, 2010	318,810	438,294	114,134	—	871,239
Depreciation	14,697	43,851	22,118	—	80,666
Impairment losses	1,387	1,343	15	—	2,744
Transfer to investment property	(6,611)	(1,288)	(3,044)	—	(10,943)
Transfer to non-current assets held-for-sale	(1,515)	(11)	(35)	—	(1,561)
Sale or disposal	(15,862)	(20,359)	(30,596)	—	(66,817)
Exchange differences on translation of foreign operations	(2,954)	(16,500)	(3,452)	—	(22,906)
Other	5,245	(7,012)	(447)	—	(2,214)
As of March 31, 2011	313,196	438,318	98,693	—	850,207
Depreciation	14,922	48,959	18,993	—	82,874
Impairment losses	2,709	2,052	78	—	4,840
Reversal of impairment losses	(77)	(5)	—	—	(82)
Transfer to investment property	(18,023)	(268)	(324)	—	(18,615)
Transfer to non-current assets held-for-sale	(203)	(33)	(1)	—	(237)
Sale or disposal	(7,690)	(46,272)	(14,372)	—	(68,335)
Exchange differences on translation of foreign operations	(2,164)	(11,613)	(1,630)	—	(15,407)
Other	(2,132)	309	(1,974)	—	(3,797)
As of March 31, 2012	300,539	431,446	99,464	—	831,449

(Millions of yen)

Carrying Amount	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of April 1, 2010	315,991	233,082	57,602	41,905	648,580
As of March 31, 2011	304,242	252,094	53,887	29,101	639,324
As of March 31, 2012	293,449	239,199	55,768	31,120	619,536

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

(Millions of yen)

Leased Assets	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
As of April 1, 2010	282	4,314	9,808	14,404
As of March 31, 2011	227	3,170	8,569	11,966
As of March 31, 2012	279	2,875	6,749	9,902

(2) Impairment Losses

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

The Group recognized impairment losses of ¥2,744 million for the year ended March 31, 2011 and ¥4,840 million for the year ended March 31, 2012 in "Selling, general and administrative expenses" in the consolidated statement of income.

Impairment losses recognized for the year ended March 31, 2011 represent the difference of the recoverable amounts and the carrying amounts of the buildings and structures mainly, which were decided individually to demolish.

The recoverable amounts of these assets are calculated mainly by their value in use, which is set at the value in use for the period through their demolition or at "zero."

Impairment losses recognized in the year ended March 31, 2012 represent the amounts reduced to the recoverable amounts from the carrying amounts of the buildings, structures, machinery and vehicles which were closed down or individually decided to demolish.

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

15. Goodwill and Intangible Assets

(1) Schedule of Goodwill and Intangible Assets

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

(Millions of yen)

Acquisition Cost	Goodwill	Trademark	Software	Other	Total
As of April 1, 2010	1,388,144	732,617	93,015	70,028	2,283,804
Individual acquisition	157	433	4,690	10,012	15,292
Sale or disposal	—	(38)	(3,539)	(590)	(4,167)
Exchange differences on translation of foreign operations	(212,046)	(54,466)	(2,567)	(2,177)	(271,256)
Other	(54)	581	2,524	(1,882)	1,169
As of March 31, 2011	1,176,201	679,127	94,122	75,392	2,024,842
Individual acquisition	29	292	5,982	13,347	19,651
Acquisition through business combinations	29,352	6,947	—	—	36,298
Sale or disposal	(136)	(51)	(2,563)	(3,676)	(6,426)
Exchange differences on translation of foreign operations	(95,378)	(22,655)	(970)	(664)	(119,667)
Other	(22)	215	743	2,392	3,329
As of March 31, 2012	1,110,046	663,875	97,314	86,792	1,958,027

(Millions of yen)

Accumulated Amortization and Accumulated Impairment Losses	Goodwill	Trademark	Software	Other	Total
As of April 1, 2010	—	381,498	71,699	47,772	500,969
Amortization(Note)	—	21,812	8,828	4,555	35,195
Impairment losses	87	—	—	—	87
Sale or disposal	—	(35)	(3,116)	(535)	(3,686)
Exchange differences on translation of foreign operations	—	(10,780)	(1,963)	(972)	(13,715)
Other	—	—	(154)	(162)	(316)
As of March 31, 2011	87	392,495	75,294	50,658	518,534
Amortization(Note)	—	21,141	7,567	5,894	34,602
Impairment losses	—	—	64	0	65
Sale or disposal	(87)	(9)	(2,471)	(2,481)	(5,049)
Exchange differences on translation of foreign operations	—	(7,111)	(760)	(488)	(8,358)
Other	—	10	(140)	1,870	1,739
As of March 31, 2012	—	406,526	79,553	55,453	541,533

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

Carrying Amount	Goodwill	Trademark	Software	Other	Total
					(Millions of yen)
As of April 1, 2010	1,388,144	351,119	21,316	22,256	1,782,835
As of March 31, 2011	1,176,114	286,632	18,828	24,734	1,506,308
As of March 31, 2012	1,110,046	257,349	17,760	31,339	1,416,494

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

Carrying Amount	Software
	(Millions of yen)
As of April 1, 2010	145
As of March 31, 2011	38
As of March 31, 2012	11

(2) Material Goodwill and Intangible Assets

Goodwill and intangible assets recognized in the consolidated statement of financial position are mainly composed of goodwill and trademark in JTIH Group. The carrying amount of composed of goodwill as of March 31, 2011 and 2012 are ¥1,133,571 million and ¥1,067,544 million, respectively. The carrying amount of trademark as of March 31, 2011 and 2012 are ¥283,692 million and ¥254,543 million, respectively.

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

The trademark is amortized using the straight-line method and the remaining amortization period is mainly 15 years.

(3) Impairment Test for Goodwill

For the year ended March 31, 2012, the carrying amount of the majority of goodwill that is allocated to the international tobacco cash-generating unit of ¥1,067,544 million (¥1,133,571 million for the year ended March 31, 2011) and the processed food cash-generating unit of ¥25,368 million (¥25,368 million for the year ended March 31, 2011), details of the result of impairment test is as follows:

A. International Tobacco Cash-Generating Unit

The recoverable amount is calculated by their value in use based on the three-year business plan that was prepared by reflecting past experiences and external information and that was approved by management. After the three-year business plan, the Group sets a growth rate that decreases gradually from 6.6% in the fourth year (2011: 8.4%) to 4.0% in the ninth year (2011: 3.4%), and the same growth rate as the ninth year from the tenth year as a continued growth rate for inflation. The discount rate before taxes is 11.8% (2011: 10.9%). The value in use sufficiently exceeds the carrying amount of the cash-generating unit. Therefore, even in cases that the discount rate and growth rate used in calculating the value in use fluctuate within reasonable ranges, the Group assumes that the value in use will not become less than the carrying amount.

B. Processed Food Cash-Generating Unit

The recoverable amount is calculated by their value in use based on the three-year business plan that was prepared by reflecting past experiences and external information and that was approved by management. After the three-year business plan, the Group sets a growth rate that decreases gradually from 3.6% in the fourth year (2011: 3.3%) to 0.3% in the ninth year (2011: 0.5%), and the same growth rate as the ninth year issued from the tenth year as continued growth rate for inflation. The discount rate before taxes is 5.4% (2011: 5.3%). The value in use exceeds the carrying amount. If the discount rate increases by 0.8%, impairment losses would be recognized. In case that growth rate fluctuates within a reasonable range, the Group assumes that the value in use will not become less than the carrying amount.

16. Lease Transactions

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

(1) Present Value of Finance Lease Obligations

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

(Millions of yen)

	Date of transition to IFRS As of April 1, 2010	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Not later than 1 year			
Total of future minimum lease payments	6,126	5,167	4,161
Future financial costs	452	397	216
Present value	5,674	4,770	3,945
Later than 1 year and not later than five years			
Total of future minimum lease payments	9,715	8,289	7,102
Future financial costs	577	392	408
Present value	9,139	7,897	6,693
Later than 5 years			
The total of future minimum lease payments	389	265	248
Future financial costs	46	35	34
Present value	343	230	215
Total			
The total of future minimum lease payments	16,230	13,721	11,511
Future financial costs	1,075	824	659
Present value	15,156	12,897	10,853

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

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

(Millions of yen)

	Date of transition to IFRS As of April 1, 2010	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Not later than 1 year	7,516	6,671	7,706
Later than 1 year and not later than 5 years	14,633	11,717	12,821
Later than 5 years	6,733	2,297	1,384
Total	28,882	20,685	21,912

(3) Total of Minimum Lease Payments and Contingent Rents

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

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Total of minimum lease payments	8,714	7,863
Contingent rents	1,240	2,628

17. Investment Property

(1) Schedule of Investment Property

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

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Balance at the beginning of the year	81,087	36,477
Expenditure after acquisition	531	367
Transfer from property, plant and equipment	3,000	5,191
Transfer from non-current assets held-for-sale	—	32,784
Adjustment from ceasing classification as non-current assets held-for-sale	—	(2,518)
Transfer to non-current assets held-for-sale	(40,007)	(1,053)
Transfer to property, plant and equipment	(1,579)	(360)
Depreciation	(2,093)	(1,368)
Impairment losses	(1,773)	(1,866)
Sale or disposal	(2,505)	(340)
Exchange differences on translation of foreign operations	(151)	8
Other	(33)	65
Balance at the end of the year	36,477	67,387
Acquisition cost at the beginning of the year	147,507	79,922
Accumulated depreciation and accumulated impairment losses at the beginning of the year	66,420	43,445
Acquisition cost at the end of the year	79,922	144,976
Accumulated depreciation and accumulated impairment losses at the end of the year	43,445	77,589

(2) Fair Value

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

(Millions of yen)

	Date of transition to IFRS As of April 1, 2010		Fiscal year ended March 31, 2011		Fiscal year ended March 31, 2012	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Investment property	81,087	227,253	36,477	92,897	67,387	177,642

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

(3) Income and Expenses from Investment Property

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

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Rental income	8,616	4,395
Direct operating expenses	4,563	3,476

(4) Impairment Losses

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

The Group recognized impairment losses of ¥1,773 million for the year ended March 31, 2011 and ¥1,866 million for the year ended March 31, 2012 in "Selling, general and administrative expenses" in the consolidated statement of income.

Impairment losses recognized in the year ended March 31, 2011 represent the difference of the recoverable amounts and the carrying amount of the land and buildings as rental or idle properties which were decided individually to demolish.

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

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

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

18. Investments Accounted for Using the Equity Method

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

Condensed Financial Information

(Millions of yen)

	Date of transition to IFRS As of April 1, 2010	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Statement of financial position			
Total assets	203,445	161,903	147,592
Total liabilities	174,061	136,818	124,112
Total equity	29,385	25,085	23,480

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Statement of income		
Revenue	1,470,172	1,415,412
Expense	1,460,968	1,407,548
Profit for the year	9,203	7,864

19. Income Taxes

(1) Deferred Tax Assets and Deferred Tax Liabilities

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

(Millions of yen)

Deferred Tax Assets	As of April 1, 2010	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of March 31, 2011
Fixed assets(Note 2)	42,701	(5,454)	—	(1,154)	36,093
Retirement benefits	93,460	(4,666)	21,164	(4,508)	105,451
Carryforward of unused tax losses	45,685	17,301	—	(9,045)	53,941
Other	93,428	(5,340)	(65)	(7,606)	80,418
Subtotal	275,275	1,841	21,099	(22,313)	275,903
Valuation allowance	(73,942)	(3,084)	(853)	9,002	(68,877)
Total	201,333	(1,243)	20,246	(13,310)	207,026

(Millions of yen)

Deferred Tax Liabilities	As of April 1, 2010	Recognized in profit or loss	Recognized in other comprehensive income	Other(Note 1)	As of March 31, 2011
Fixed assets(Note 2)	(146,407)	7,761	—	9,295	(129,350)
Retirement benefits	(1,965)	(918)	(546)	1,050	(2,379)
Other	(29,509)	(883)	4,001	3,970	(22,421)
Total	(177,881)	5,961	3,455	14,315	(154,150)

(Millions of yen)

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

(Millions of yen)

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

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

The deferred tax assets are recognized by taking taxable temporary differences, future taxable profits plan and tax planning into account. The carryforward of unused tax losses, for which the deferred tax assets are not recognized, is ¥33,557 million (including ¥24,140 million, for which the carryforward expires after five years) as of the date of transition, ¥43,274 million (including ¥29,692 million, for which the carryforward expires after five years) as of March 31, 2011, and ¥42,145 million (including ¥35,615 million, for which the carryforward expires after five years) as of March 31, 2012. Tax credits, for which the deferred tax assets are not recognized, are ¥798 million (including ¥32 million, for which the carryforward expires after five years) as of the date of transition, ¥2,337 million (including ¥2,310 million, for which the carryforward expires after five years) as of March 31, 2011, and ¥3,228 million (including ¥2,593 million, for which the carryforward expires after five years) as of March 31, 2012.

(2) Income Taxes

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

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Current income taxes	141,224	110,493
Deferred income taxes	(4,718)	2,303
Total income taxes	136,506	112,795

Deferred income taxes are decreased by ¥1,239 million for the year ended March 31, 2011 and are increased by ¥3,021 million for the year ended March 31, 2012, respectively due to the effect of changes in tax rates in Japan and other countries.

(3) Reconciliation of the Effective Tax Rate

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

The Company is subject mainly to corporate tax, inhabitant tax, and enterprise tax for the year ended March 31, 2011 and March 31, 2012.

The effective statutory tax rate calculated based on these taxes is 40.35%. Foreign subsidiaries are subject to income tax at their locations.

(%)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Effective statutory tax rate	40.35	40.35
Different tax rates applied to foreign subsidiaries	(10.65)	(11.65)
Non-deductible expenses	2.01	1.38
Losses on valuation of investments in subsidiaries	―	(7.07)
Uncertain tax position on income taxes	3.71	2.42
Other	0.02	0.12
Average actual tax rate	35.43	25.56

20. Trade and Other Payables

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

(Millions of yen)

	Date of transition to IFRS As of April 1, 2010	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Note and account payables	149,462	170,821	165,427
Other payables	73,739	67,130	71,736
Other	78,681	73,836	61,500
Total	301,880	311,787	298,663

IFRS 9 has been applied from the beginning of the year ended March 31, 2012 (April 1, 2011), and trade and other payables are classified as financial liabilities measured at amortized cost.

21. Bonds and Borrowings (including Other Financial Liabilities)

(1) Breakdown of Financial Liabilities

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

	Date of transition to IFRS As of April 1, 2010	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012 (Millions of yen)	Average interest rate(Note1) (%)	Due
Derivative liabilities	6,990	2,859	5,133	–	–
Short-term borrowings	109,263	70,060	43,486	5.96	–
Commercial paper	119,000	–	–	–	–
Current portion of long-term borrowings	23,025	21,491	78,219	1.05	–
Current portion of bonds(Note 2)	50,395	126,486	90,061	–	–
Long-term borrowings	149,569	152,415	49,277	1.08	2013-2028
Bonds(Note 2)	409,015	325,739	230,473	–	–
Other	35,570	20,419	23,900	–	–
Total	902,828	719,467	520,548		
Current liabilities	314,905	226,482	219,805		
Non-Current liabilities	587,923	492,985	300,743		
Total	902,828	719,467	520,548		

(Note 1) The average interest rate is calculated using the interest rate and outstanding balance as of March 31, 2012.

IFRS 9 has been applied from the beginning of the year ended March 31, 2012 (April 1, 2011), and derivative liabilities are classified as financial liabilities measured at fair value through profit or loss excluding those which hedge accounting is applied to, and bonds and borrowings are classified as financial liabilities measured at amortized cost.

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

(Note 2) Summary of issuing conditions of bonds is as follows:

Company	Name of bond	Date of issuance	Date of transition to IFRS As of April 1, 2010	Fiscal year ended March 31, 2011	(Millions of yen) Fiscal year ended March 31, 2012	(%) Interest rate	Collateral	Date of maturity
Japan Tobacco Inc.	2nd Domestic straight bond	July 24, 2007	50,000 (50,000)	—	—	1.34	Yes	July 23, 2010
Japan Tobacco Inc.	3rd Domestic straight bond	July 24, 2007	40,000	40,000 (40,000)	—	1.53	Yes	July 22, 2011
Japan Tobacco Inc.	4th Domestic straight bond	July 24, 2007	59,997	59,999	59,992 (59,992)	1.68	Yes	July 24, 2012
Japan Tobacco Inc.	5th Domestic straight bond	June 3, 2009	100,000	100,000	99,913	1.13	Yes	June 3, 2014
Japan Tobacco Inc.	6th Domestic straight bond	December 9, 2010	—	40,000	40,000	0.53	Yes	December 9, 2015
Japan Tobacco Inc.	7th Domestic straight bond	December 9, 2010	—	20,000	20,000	0.84	Yes	December 8, 2017
Japan Tobacco Inc.	8th Domestic straight bond	December 9, 2010	—	20,000	20,000	1.30	Yes	December 9, 2020
JTI (UK) Finance Plc	Straight bond in Euros	June 10, 2004	105,829 [EUR 800 mil.]	86,210 (86,210) [EUR 800 mil.]	—	4.63	Non	June 10, 2011
JTI (UK) Finance Plc	Straight bond in UK Pounds	February 6, 2003	36,514 [GBP 250 mil.]	31,535 [GBP 250 mil.]	29,919 (29,919) [GBP 250 mil.]	5.75	Non	February 6, 2013
JTI (UK) Finance Plc	Straight bond in Euros	October 2, 2006	66,055 [EUR 500 mil.]	53,856 [EUR 500 mil.]	50,359 [EUR 500 mil.]	4.50	Non	April 2, 2014
Other bonds			1,015 (395)	626 (276)	350 (150)			
Total			459,410 (50,395)	452,225 (126,486)	320,534 (90,061)			

(Note 1) Figure in parentheses ( ) represents the amount of the current portion of the bond.

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

(2) Assets Pledged as Collateral for Liabilities

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

B. Assets pledged as collateral by some subsidiaries and their corresponding debts are as follows:

(Millions of yen)

Assets Pledged as Collateral	Date of transition to IFRS As of April 1, 2010	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Land, buildings, and structures	10,137	10,604	9,231
Machinery and vehicles	2,446	1,268	571
Other	4,493	996	998
Total	17,076	12,867	10,800

(Millions of yen)

Corresponding Debts	Date of transition to IFRS As of April 1, 2010	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Short-term borrowings	10,862	1,774	130
Current portion of long-term borrowings	1,756	967	901
Long-term borrowings	5,281	3,487	1,311
Other	420	620	350
Total	18,319	6,848	2,692

22. Provisions

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

(Millions of yen)

	Asset retirement provisions	Restructuring provisions	Provisions for sales rebates	Other provisions	Total
As of April 1, 2010	1,449	3,212	2,186	2,730	9,577
Provisions	14	641	3,458	578	4,691
Interest cost associated with passage of time	16	—	—	—	16
Provisions used	(5)	(1,714)	(2,142)	(131)	(3,992)
Provisions reversed	(117)	(648)	(44)	(64)	(873)
Exchange differences on translation of foreign operations	—	(413)	—	(310)	(722)
As of March 31, 2011	1,357	1,078	3,458	2,802	8,696
Current liabilities	25	651	3,458	50	4,184
Non-current liabilities	1,332	428	—	2,752	4,512
Total	1,357	1,078	3,458	2,802	8,696

(Millions of yen)

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

A. Asset Retirement Provisions

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

B. Restructuring Provisions

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

C. Provisions for Sales Rebates

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

23. Other Liabilities

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

(Millions of yen)

	Date of transition to IFRS As of April 1, 2010	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Tobacco excise tax payables (Note)	212,067	202,234	240,532
Tobacco special excise tax payables (Note)	10,490	8,151	15,052
Tobacco local excise tax payables (Note)	85,238	102,169	191,377
Consumption tax payables	59,691	69,825	83,182
Bonus to employees	37,332	35,219	39,739
Employee's unused paid vacations liabilities	19,577	18,583	18,560
Other	107,045	121,042	94,509
Total	531,440	557,223	682,952
Current liabilities	433,459	463,088	590,717
Non-current liabilities	97,982	94,135	92,235
Total	531,440	557,223	682,952

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

24. Employee Benefits

(1) Employee Retirement Benefits

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

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

A. Schedule of Defined Benefit Obligations

The schedule of the defined benefit obligations is as follows:

(Millions of yen)

	Japan	Overseas	Total
As of April 1, 2010	198,494	292,821	491,315
Current service cost	5,579	4,620	10,200
Interest cost	3,586	14,637	18,223
Contributions by plan participants	—	922	922
Actuarial gains and losses	50,592	14,600	65,192
Benefits paid	(21,468)	(14,346)	(35,814)
Past service cost	51	1,398	1,449
Special termination benefits	—	13	13
Closure of the plans (curtailment or settlement)	(211)	(58)	(269)
Exchange differences on translation of foreign operations	—	(39,508)	(39,508)
Other	(152)	3,008	2,856
As of March 31, 2011	236,471	278,108	514,579
Current service cost	11,455	4,793	16,249
Interest cost	3,878	14,033	17,911
Contributions by plan participants	—	1,000	1,000
Actuarial gains and losses	6,445	4,947	11,392
Benefits paid	(20,467)	(14,058)	(34,525)
Past service cost	51	199	250
Special termination benefits	—	1,991	1,991
Closure of the plans (curtailment or settlement)	—	(52)	(52)
Exchange differences on translation of foreign operations	—	(16,355)	(16,355)
Other	57	313	370
As of March 31, 2012	237,890	274,918	512,808

B. Schedule of Plan Assets

The schedule of the plan assets is as follows:

(Millions of yen)

	Japan	Overseas	Total
As of April 1, 2010	100,498	220,812	321,311
Expected return on plan assets	2,489	11,503	13,993
Actuarial gains and losses	(524)	8,183	7,659
Contributions by the employer	3,189	7,426	10,615
Contributions by plan participants	—	922	922
Benefits paid	(9,093)	(10,079)	(19,172)
Closure of the plans (curtailment or settlement)	(83)	—	(83)
Exchange differences on translation of foreign operations	—	(28,042)	(28,042)
Other	(36)	—	(36)
As of March 31, 2011	96,440	210,726	307,166
Expected return on plan assets	2,366	11,193	13,559
Actuarial gains and losses	(1,522)	1,119	(404)
Contributions by the employer	3,424	8,299	11,723
Contributions by plan participants	—	1,000	1,000
Benefits paid	(8,539)	(10,653)	(19,193)
Exchange differences on translation of foreign operations	—	(11,789)	(11,789)
Other	—	20	20
As of March 31, 2012	92,168	209,914	302,082

The Group plans to pay contributions of ¥11,030 million in the year ending March 31, 2013

C. Reconciliation of Defined Benefit Obligations and Plan Assets

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

(Millions of yen)

Date of transition to IFRS As of April 1, 2010	Japan	Overseas	Total
Funded defined benefit obligations	112,277	224,869	337,146
Plan assets	(100,498)	(220,812)	(321,311)
Subtotal	11,778	4,057	15,835
Unfunded defined benefit obligations	86,217	67,952	154,169
Unrecognized past service cost	—	169	169
Net amount of liabilities and assets recognized in consolidated statement of financial position	97,995	72,178	170,173
Retirement benefit liabilities	98,034	77,372	175,407
Retirement benefit assets	(39)	(5,194)	(5,234)
Net amount of liabilities and assets recognized in consolidated statement of financial position	97,995	72,178	170,173

(Millions of yen)

As of March 31, 2011	Japan	Overseas	Total
Funded defined benefit obligations	106,386	213,847	320,233
Plan assets	(96,440)	(210,726)	(307,166)
Subtotal	9,946	3,121	13,067
Unfunded defined benefit obligations	130,085	64,261	194,345
Unrecognized past service cost	—	158	158
Net amount of liabilities and assets recognized in consolidated statement of financial position	140,031	67,539	207,570
Retirement benefit liabilities	140,058	74,282	214,339
Retirement benefit assets	(27)	(6,742)	(6,769)
Net amount of liabilities and assets recognized in consolidated statement of financial position	140,031	67,539	207,570

(Millions of yen)

As of March 31, 2012	Japan	Overseas	Total
Funded defined benefit obligations	107,451	208,727	316,178
Plan assets	(92,168)	(209,914)	(302,082)
Subtotal	15,283	(1,187)	14,096
Unfunded defined benefit obligations	130,439	66,191	196,630
Unrecognized past service cost	—	129	129
Net amount of liabilities and assets recognized in consolidated statement of financial position	145,722	65,133	210,855
Retirement benefit liabilities	145,722	79,504	225,226
Retirement benefit assets	—	(14,371)	(14,371)
Net amount of liabilities and assets recognized in consolidated statement of financial position	145,722	65,133	210,855

D. Major Breakdown of Plan Assets

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

(%)

Japan	Date of transition to IFRS As of April 1, 2010	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Equities	6.5	29.2	33.4
Bonds	28.6	16.5	21.7
General account of life insurance companies	38.9	45.4	44.3
Other	26.0	8.9	0.6
Total	100.0	100.0	100.0

(%)

Overseas	Date of transition to IFRS As of April 1, 2010	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Equities	43.3	43.6	38.9
Bonds	51.1	49.4	50.3
Real estate	1.6	1.9	1.6
Other	4.0	5.1	9.2
Total	100.0	100.0	100.0

(%)

Total	Date of transition to IFRS As of April 1, 2010	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Equities	31.7	39.1	37.2
Bonds	44.0	39.1	41.6
Real estate	1.1	1.3	1.1
General account of life insurance companies	12.2	14.2	13.5
Other	11.0	6.3	6.6
Total	100.0	100.0	100.0

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

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

(Japan)

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

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

(Overseas)

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

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

E. Matters Related for Actuarial Assumptions

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

(%)

Date of transition to IFRS As of April 1, 2010	Japan	Overseas		
Discount rate	1.9	3.0	～	5.8
Expected long-term return on plan assets	2.5	4.5	～	6.2
Inflation rate	—	1.5	～	3.6

(%)

Fiscal year ended March 31, 2011	Japan	Overseas		
Discount rate	1.7	2.8	～	5.4
Expected long-term return on plan assets	2.5	4.3	～	5.7
Inflation rate	—	1.8	～	3.5

(%)

Fiscal year ended March 31, 2012	Japan	Overseas		
Discount rate	1.4	2.5	～	5.5
Expected long-term return on plan assets	2.5	2.8	～	4.4
Inflation rate	—	1.5	～	3.1

(Note 1) The expected long-term return rate is determined in consideration of the asset mix of the presents and expected plan assets and the present and the expected long-term return rate on various assets that comprise the plan assets.

(Note 2) The valuation of defined benefit obligations reflects a judgment on uncertain future events. The sensitivities that changes in major assumptions affect defined benefit obligations as of March 31, 2012 are as follows. Each of these sensitivities assume that other variables remain fixed; however, in fact, they do not always change independently. Negative figures show the decrease in pension plan obligations, while positive figures show the increase

(Millions of yen)

	Change in assumptions	Japan	Overseas
Discount rate	Increase by 0.5%	(9,438)	(17,195)
	Decrease by 0.5%	10,153	19,130
Inflation rate	Increase by 0.5%	—	12,547
	Decrease by 0.5%	—	(11,340)

F. Experience adjustments based on Results of Defined Benefit Obligations and Plan Assets

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

(Millions of yen)

Date of transition to IFRS As of April 1, 2010	Japan	Overseas	Total
Defined benefit obligations	198,494	292,821	491,315
Plan assets	(100,498)	(220,812)	(321,311)
Unfunded benefit obligations	97,995	72,009	170,004

(Millions of yen)

Fiscal year ended March 31, 2011	Japan	Overseas	Total
Defined benefit obligations	236,471	278,108	514,579
Plan assets	(96,440)	(210,726)	(307,166)
Unfunded benefit obligations	140,031	67,381	207,412
Adjustment based on actual results (Defined benefit obligations)	5,264	(1,274)	3,990
Adjustment based on actual results (Plan assets)	524	(8,183)	(7,659)

(Millions of yen)

Fiscal year ended March 31, 2012	Japan	Overseas	Total
Defined benefit obligations	237,890	274,918	512,808
Plan assets	(92,168)	(209,914)	(302,082)
Unfunded benefit obligations	145,722	65,004	210,726
Adjustment based on actual results (Defined benefit obligations)	(235)	(7,509)	(7,744)
Adjustment based on actual results (Plan assets)	1,522	(1,119)	404

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

G. Profit and Loss Related to Retirement Benefits

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

Fiscal year ended March 31, 2011 (Millions of yen)

	Japan	Overseas	Total
Current service cost	5,579	4,620	10,200
Interest cost	3,586	14,637	18,223
Expected return on plan assets	(2,489)	(11,503)	(13,993)
Past service cost recognized in the year	51	1,378	1,428
Special termination benefits	—	13	13
Losses or gains on closure of the plans (curtailment or settlement)	(127)	(58)	(185)
Total	6,599	9,087	15,686
Actual return on plan assets	(1,965)	(19,687)	(21,652)

Fiscal year ended March 31, 2012 (Millions of yen)

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

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

(Note 2) The cost of the required contributions to the defined contribution pension plans is ¥5,813 million for the year ended March 31, 2011 and ¥5,506 million for the year ended March 31,2012. This cost is not included in the above.

(2) Obligation of Mutual Pension Benefits

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

A. Schedule of Mutual Pension Benefits Obligations

The schedule of mutual pension benefits obligations is as follows:

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Balance at the beginning of the year	109,595	97,577
Interest cost	1,206	1,171
Actuarial gains and losses	(3,309)	583
Benefits paid	(9,915)	(9,536)
Balance at the end of the year	97,577	89,794

(Note) Interest cost is included and presented in "Financial costs."

B. Matters Related to Actuarial Assumptions

The actuarial assumptions for each fiscal year are as follows:

(%)

	Date of transition to IFRS As of April 1, 2010	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Discount rate	1.1	1.2	0.8

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

(Millions of yen)

	Change in assumptions	Effect of the change
Discount rate	Increase by 0.5%	(2,863)
	Decrease by 0.5%	2,963

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

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

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Balance at the beginning of the year (cumulative total)	—	(34,461)
Accrued during the year	(34,461)	(10,669)
Balance at the end of the year (cumulative total)	(34,461)	(45,131)

(4) Other Employee Benefits Expense

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

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Remuneration and salary	218,823	213,412
Bonus to employees	58,838	62,590
Legal welfare expenses	37,051	37,075
Welfare expenses	21,971	22,194
Termination benefits	3,189	3,270

25. Equity and Other Equity Items

(1) Share Capital and Capital Surplus

A. Authorized Shares

The number of authorized shares is 40,000,000 ordinary shares on the date of transition, as of March 31, 2011 and 2012.

B. Fully Paid Issued Shares

The schedule in the number of issued shares and share capital as of each fiscal year end is as follows:

	(Share) Number of ordinary issued shares	Share capital	(Millions of yen) Capital surplus
Date of transition (As of April 1, 2010)	10,000,000	100,000	736,407
Increase (Decrease)	—	—	3
Fiscal year 2011 (As of March 31, 2011)	10,000,000	100,000	736,410
Increase (Decrease)	—	—	—
Fiscal year 2012 (As of March 31, 2012)	10,000,000	100,000	736,410

(Note) The shares issued by the Company are non-par value ordinary share that has no restriction on any content of rights.

(2) Treasury Shares

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

	(Share) Number of shares	(Millions of yen) Amount
Date of transition (As of April 1, 2010)	419,903	74,575
Increase (Decrease)	58,623	19,999
Fiscal year 2011 (As of March 31, 2011)	478,526	94,574
Increase (Decrease)	—	—
Fiscal year 2012 (As of March 31, 2012)	478,526	94,574

(Note 1) The Company adopts share option plans and utilize treasury shares for delivery of shares due to its exercise. Contract conditions and amount are described in ‘’34 Share-Based Payment.”

(Note 2) The number of treasury shares purchased based on the resolution made by the Board of Directors is 58,630 shares for the year ended March 31, 2011. Total purchased cost is ¥20,000million for the year ended March 31, 2011. The number of transferred shares from the exercise of subscription rights to shares is 7 shares for the year ended March 31, 2011.

(3) Other Components of Equity

A. Subscription rights to shares

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

B. Exchange differences on translation of foreign operations

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

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

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

D. Net gain (loss) on revaluation of available-for-sale securities

This is the valuation difference of the fair value for available-for-sale securities (Japanese GAAP).

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

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

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

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

26. Dividends

Dividends paid for each fiscal year are as follows:

Fiscal year ended March 31, 2011

(Resolution)	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
Annual Shareholders Meeting (June 24, 2010)	Ordinary shares	28,740	3,000	March 31, 2010	June 25, 2010
Board of Directors (October 28, 2010)	Ordinary shares	26,824	2,800	September 30, 2010	December 1, 2010

Fiscal year ended March 31, 2012

(Resolution)	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis 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

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

Fiscal year ended March 31, 2011

(Resolution)	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
Annual Shareholders Meeting (June 24, 2011)	Ordinary shares	38,086	4,000	March 31, 2011	June 27, 2011

Fiscal year ended March 31, 2012

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

27. Revenue

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

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Gross turnover	6,212,235	6,610,757
Tobacco excise taxes and agency transaction amount	(4,152,870)	(4,576,932)
Revenue	2,059,365	2,033,825

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

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

28. Other Operating Income

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

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Gains on sale of property, plant and equipment, intangible assets and investment properties (Note 1, 2)	12,150	30,134
Other (Note 2)	8,481	18,378
Total	20,630	48,512

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

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

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Gains on sale of property, plant and equipment, intangible assets and investment properties	11,063	29,368
Other	190	564
Total	11,254	29,932

29. Selling, General and Administrative Expenses

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

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Advertising expenses	21,356	21,530
Promotion expenses	131,456	128,007
Shipping, warehousing expenses	28,044	27,920
Commission	42,215	40,963
Employee benefits expenses (Note 3)	231,241	235,060
Research and development expenses (Note 1)	48,866	51,461
Depreciation and amortization	61,686	58,550
Impairment losses on other than financial assets (Note 3)	6,181	7,013
Regulatory fine in Canada (Note 2)	12,843	—
Losses on sale and disposal of property, plant and equipment, intangible assets, and investment property (Note 3)	10,036	11,454
Cooperation fee for terminating leaf tobacco farming	—	12,469
Other (Note 3)	133,219	138,743
Total	727,144	733,169

(Note 1) All research and development expenses are included in "Selling, general and administrative expenses."

(Note 2) On April 13, 2010, JTI-Macdonald Corp. (JTI-Mac), the Company's Canadian consolidated subsidiary, entered into a comprehensive agreement with the Government of Canada and all provinces and territories to establish a cooperation mechanism in combating cigarette smuggling and contraband. In addition, JTI-Mac pleaded to a regulatory offense for its involvement in the illicit trade of cigarettes prior to the Company's acquisition of non-U.S. tobacco operations of RJR Nabisco Inc. and paid CAD150 million.

(Note 3) The amount of restructuring costs included in each account is the following.

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Employee benefits expenses	3,202	4,651
Impairment losses on other than financial assets	4,413	5,837
Losses on sale and disposal of property, plant and equipment, intangible assets, and investment property	3,601	3,342
Other	2,704	222
Total	13,920	14,052

30. Financial Income and Financial Costs

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

(Millions of yen)

Financial Income	Fiscal year ended March 31, 2011
Dividend income	1,496
Interest income	2,174
Gains on sale of securities	
Equity securities	4,502
Other	539
Foreign exchange gain(Note 1)	798
Other	361
Total	9,870

(Millions of yen)

Financial Costs	Fiscal year ended March 31, 2011
Interest expenses(Note 2)	17,087
Losses on sale of securities	
Equity securities	729
Other	128
Losses on valuation of securities	953
Employee benefits expenses(Note 3)	5,435
Other	1,617
Total	25,949

(Note 1) Valuation gain (loss) of currency derivatives is included in foreign exchange gain.

(Note 2) Valuation gain (loss) of interest rate derivatives is included in interest expenses.

(Note 3) Employee benefits expenses are the net amount of interest cost and the expected return on plan assets related to employee benefits.

(Millions of yen)

Financial Income	Fiscal year ended March 31, 2012
Dividend income	
Financial assets measured at fair value through other comprehensive income	1,280
Interest income	
Financial assets measured at amortized cost	
Cash and deposits, and bonds	2,366
Other	1,958
Total	5,603

(Millions of yen)

Financial Costs	Fiscal year ended March 31, 2012
Interest expenses	
Financial liabilities measured at amortized cost	
Bonds and borrowings(Note 2)	13,962
Other	415
Foreign exchange losses(Note 1)	2,738
Employee benefits expenses(Note 3)	5,523
Other	791
Total	23,429

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

31. Other Comprehensive Income

Amount arising during year, reclassification adjustments and tax effects for each component of “Other comprehensive income” for each fiscal year are as follows.

Fiscal year ended March 31, 2011

(Millions of yen)

	Amount arising	Reclassification adjustments	Before tax effects	Tax effects	Net of tax effects
Exchange differences on translation of foreign operations	(256,784)	—	(256,784)	—	(256,784)
Net gain (loss) on revaluation of available-for-sale securities	(7,148)	(3,249)	(10,397)	3,939	(6,458)
Actuarial gains (losses) on defined benefit retirement plans	(54,223)	—	(54,223)	19,762	(34,461)
Total	(318,155)	(3,249)	(321,404)	23,701	(297,703)

Fiscal year ended March 31, 2012

(Millions of yen)

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

32. Earnings per Share

(1) Basis of Calculating Basic Earnings per Share

A. Profit Attributable to Ordinary Shareholders of the Parent Company

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Profit attributable to owners of the parent company	243,315	320,883
Profit not attributable to ordinary shareholders of the parent company	—	—
Profit used for calculation of basic earnings per share	243,315	320,883

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

(Thousands of shares)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Weighted-average number of shares during the year	9,574	9,521

(2) Basis of Calculating Diluted Earnings per Share

A. Profit Attributable to Diluted Ordinary Shareholders

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Profit used for calculation of basic earnings per share	243,315	320,883
Adjustment	—	—
Profit used for calculation of diluted earnings per share	243,315	320,883

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

(Thousands of shares)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Weighted-average number of ordinary shares during the year	9,574	9,521
Increased number of ordinary shares under subscription rights to share	3	4
Weighted-average number of diluted ordinary shares during the year	9,577	9,525

(3) Adjusted Diluted Earnings per Share

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Profit used for calculation of adjusted diluted earnings per share	243,315	320,883
Impairment losses on goodwill	87	—
Restructuring-related income	(11,254)	(29,932)
Restructuring-related costs	13,920	29,039
Adjustments on income taxes and non-controlling interests	2,005	2,025
Adjustments on income taxes related to losses on valuation of investments in subsidiaries	—	(31,207)
Adjusted profit for the year	248,073	290,808
Adjusted diluted earnings per share (yen)	25,903.94	30,530.39

33. Non-cash Transactions

Important Non-cash Transactions

The amount of assets acquired under finance leases is ¥3,573 million for the year ended March 31, 2011 and ¥2,977 million for the year ended March 31, 2012, respectively.

34. Share-Based Payment

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

The outline of the share option plan is as follows.

(1) Share Option Contract Conditions

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

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

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

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

(2) Changes in the Number of Share Options

(Share)

	Fiscal year ended 31-Mar-11			Fiscal year ended 31-Mar-12		
	Directors	Executive Officers	Total	Directors	Executive Officers	Total
Balance at the beginning of the year	1,003	1,106	2,109	1,524	1,557	3,081
Granted	521	458	979	514	524	1,038
Exercised	—	-7	-7	—	—	—
Transfer	—	—	—	-163	163	—
Balance at the end of the year	1,524	1,557	3,081	1,875	2,244	4,119
Exercisable balance at the end of the year	—	283	283	—	430	430

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

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

(Note 3) Share options were granted to 9 directors and 14 executive officers for the year ended March 31, 2011, and 8 directors and 15 executive officers for the year ended March 31,2012.
And "Transfer" included in Changes in the Number of Share Options represents the number of share options for persons granted whose management position is changed during the year.

(Note 4) The weighted-average fair value of share options granted during the year is ¥198,386 for the year ended March 31, 2011 and ¥277,947 for the year ended March 31, 2012.

(Note 5) The weighted-average share price of share options at the time of exercise during the period is ¥278,200 for the year ended March 31, 2011, and no share options were exercised for the year ended March 31, 2012.

(Note 6) The weighted-average remaining contract year of unexercised share options at the end of the year is 28.3 years for the year ended March 31, 2011 and 27.8 years for the year ended March 31, 2012.

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

A. Valuation Model

Black-Scholes Model

B. Main Assumptions and Estimation

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Share price	¥270,600	¥367,000
Volatility of share price(Note 1)	34.4%	35.5%
Estimated remaining period(Note 2)	15 years	15 years
Estimated dividends(Note 3)	¥5,600 /share	¥6,800 /share
Risk free interest rate(Note 4)	1.41%	1.48%

(Note 1) Calculated based on share prices quoted for the period on and after the listing date of October 27, 1994.

(Note 2) With difficulty in reasonable estimation due to insufficient data, the remaining period is estimated based on the assumption that share option rights would be exercised at a midpoint of exercise period.

(Note 3) Based on the latest dividends paid. Prior year dividend record doesn't include commemorative dividends of ¥200.

(Note 4) The yield of government bonds for a period of the expected remaining period.

(4) Share-Based Payment Expenses

The cost for share options included in "Selling, general and administrative expenses" in the consolidated statement of income is ¥203 million for the year ended March 31, 2011 and ¥265 million for the year ended March 31, 2012.

35. Financial Instruments

In accordance with the exemption from retrospective application set forth in IFRS 7 and IFRS 9 pursuant to IFRS 1, previous accounting principles (Japanese GAAP) are applied on the date of transition and for the year ended March 31, 2011. IFRS 7 and IFRS 9 are applied for the year ended March 31, 2012.

(1) Capital Management

The Group aims to maximize our corporate value through medium to long term sustainable growth.

In order to achieve the sustainable growth, we understand financial capacities should be maintained to make investments, through internal business investment or the acquisition of external resources, in an appropriate and prompt manner without missing investment opportunities, when there are opportunities for business growth, including business investments or the acquisition of external resources. For that reason, we aim to maintain a well-balanced capital structure by ensuring sound and flexible financial conditions for future investment as well as an appropriate return on equity.

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

(Millions of yen)

	Date of transition to IFRS As of April 1, 2010	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Interest-bearing debt	875,423	709,087	502,368
Cash and cash equivalents	(154,369)	(244,240)	(404,740)
Net interest-bearing debt	721,054	464,847	97,628
Capital (equity attributable to owners of the parent company)	1,654,683	1,525,145	1,634,050

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

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

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

Disposal of shares owned by the Japanese government shall be within the limits on the number of shares decided by the Diet in the relevant annual budget (Article 3 (1)).

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

(2) Financial Risk Management

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

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

(3) Credit Risk

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

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

In principle, the Group sets credit lines or transaction conditions with respect to trade receivables for major counterparties based on the Credit Management Guidelines in order to prevent the credit risk of counterparties from arising. In addition, the receivables balance of each customer is checked daily to reduce risk of default by customers. The Treasury Division of the Company regularly monitors the status of the occurrence and collection of bad debts, and reports them to the Executive Committee of the Company. There is no overconcentrated credit risks for a single customer.

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

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

The analysis of the age of financial assets that are past due but not impaired as of the fiscal year end date is as follows:

The financial assets include amounts considered recoverable by credit insurance and collateral.

(Millions of yen)

	Total	Amount past due			
		Within 30 days	Over 30 days, within 60 days	Over 60 days, within 90 days	Over 90 days
As of March 31, 2012					
Trade and other receivables	2,635	2,376	60	8	191
Other financial assets	285	—	—	—	285

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

(Millions of yen)

	Fiscal year ended March 31, 2012
Balance at the beginning of the year	26,322
Addition	514
Decrease (intended use)	(8,795)
Decrease (reversal)	(2,120)
Other	(55)
Balance at the end of the year	15,866

(4) Liquidity Risk

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

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

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

Date of transition to IFRS (As of April 1, 2010)

(Millions of yen)

	Carrying amount	Contractual cash flow	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Non-derivative financial liabilities								
Trade and other payables	301,880	301,880	301,880	—	—	—	—	—
Short-term borrowings	109,263	109,263	109,263	—	—	—	—	—
Commercial paper	119,000	119,000	119,000	—	—	—	—	—
Current portion of long-term borrowings	23,025	23,025	23,025	—	—	—	—	—
Long-term borrowings	149,569	149,569	—	22,204	104,107	20,928	1,801	530
Current portion of bonds	50,395	50,300	50,300	—	—	—	—	—
Bonds	409,015	409,086	—	146,030	96,756	100	166,200	—
Total	1,162,148	1,162,124	603,469	168,234	200,863	21,028	168,001	530

Fiscal year ended March 31, 2011

(Millions of yen)

	Carrying amount	Contractual cash flow	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Non-derivative financial liabilities								
Trade and other payables	311,787	311,787	311,787	—	—	—	—	—
Short-term borrowings	70,060	70,060	70,060	—	—	—	—	—
Current portion of long-term borrowings	21,491	21,491	21,491	—	—	—	—	—
Long-term borrowings	152,415	152,415	—	99,378	20,893	1,693	30,035	416
Current portion of bonds	126,486	126,480	126,480	—	—	—	—	—
Bonds	325,739	325,808	—	91,726	100	153,981	40,000	40,000
Total	1,007,977	1,008,039	529,817	191,104	20,993	155,674	70,035	40,416

Fiscal year ended March 31, 2012

(Millions of yen)

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

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

The total of commitment lines and withdrawal as of March 31, 2012 are as follows:

	(Millions of yen) Fiscal year ended March 31, 2012
Total committed line of credit	513,525
Withdrawing	76,933
Unused balance	436,592

(5) Foreign Exchange Risk

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

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

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

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

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

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

The breakdown of currency derivatives are as follows:

Derivative transactions to which hedge accounting is not applied

(Millions of yen)

	Date of transition to IFRS As of April 1, 2010			Fiscal year ended March 31, 2011			Fiscal year ended March 31, 2012		
	Contract amount	Over one year	Fair value	Contract amount	Over one year	Fair value	Contract amount	Over one year	Fair value
Foreign exchange forward contract									
Buying	296,523	2,894	654	204,216	—	2,945	87,143	—	(1,227)
Selling	133,768	2,416	(490)	85,173	—	(1,238)	35,091	—	350
Currency Swap									
Buying	59,712	—	(123)	—	—	—	—	—	—
Selling	2,260	2,260	(460)	1,782	1,782	(82)	—	—	—
Currency option									
Buying	—	—	—	6,112	—	121	—	—	—
Total	492,262	7,570	(419)	297,283	1,782	1,745	122,235	—	(877)

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

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

As of March 31, 2012 (Millions of yen)

	Carrying amount	Due
Bonds in Euros	50,359	2014
Borrowings in Euros	13,226	2012
Borrowings in UK Pounds	48,592	2012

Foreign Exchange Sensitivity Analysis

In cases where each currency other than the functional currency that denominates the financial instruments held by the Group as of March 31, 2012 increases by 10% in value against the functional currency, the impact on profit before income taxes in the consolidated statement of income is as follows:

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

(Millions of yen)

	Fiscal year ended March 31, 2011
Profit before income taxes	1,178

(6) Interest Rate Risk

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

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

The descriptions of interest rate derivatives are as follows:

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

(Millions of yen)

	Date of transition to IFRS As of April 1, 2010			Fiscal year ended March 31, 2011			Fiscal year ended March 31, 2012		
	Contract amount	Over one year	Fair value	Contract amount	Over one year	Fair value	Contract amount	Over one year	Fair value
Interest rate swap									
Fixed rate receipt and floating rate payment	36,606	36,606	2,297	31,576	31,576	2,192	29,959	―	1,187
Floating rate receipt and fixed rate payment	―	―	―	―	―	―	1,814	1,814	(150)
Interest rate cap									
Buying	297,744	36,606	161	31,576	31,576	14	29,959	―	0
Total	334,351	73,213	2,458	63,153	63,153	2,205	61,732	1,814	1,037

(ii) Derivative transactions to which hedge accounting is applied

(Millions of yen)

	Date of transition to IFRS As of April 1, 2010			Fiscal year ended March 31, 2011			Fiscal year ended March 31, 2012		
	Contract amount	Over one year	Fair value	Contract amount	Over one year	Fair value	Contract amount	Over one year	Fair value (Note2)
Interest rate swap									
Floating rate receipt and fixed rate payment	1,137	437	(Note1)	357	198	(Note1)	198	58	(2)
Cross currency swap									
Floating rate receipt and fixed rate payment	―	―	―	30,000	30,000	(Note1)	30,000	30,000	(3,350)
Total	1,137	437	―	30,357	30,198	―	30,198	30,058	(3,352)

(Note 1) The previous accounting principles (Japanese GAAP) were applied on the date of transition and for the year ended March 31, 2011 and they were accounted for as integrated into the long-term borrowings hedged. Therefore, the fair value is included in that of long-term borrowings.

(Note 2) Recognized at fair value in the consolidated statement of financial position by application of cash flow hedge.

Interest Rate Sensitivity Analysis

In cases where the interest rate of financial instruments held by the Group as of March 31, 2012 increase by 100bp, the impact on profit before income taxes in the consolidated statement of income is as follows:

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

(Millions of yen)

	Fiscal year ended March 31, 2012
Profit before income taxes	1,061

(7) Market Price Fluctuation Risk

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

(8) Fair Value of Financial Instruments

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

(Millions of yen)

	Date of transition to IFRS As of April 1, 2010		Fiscal year 2011 As of March 31, 2011		Fiscal year 2012 As of March 31, 2012	
	Carrying amount	Fair Value	Carrying amount	Fair Value	Carrying amount	Fair Value
Long-term borrowings (Note)	172,594	173,733	173,906	174,302	127,496	127,844
Bonds (Note)	459,410	474,273	452,225	462,476	320,534	328,767

(Note) Current portion is included.

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

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

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

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

Level 1: Fair value measured at the quoted price in the active market

Level 2: Fair value that is calculated using the observable price other than categorized in Level 1 directly or indirectly

Level 3: Fair value that is calculated based on valuation techniques which include input that is not based on observable market data

Fiscal year ended March 31, 2012

(Millions of yen)

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

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

(Millions of yen)

	Fiscal year ended March 31, 2012
Balance at the beginning of the year	4,530
Total gain (loss)	
Profit or loss (Note 1)	(337)
Other comprehensive income (Note 2)	333
Purchases	20
Sales	(206)
Balance at the end of the year	4,339

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

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

36. Related Parties

Based on the Japan Tobacco Inc. Act, the Japanese government shall hold more than one-third of all of the shares issued by the Company (excluding the type of shares, for which it is stipulated that voting rights may not be exercised on any matters that can be resolved by Annual Shareholders Meeting). As of March 31, 2012,the Japanese government held 50.01% of all outstanding shares of the Company.

(1) Related-Party Transactions

Related-party transactions are conducted under the same conditions as regular business transactions.

(2) Remuneration for Directors and Corporate Auditors

Remuneration for executive officers for each fiscal year is as follows:

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Remuneration and bonuses	703	762
Share-based payments	108	133
Total	811	895

37. Commitments

(1) Commitments for the Acquisition of Assets

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

(Millions of yen)

	Fiscal year 2011 As of March 31, 2011	Fiscal year 2012 As of March 31, 2012
Acquisition of property, plant and equipment	34,655	32,541
Acquisition of intangible assets	859	8,183
Total	35,514	40,724

(2) Procurement of Domestic Leaf Tobacco

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

38. Losses on the Great East Japan Earthquake

Losses on the Great East Japan Earthquake that are recognized in the consolidated statement of income for each fiscal year are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Losses on the Great East Japan Earthquake	10,918	15,048

Losses on the Great East Japan Earthquake for the year ended March 31, 2011 include losses on destruction of property, plant and equipment and restoration costs, as well as losses on destruction of inventories.

Losses on the Great East Japan Earthquake for the year ended March 31, 2012 include losses on disposal of inventories and fixed costs incurred from the shutdown.

Other than above losses, reversal of provision for losses estimated for the fiscal year ended March 31, 2011 (¥1,811 million) ,and, insurance claim received (¥5,081 million) covering losses on disposal of property, plant and equipment, restoration costs and losses on destruction of inventories are recognized in "Other operating income" in the consolidated statement of income for the year ended March 31, 2012.

39. Contingencies

Contingent Liabilities

The Company and some of its subsidiaries are defendants in lawsuits. Provision is not accounted for in case it's not practicable to reasonably estimate the final results of them.

The Group believes that our allegation on these lawsuits are based on substantial evidence and implement the system for the response to action liaising with the external lawyers.

1. SMOKING AND HEALTH RELATED LITIGATION

The Company and some of its subsidiaries become defendants in lawsuits filed by plaintiffs seeking damages for harm allegedly caused by smoking, the marketing of tobacco products, or exposure to tobacco smoke. As of March 31, 2012, there were a total of 25 smoking and health related cases pending in which one or more members of the Group were named as defendant or for which the Company may have certain indemnity obligations pursuant to the agreement for the Company's acquisition of RJR Nabisco Inc.'s overseas (non-U.S.) tobacco operations.

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

a. Individual Claim

There is 1 individual case brought against the Company's indemnitee in South Africa.

South Africa Individual Claim (Joselowitz):

The individual claim was brought against the Company's indemnitee in South Africa in October 2000. Plaintiff sought compensatory and punitive damages, alleging that the Company's indemnitee marketed products which it knew to be dangerous to health, manipulated nicotine content to foster addiction, failed to comply with South African labeling requirements and participated in a clandestine worldwide operation to encourage children to smoke. This case has been dormant since February 2001.In addition, there are 8 individual cases (some of which are stayed pending a ruling in one of the eight cases) brought against the Company's subsidiary in Ireland, and 2 individual cases brought against the Company in Japan.

b. Class Actions

There are 8 ongoing class actions in Canada and 1 in Israel pending against the Company's subsidiaries and/or the Company's indemnitees.

Canada Quebec Class Action (Cecilia Letourneau):

The class action was brought in September 1998, against the three Canadian tobacco manufacturers including JTI-Macdonald Corp. (hereinafter referred to as "JTI-Mac"), the Company's Canadian subsidiary. Plaintiffs are seeking compensatory and punitive damages for class members, for a total amount of approximately ¥1,468.9 billion (CAD17.8 billion) (joint and several liability with co-defendants). The class was certified by the court in February 2005. The trial commenced in March 2012. The defendants filed a third-party claim against the Government of Canada seeking contribution and indemnity on the grounds that the Canadian government was highly involved in the tobacco industry in respect of smoking and health related matters.

Canada Quebec Class Action (Conseil Québécois sur le tabac et la santé):
The class action was brought in November 1998, against the three Canadian tobacco manufacturers including JTI-Mac. Plaintiffs are seeking compensatory and punitive damages for class members for a total amount approximately ¥420.9 billion (CAD 5.1billion) (joint and several liability with co-defendants). The class was certified by the court in February 2005. The trial commenced in March 2012. The defendants filed a third-party claim against the Government of Canada seeking contribution and indemnity on the grounds that the Canadian government was highly involved in the tobacco industry in respect of smoking and health matters.

Canada Saskatchewan Class Action (Adams):
The class action was brought against tobacco industry members including JTI-Macand the Company's indemnitees in June 2009. Plaintiffs are seeking unspecified compensatory and punitive damages on behalf of class members who allege to be or have been addicted to the nicotine contained in cigarettes manufactured by the defendants. The preliminary motions are pending as the case has been dormant.

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

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

Canada Alberta Class Action (Dorion):
The class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in July 2009. Plaintiffs are seeking unspecified compensatory and punitive damages on behalf of class members who allege to be or have been addicted to the nicotine contained in cigarettes manufactured by the defendants. The statement of claim was served on the Company's indemnitees but not on JTI-Mac. The Company's indemnitees are challenging the validity of service. The class action is currently dormant.

Canada British Columbia Class Action (Bourassa):
The class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2010. Plaintiffs are seeking unspecified compensatory and punitive damages for class members. The preliminary motions are pending as the case is currently dormant.

Canada British Columbia Class Action (McDermid):
The class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2010. Plaintiff is seeking unspecified compensatory and punitive damages for class members. The preliminary motions are pending as the case is currently dormant.

Israel Class Action (Navon):
The class action was brought against tobacco industry members, including JT International AG Dagmersellen, the Company's Swiss subsidiary, in December 2004.Plaintiffs allege that the defendants' use of the "lights" descriptor is misleading, fraudulent and in breach of the Consumer Protection Act and seeks compensatory, emotional and punitive damages for their own economic losses and for those of all "lights" smokers in Israel. The case is currently stayed pending a ruling on class certification in another "lights" case ongoing in Israel to which none of the Group companies nor the Company's indemnitees is a party.

c. Health-Care Cost Recovery Litigation
There are 4 ongoing health-care cost recovery cases in Canada pending against JTI-Mac and the Company's indemnitees brought by the Provinces of British Columbia, New Brunswick, Ontario and Newfoundland and Labrador. These provinces filed lawsuits under their own provincial legislation which was enacted exclusively for the purpose of authorizing the provincial government to file a direct action against tobacco manufacturers to recoup the health-care costs the government has incurred and will incur, resulting from" tobacco related wrongs."

Canada British Columbia Health-Care Cost Recovery Litigation:
The health-care cost recovery litigation was filed by the Province of British Columbia in January 2001 against tobacco industry members including JTI-Mac and the Company's indemnitees based on its provincial legislation, the "Tobacco Damages and Health-Care Costs Recovery Act." The claim amount is unspecified. In 2001, several defendants challenged the legislation's constitutionality and the challenge was ultimately rejected by the Supreme Court of Canada in September 2005. The action remains pending in the first instance. The defendants further filed a third-party claim against the Government of Canada seeking contribution and indemnity on the grounds that the Canadian government was highly involved in the tobacco industry in respect of smoking and health related matters. In July 2011, the Supreme Court of Canada ultimately dismissed the defendants' third-party claim. The pre-trial discovery process is ongoing, and the trial date is not yet scheduled.

Canada New Brunswick Health-Care Cost Recovery Litigation:
The health-care cost recovery litigation was filed by the Province of New Brunswick in March 2008 against tobacco industry members including JTI-Mac and the Company's indemnitees based on the legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The pre-trial discovery process is ongoing, and the trial date is not yet scheduled.

Canada Ontario Health-Care Cost Recovery Litigation:
The healthcare cost recovery litigation was filed by the Province of Ontario in September 2009 against tobacco industry members including JTI Mac and the Company's indemnitees based on the legislation similar to that introduced in the Province of British Columbia. The statement of claim in this case contains allegations of joint and several liabilities among all the defendants but does not specify any individual amount or percentages, within the total amount of the claim ¥4,126.0 billion(CAD 50.0 billion). The pre-trial discovery process is ongoing, and the trial date is not yet scheduled.

Canada Newfoundland and Labrador Health-Care Cost Recovery Litigation:
The health-care cost recovery litigation was filed by the Province of Newfoundland and Labrador in February 2011 against tobacco industry members including JTI-Mac and the Company's indemnitees based on the legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The pre-trial process is ongoing, and the trial date is not yet scheduled.

In addition, there is 1 ongoing health-care cost recovery case pending against the Company's subsidiaries in Spain.

2. OTHER LITIGATION
The Company and some of its subsidiaries are also named as defendants to other litigations such as commercial disputes, and tax disputes.
Major ongoing cases are as follows:

Commercial Litigation
Japan Compensatory Damages Claim:
In November 2008,Zhoushan Katoka Foods/Zhoushan Gangming Foods (hereinafter referred to as "Zhoushan Foods") and their parent company, Zhejiang Haishi Industrial Group Co., Ltd. filed a claim against the Company's food business subsidiary in Japan, the former Katokichi Co., Ltd. (renamed as TableMark Co., Ltd. after the acquisition by the Company). Zhejiang Haishi Industrial Group Co., Ltd. is not currently a party to this case. Plaintiff alleges that the defendant negligently failed to take measures to avoid Zhoushan Foods' default when the defendant transferred its stake in Zhoushan Foods to a third party resulting in default on bank loan due to change of control and is seeking compensatory damages including loss of profit and incidental damages allegedly incurred by the plaintiff. District court rendered in favor of defendant, and this case is currently pending at the appellate court.

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

(Note) The amount of damages sought denominated in foreign currencies is translated into Japanese yen at the rates of 31 March 2012.

40. Subsequent Events

(1) Share Split

The Company has announced the Board of Directors' resolution, held April 13, 2012, concerning share split, adoption of share unit system and associated partial amendment to the articles of incorporation as follows.

(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 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 share at the ratio of 1:200 or 200shares 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 April1, 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 the stock split

a. Method of the split

Shares of ordinary share held by shareholders listed or recognized in the final registry of shareholders as of the record date of Saturday, June30, 2012 will be split at a ratio of 200 shares to one share.

b. Increase in shares resulting from the stock 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

c. Schedule

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 the share unit system

a. 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.

b. Schedule

Effective date: Sunday, July 1, 2012

Assuming the share split coming into effect at the beginning of the year ended March 31, 2011 (April 1, 2010) and the year ended March 31,2012 (April 1, 2011) , earnings per share for each fiscal year is as follows:

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Basic earnings per share	127.07	168.50
Diluted earnings per share	127.04	168.44
Adjusted diluted earnings per share	129.52	152.65

(2) Acquisition of Shares

The Group has concluded an acquisition agreement for all outstanding shares of Gryson NV headquartered in Belgium (hereinafter referred to as "Gryson") which operates tobacco manufacturing and sales business of the Roll Your Own ("RYO") and Make Your Own("MYO") in European countries and others with GT&Co BVBA on May 24, 2012. The acquisition of Gryson offers an attractive opportunity to enhance our presence in the growing and profitable RYO/MYO market in Europe, and capitalization on Gryson's well-managed, innovative and successful business and their expertise.

The transaction to acquire Gryson's and its related companies' share is valued (Note 1) at EUR 475 million (approximately ¥47,400 million) (Note 2). The Group expects to complete the acquisition within the year ending March 31, 2013.

(Note 1) Interest-bearing debt and cash are not included in the estimation.
(Note 2) Translated at the rate of ¥99.89 per EUR.

(3) Legal Matter

Subsequent to March 31, 2012 , the following health-care cost recovery litigations were filed.

JTI-Mac has not yet been served in the litigations filed by the Provinces of Alberta, Manitoba and Saskatchewan.

Canada Quebec Health-Care Cost Recovery Litigation:

The health-care cost recovery litigation was filed by the Province of Quebec on June 8, 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees. The Province of Quebec is seeking recoupment of the health-care costs that the province has incurred and will incur, resulting from tobacco related diseases, for a total amount of CAD 60.7 billion (approximately¥4,690.0 billion (Note)) (joint and several liability with co-defendants) without specifying any individual amount or percentages for individual defendant.

Canada Alberta Health-Care Cost Recovery Litigation:

The health-care cost recovery litigation was filed by the Province of Alberta on June 8, 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees. The Province of Alberta is seeking recoupment of the health-care costs that the province has incurred and will incur, resulting from tobacco related diseases, for a total amount of at least CAD 10.0 billion (approximately ¥770.0 billion (Note)) (joint and several liability with co-defendants) without specifying any individual amount or percentages for individual defendant.

Canada Manitoba Health-Care Cost Recovery Litigation:

The health-care cost recovery litigation was filed by the Province of Manitoba on May 31, 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees. The Province of Manitoba is seeking recoupment of the health-care costs that the province has incurred and will incur, resulting from tobacco related diseases. The claim amount is unspecified.

Canada Saskatchewan Health-Care Cost Recovery Litigation:

The health-care cost recovery litigation was filed by the Province of Saskatchewan on June 8, 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees. The Province of Saskatchewan is seeking recoupment of the health-care costs that the province has incurred and will incur, resulting from tobacco related diseases. The claim amount is unspecified.

(Note) Translated at the rate of ¥77.43 per CAD.

41. First-time Adoption of International Financial Reporting Standards

The consolidated financial statements under IFRS are disclosed for the first time for the year ended March 31, 2012. The most recent consolidated financial statements prepared in accordance with Japanese GAAP are those for the year ended March 31, 2011. The date of transition is April 1, 2010.

Reconciliations that are required to be disclosed under the first time adoption of IFRS are as follows:

Items that do not influence retained earnings and comprehensive income are included in "Reclassification" of the reconciliation, and items that influence retained earnings and comprehensive income are included in "Differences in recognition and measurement."

Reconciliation of equity as of April 1, 2010 (the date of transition to IFRS)

(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Accounts under IFRS
Assets						Assets
Current assets						Current assets
Cash and Deposits	155,444	(1,075)	—	154,369	(7)	Cash and cash equivalents
Note and account receivables—trade Allowance for doubtful accounts (current assets)	293,262	15,847	(1,019)	308,091	(1),(7)	Trade and other receivables
Merchandise and finished goods Semifinished goods Work in progress Raw materials and supplies	555,100	(19,221)	(3,931)	531,948	(1),(7)	Inventories
Securities	11,950	9,678	—	21,629	(7)	Other financial assets
Other (current assets)	153,471	(6,362)	(25)	147,084	(7)	Other current assets
Deferred tax assets (current assets)	26,615	(26,615)	—	—	(7)	
Total current assets	1,195,843	(27,749)	(4,975)	1,163,120		Subtotal
	—	1,406	(40)	1,366	(2),(7)	Non-current assets held-for-sale
	1,195,843	(26,342)	(5,015)	1,164,486		Total current assets
Non-current assets						Non-current assets
Property, plant and equipment	679,561	(60,669)	29,688	648,580	(2),(7)	Property, plant and equipment
Goodwill	1,387,397	—	747	1,388,144	(2)	Goodwill
Trademark	381,667	12,912	111	394,690	(2),(7)	Intangible assets
Other (intangible fixed assets)	—	60,374	20,714	81,087	(2),(7)	Investment property
	—	23,391	(18,157)	5,234	(3),(7)	Retirement benefit assets
	—	23,311	—	23,311	(7)	Investments accounted for using the equity method
Investment securities Other (investments and other assets) Allowance for doubtful accounts (investments and other assets)	142,751	(59,591)	342	83,502	(7)	Other financial assets
Deferred tax assets(investments and other assets)	85,376	26,615	10,116	122,107	(7)	Deferred tax assets
Total non-current assets	2,676,753	26,342	43,560	2,746,655		Total non-current assets
Total assets	3,872,596	—	38,546	3,911,142		Total assets

(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Accounts under IFRS
						Liabilities and equity
Liabilities						Liabilities
Current liabilities						Current liabilities
Note and account payables—trade Account payables—other	223,201	77,859	821	301,880	(7)	Trade and other payables
Short-term loan payables Commercial paper Current portion of bonds Current portion of long-term loan payables	301,683	—	—	301,683		Bonds and borrowings
Income tax payables	54,058	—	—	54,058		Income tax payables
	—	12,484	737	13,221	(7)	Other financial liabilities
Provisions (current liabilities)	39,610	(35,623)	(39)	3,948	(7)	Provisions
Lease obligations Tobacco tax payables Tobacco special tax payables Tobacco local tax payables Consumption tax payables Other (current liabilities)	480,626	(60,223)	13,056	433,459	(4),(7)	Other current liabilities
Deferred tax liabilities(current liabilities)	2,357	(2,357)	—	—	(7)	
Total current liabilities	1,101,535	(7,861)	14,576	1,108,250		Total current liabilities
Non-current liabilities						Non-current liabilities
Bonds Long-term loans payable	558,584	—	—	558,584		Bonds and borrowings
	—	28,984	355	29,339	(7)	Other financial liabilities
Provision for retirement benefits	251,902	20,672	12,427	285,002	(3),(7)	Retirement benefit liabilities
Provision for directors' retirement benefits	764	3,440	1,424	5,628	(7)	Provisions
Lease obligations Other (non-current liabilities)	141,954	(47,593)	3,620	97,982	(4),(7)	Other non-current liabilities
Deferred tax liabilities (non-current liabilities)	94,578	2,357	1,720	98,655	(7)	Deferred tax liabilities
Total non-current liabilities	1,047,782	7,861	19,547	1,075,190		Total non-current liabilities
Total liabilities	2,149,318	—	34,122	2,183,440		Total liabilities
Net assets						Equity
Capital stock	100,000	—	—	100,000		Share capital
Capital surplus	736,407	—	—	736,407		Capital surplus
Treasury stock	(74,575)	—	—	(74,575)		Treasury shares
Valuation and translation adjustments Subscription rights to shares	(422,822)	—	435,431	12,609	(3),(5)	Other components of equity
Retained earnings	1,310,670	—	(430,427)	880,243	(6)	Retained earnings
Total shareholders' equity Valuation and translation adjustments Subscription rights to shares	1,649,679	—	5,004	1,654,683		Equity attributable to owners of the parent company
Minority interests	73,599	—	(580)	73,019		Non-controlling interests
Total net assets	1,723,278	—	4,423	1,727,702		Total equity
Total liabilities and net assets	3,872,596	—	38,546	3,911,142		Total liabilities and equity

Notes on Reconciliation (April 1, 2010)

(1) Adjustment to Trade Receivables and Inventories

Under Japanese GAAP the Group recognized income for certain sale of goods at the time of shipping; however, under IFRS the Group recognizes such income at the time of delivery of goods to customers. Sales promotion goods in supplies under Japanese GAAP; however, they do not meet the definition of assets under IFRS. Therefore, adjustments are made to retained earnings.

(2) Adjustment to Property, Plant and Equipment; Goodwill; Intangible Assets; Investment Property; and Non-current Assets Held-for-Sale

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, the Group has adopted the straight-line method under IFRS. With regard to assets acquired for advertising and general publicity, and for sales promotions, and gains and losses arising from exchange transactions that have commercial substance, adjustments are made to retained earnings. Based on the provisions of IFRS 3, the carrying amount of certain goodwill under Japanese GAAP is adjusted retrospectively.

(3) Adjustment to Employee Retirement Benefits and Mutual Pension Benefits

With regard to actuarial gains or losses, under Japanese GAAP the Group amortized them from the following year in which they occurred, over certain years determined based on the employee's average remaining service period. Under IFRS, the Group fully recognizes the actuarial gains or losses when occurred in other comprehensive income and immediately transfers them to retained earnings. Retirement benefit liabilities are recalculated in accordance with IFRS. Adjustments for the gain or loss that occurred due to the periodic allocation method of retirement benefit obligations are made to retained earnings. With regard to actuarial gains or losses on retirement benefits, recognized in net assets by foreign subsidiaries that adopted U.S. GAAP previously, they are transferred to retained earnings under IFRS.

(4) Adjustment to Unused Paid Vacations

The Group recognizes unused paid vacation, which was not required under Japanese GAAP, in liabilities under IFRS and the adjustments are made to retained earnings.

(5) Adjustment to Other Components of Equity

The Group applied the exemption prescribed in IFRS 1 and transferred all of cumulative exchange differences on translation of foreign operation to retained earnings on the date of transition April1, 2010.

(6) Adjustment to Retained Earnings

	(Millions of yen)
	As of April 1, 2010
Adjustment to Trade Receivables and Inventories (refer to (1))	(4,151)
Adjustment to Property, Plant and Equipment, and Intangible Assets (refer to (2))	48,938
Adjustment to Employee Retirement Benefits and Mutual Pension Benefits (refer to (3))	(30,722)
Adjustment to Unused Paid Vacation (refer to (4))	(15,170)
Adjustment to Other Components of Equity (refer to (5))	(435,431)
Other	4,517
Subtotal	(432,018)
Adjustment of tax effects	1,011
Adjustment of Non-controlling interests	580
Adjustment to retained earnings	(430,427)

(7) Reclassification

In addition to the above, the Group makes reclassifications to comply with provisions of IFRS. The major reclassifications are as follows:

- All current portions of deferred tax assets and deferred tax liabilities are reclassified to non-current portions.
- "Investment property" and "Non-current assets held-for-sale" are presented separately in accordance with IFRS.
- Financial assets and financial liabilities are presented separately in accordance with IFRS.
- "Provisions" and "Retirement benefit liabilities" are partially reclassified based on the definitions and requirements under IFRS.

Reconciliation of equity as of March 31, 2011 (the date of latest consolidated financial statements under Japanese GAAP)

(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Accounts under IFRS
Assets						Assets
Current assets						Current assets
Cash and Deposits	117,458	126,782	—	244,240	(8)	Cash and cash equivalents
Note and account receivables—trade Allowance for doubtful accounts (current assets)	299,048	11,903	252	311,202	(1),(8)	Trade and other receivables
Merchandise and finished goods Semifinished goods Work in progress Raw materials and supplies	513,858	(21,161)	(4,088)	488,609	(1),(8)	Inventories
Securities	159,098	(121,749)	—	37,349	(8)	Other financial assets
Other (current assets)	133,684	4,226	—	137,910	(8)	Other current assets
Deferred tax assets (current assets)	24,675	(24,675)	—	—	(8)	
Total current assets	1,247,821	(24,675)	(3,836)	1,219,310		Subtotal
	—	20,930	18,623	39,553	(2),(8)	Non-current assets held-for-sale
	1,247,821	(3,745)	14,787	1,258,863		Total current assets
Non-current assets						Non-current assets
Property, plant and equipment	663,551	(55,025)	30,799	639,324	(2),(8)	Property, plant and equipment
Goodwill	1,147,816	—	28,298	1,176,114	(3)	Goodwill
Trademark Other (intangible fixed assets)	313,671	12,512	4,011	330,194	(2),(8)	Intangible assets
	—	34,080	2,396	36,477	(2),(8)	Investment property
	—	22,807	(16,038)	6,769	(4),(8)	Retirement benefit assets
	—	19,072	—	19,072	(8)	Investments accounted for using the equity method
Investment securities Other (investments and other assets) Allowance for doubtful accounts (investments and other assets)	116,741	(54,378)	298	62,661	(8)	Other financial assets
Deferred tax assets(investments and other assets)	82,329	24,675	18,723	125,726	(8)	Deferred tax assets
Total non-current assets	2,324,107	3,745	68,486	2,396,338		Total non-current assets
Total assets	3,571,928	—	83,273	3,655,201		Total assets

(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Accounts under IFRS
						Liabilities and equity
Liabilities						Liabilities
Current liabilities						Current liabilities
Note and account payables—trade Account payables—other	237,950	73,837	—	311,787	(8)	Trade and other payables
Short-term loan payables Commercial paper Current portion of bonds Current portion of long-term loan payables	218,037	—	—	218,037		Bonds and borrowings
Income tax payables	65,651	—	—	65,651		Income tax payables
	—	8,268	178	8,446	(8)	Other financial liabilities
Provisions (current liabilities)	38,778	(34,543)	(50)	4,184	(8)	Provisions
Lease obligations Tobacco tax payables Tobacco special tax payables Tobacco local tax payables Consumption tax payables Other (current liabilities)	500,717	(50,804)	13,174	463,088	(5),(8)	Other current liabilities
Deferred tax liabilities(current liabilities)	2,241	(2,241)	—	—	(8)	
Total current liabilities	1,063,374	(5,484)	13,302	1,071,192		Subtotal
	—	6,297	—	6,297	(8)	Liabilities directly associated with non-current assets held-for-sale
	1,063,374	814	13,302	1,077,490		Total current liabilities
Non-current liabilities						Non-current liabilities
Bonds Long-term loans payable	478,154	—	—	478,154		Bonds and borrowings
	—	14,654	177	14,832	(8)	Other financial liabilities
Provision for retirement benefits	231,601	21,967	58,348	311,917	(4),(8)	Retirement benefit liabilities
Provision for directors' retirement benefits	376	4,136	—	4,512	(8)	Provisions
Other (non-current liabilities)	134,590	(43,813)	3,358	94,135	(5),(8)	Other non-current liabilities
Deferred tax liabilities (non-current liabilities)	72,630	2,241	(2,021)	72,850	(8)	
Total non-current liabilities	917,351	(814)	59,863	976,400		Total non-current liabilities
Total liabilities	1,980,725	—	73,165	2,053,889		Total liabilities
Net assets						Equity
Capital stock	100,000	—	—	100,000		Share capital
Capital surplus	736,410	—	—	736,410		Capital surplus
Treasury stock	(94,574)	—	—	(94,574)		Treasury shares
Other cumulative comprehensive income Subscription rights to shares	(626,969)	—	376,224	(250,745)	(4),(6)	Other components of equity
Retained earnings	1,400,189	—	(366,135)	1,034,054	(7)	Retained earnings
Total shareholders' equity Other cumulative comprehensive income Subscription rights to shares	1,515,056	—	10,089	1,525,145		Equity attributable to owners of the parent company
Minority interests	76,147	—	19	76,166		Non-controlling interest
Total net assets	1,591,203	—	10,109	1,601,311		Total equity
Total liabilities and net assets	3,571,928	—	83,273	3,655,201		Total Liabilities and equity

Notes on Reconciliation (March 31, 2011)

(1) Adjustment to Trade Receivables and Inventories

Under Japanese GAAP the Group recognized income for sale of goods at the time of shipping; however, under IFRS the Group recognizes such income at the time of delivery of goods. The Group recognized goods mainly for sales promotions in supplies under Japanese GAAP; however, they do not meet the definition of assets under IFRS. Therefore, adjustments are made to retained earnings.

(2) Adjustment to Property, Plant and Equipment; Goodwill; Intangible Assets; Investment Property; and Non-current Assets Held-for-Sale

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, the Group has adopted the straight-line method under IFRS. With regard to assets acquired for advertising and general publicity, and for sales promotions, and gains and losses arising from exchange transactions that have commercial substance, adjustments are made to retained earnings.

(3) Adjustment to Amortization of Goodwill

Under Japanese GAAP, the Group estimated substantially the amortization period and goodwill was amortized over the years estimated; however, since amortization after the date of transition is suspended, the adjustments are made to retained earnings under IFRS.

(4) Adjustment to Employee Retirement Benefits and Mutual Pension Benefits

With regard to actuarial gains or losses, under Japanese GAAP the Group amortized them from the following year in which they occurred, allocating the amounts over certain years determined based on the employee's average remaining service period. Under IFRS, the Group fully recognizes the actuarial gains or losses when occurred in other comprehensive income and immediately transfers them to retained earnings. Retirement benefit liabilities are recalculated based on the provisions of IFRS. Adjustments for the gain or loss that occurred due to periodic allocation method of retirement benefit obligations are made to retained earnings. With regard to actuarial gains or losses on retirement benefits, recognized in net assets by foreign subsidiaries that adopted U.S. GAAP previously, they are transferred to retained earnings under IFRS.

(5) Reconciliation to Unused Paid Vacations

The Group recognizes unused paid vacation, for which accounting treatment was not required under Japanese GAAP, as liabilities under IFRS and adjustments are made to retained earnings.

(6) Adjustment to Other Components of Equity

The Group applied the exemptions prescribed in IFRS 1 and transferred all cumulative exchange differences on translation of foreigh operation to retained earnings on the date of transition April 1, 2010.

(7) Adjustment to Retained Earnings

(Millions of yen)

	As of March 31, 2011
Adjustment to Trade Receivables and Inventories (refer to (1))	(3,579)
Adjustment to Property, Plant and Equipment, and Intangible Assets (refer to (2))	55,479
Adjustment to Amortization of Goodwill (refer to (3))	91,097
Adjustment to Employee Retirement Benefits and Mutual Pension Benefits (refer to (4))	(25,310)
Adjustments to Unused Paid Vacation (refer to (5))	(14,838)
Adjustments to Other Components of Equity (refer to (6))	(469,668)
Other	5,428
Subtotal	(361,391)
Adjustment of tax effects	(4,549)
Adjustment of Non-controlling Interests	(195)
Adjustment to Retained Earnings	(366,135)

(8) Reclassification

In addition to the above, the Group makes reclassification to comply with the provisions of IFRS. Major reclassifications are as follows:

- All of the current portions of deferred tax assets and deferred tax liabilities are reclassified as non-current portions.
- "Investment property," "Non-current assets held-for-sale" and" Liabilities directly associated with non-current assets held-for sale" are presented separately in accordance with IFRS.
- Financial assets and financial liabilities are presented separately in accordance with IFRS
- "Provisions" and "Retirement benefit liabilities" are partially reclassified based on the definitions and requirements under IFRS.

Adjustment to profit or loss and comprehensive income (Fiscal year ended March 31, 2011)
(the latest fiscal year of consolidated financial statements prepared under Japanese GAAP)

(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Accounts under IFRS
Consolidated statement of income						Consolidated statement of income
Net sales	6,194,554	(4,135,281)	92	2,059,365	(1)	Revenue
Cost of sales	(5,074,075)	4,117,153	3,062	(953,860)	(1),(2),(3)	Cost of sales
Gross profit	1,120,480	(18,129)	3,155	1,105,506		Gross profit
	—	21,073	(443)	20,630	(3)	Other operating income
	—	2,330	—	2,330	(3)	Share of profit in investments accounted for using the equity method
Selling, general and administrative expenses	(791,799)	(36,951)	101,606	(727,144)	(3),(4)	Selling, general and administrative expenses
Operating income	328,681	(31,677)	104,318	401,321		Operating profit
Non-operating income	12,029	(12,029)	—	—	(3)	
Non-operating expenses	(28,223)	28,223	—	—	(3)	
Extraordinary income	20,601	(20,601)	—	—	(3)	
Extraordinary loss	(52,590)	52,590	—	—	(3)	
	—	9,227	643	9,870	(3)	Financial income
	—	(26,359)	410	(25,949)	(3),(5)	Financial costs
Income before income taxes and minority interests	280,498	(626)	105,371	385,242		Profit before income taxes
Income taxes—current Income taxes—deferred	(130,890)	626	(6,243)	(136,506)		Income taxes
Net profit for the year before minority shareholder profit or loss adjustment	149,608	—	99,128	248,736		Profit for the year
Consolidated statement of comprehensive income						Consolidated statement of comprehensive income
Other comprehensive income						Other comprehensive income
Foreign currency translation adjustment	(196,361)	—	(60,423)	(256,784)	(6)	Exchange differences on translation of foreign operations
Valuation difference on available-for-sale securities	(6,458)	—	—	(6,458)		Net gain (loss) on revaluation of available-for-sale securities
Pension liability adjustment	(1,216)	—	(33,245)	(34,461)	(7)	Actuarial gains (losses) on defined benefit retirement plans
Total other comprehensive income	(204,035)	—	(93,668)	(297,703)		Other comprehensive income, net of taxes
Comprehensive income	(54,427)	—	5,460	(48,967)		Comprehensive income (loss) for the year

Notes on Reconciliation (Comprehensive Income for the year ended March 31, 2011)

(1) Adjustment to Revenue

The Group included tobacco excise taxes and other transactions where the Group was involved as an agency in revenue under Japanese GAAP; however, they are not included in revenue under IFRS.

Certain sales rebates were presented in "Selling, general and administrative expenses" under Japanese GAAP; however, they are presented as a deduction from revenue under IFRS.

The Group recognized income for certain sale of goods at the time of shipping under Japanese GAAP; however, under IFRS we recognize such income at the time of the delivery of goods to customers.

(2) Adjustment to Cost of Sales

The Group included tobacco excise taxes and other transactions where the Group was involved as an agency in cost of sales under Japanese GAAP; however, they are not included in cost of sales under IFRS.

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 has adopted the straight-line method under IFRS.

The calculation of retirement benefit liabilities under Japanese GAAP was recalculated based on the provisions of IFRS. With regard to actuarial gains (losses) under Japanese GAAP, the Group amortized them from the following year in which they occurred, over certain years determined based on the employee's average remaining service period. Under IFRS, the Group fully recognizes all of the actuarial gains (losses) as other comprehensive income at that time of occurrence.

(3) Adjustment to Cost of Sales; Other Operating Income;
Share of Profit on Investments Accounted for Using the Equity Method;
Selling, General and Administrative Expenses;
Financial Income and Financial Costs

The Group presented non-operating income, non-operating expenses, extraordinary income, and extraordinary loss under Japanese GAAP. Under IFRS, 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 or "Selling, general and administrative expenses."

(4) Adjustment to Selling, General and Administrative Expenses

Sales rebates were presented as "Selling, general and administrative expenses" under Japanese GAAP; however, they are presented as a deduction from revenue under IFRS. 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 has adopted the straight-line method under IFRS.

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

The calculation of retirement benefit liabilities under Japanese GAAP is recalculated under IFRS. With regard to actuarial gains (losses) under Japanese GAAP, the Group amortized them from the year following the year in which they occurred, over certain years determined based on the employee's average remaining service period Under IFRS, the Group recognizes all of the actuarial gains(losses) as other comprehensive income at the time of occurrence.

(5) Reconciliation of Financial Costs

The calculation of retirement benefit liabilities under Japanese GAAP is recalculated based in accordance with IFRS.

Interest costs and the expected return on plan assets in retirement benefit expenses were recognized in the cost of sales or "Selling, general and administrative expenses" under Japanese GAAP; however, they are recognized in financial costs under IFRS.

(6) Adjustment to Exchange Differences on Translation of Foreign Operations

Under Japanese GAAP, the Group recognized goodwill in JTIH Group in U.S. dollars, the functional currency of JTIH, and translated it into Japanese Yen, the presentation currency of the Group. However, under IFRS, the Group recognizes the goodwill in JTIH Group in the functional currency of each subsidiary under the JTIH Group, and translates them into Japanese Yen, the presentation currency of the Group.

(7) Adjustment to Actuarial Gains or Losses

With regard to actuarial gains or losses from the calculation of retirement benefit liabilities under Japanese GAAP, the Group amortized them from the following year in which they occurred, over a certain years determined based on the employee's average remaining service period. Under IFRS, all of the actuarial gains or losses are recognized as other comprehensive income at the time of occurrence.

Reconciliation of Cash Flows (Fiscal year ended March 31,2011) (the latest fiscal year of consolidated financial statements prepared under Japanese GAAP)

There are no material differences between the consolidated statements of cash flows that are disclosed in accordance with Japanese GAAP and the consolidated statements of cash flows that are disclosed in accordance with IFRS.

(2)【Consolidated Supplementary Information (Unaudited)】

A. Quarterly Information for the Year ended March 31, 2012

	Q1 From April 1, 2011 to June 30, 2011	Q2 From April 1, 2011 to September 30, 2011	Q3 From April 1, 2011 to December 31, 2011	2012(Note 3) From April 1, 2011 to March 31, 2012
Revenue (Millions of yen)	588,176	1,277,504	1,947,123	2,547,060
Profit before income taxes for the quarter Millions of yen	47,460	157,890	276,903	345,028
Profit for the quarter (Millions of yen)	22,707	95,875	160,424	227,399
Earnings per share for the quarter (yen)	2,384.80	10,069.35	16,848.66	23,882.77

	Q1 From April 1, 2011 to June 30, 2011	Q2 From July 1, 2011 to September 30, 2011	Q3 From October 1, 2011to December 31, 2011	Q4(Note 3) From January 1, 2012 to March 31, 2012
Earnings per share for the quarter (yen)	2,384.80	7,684.55	6,779.30	7,034.11

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

(Note 2) Quarterly information for the year ended March 31, 2012 is prepared in accordance with Japanese GAAP, and figures less than ¥1 million are rounded to the nearest million yen.

(Note 3) The audit or review is not conducted for the year ended March 31, 2012 and the fourth quarter by auditors.

B. Important Lawsuits

The important lawsuits of the Group are as stated in “39. Contingencies” and “40. Subsequent Event” in the note to consolidated financial statements.

2. Non-consolidated financial statements

(1) Non-consolidated financial statements

a. Non-consolidated balance sheet

(Millions of yen)

		As of March 31, 2011		As of March 31, 2012
Assets				
Current assets				
Cash and deposits		292		8,263
Account receivables-trade	*2	55,919	*2	57,438
Short-term investment securities		139,400		7,000
Merchandise and finished goods		8,438		24,607
Semifinished goods		102,959		80,958
Work in progress		2,032		3,570
Raw materials and supplies		41,141		37,260
Advance payments-trade	*2	484	*2	485
Prepaid expenses	*2	5,207	*2	5,395
Deferred tax assets		12,458		10,760
Short-term loan receivables		-	*5	279,923
Short-term loan receivables from subsidiaries and affiliates		30,965		33,395
Other	*2	21,570	*2	17,794
Allowance for doubtful accounts		(423)		(4)
Total current assets		420,442		566,843
Non-current assets				
Property, plant and equipment				
Buildings		397,526		389,205
Accumulated depreciation		(281,032)		(281,876)
Buildings, net		116,494		107,329
Structures		20,072		19,677
Accumulated depreciation		(16,846)		(16,725)
Structures, net		3,225		2,953
Machinery and equipment		338,508		318,517
Accumulated depreciation		(263,096)		(248,536)
Machinery and equipment, net		75,413		69,980
Vehicles		2,939		2,935
Accumulated depreciation		(1,458)		(1,489)
Vehicles, net		1,480		1,447
Tools, furniture and fixtures		81,615		89,256
Accumulated depreciation		(61,104)		(64,288)
Tools, furniture and fixtures, net		20,511		24,968
Land		91,721		91,336
Construction in progress		7,206		12,515
Total property, plant and equipment		316,051		310,528

(Millions of yen)

		As of March 31, 2011		As of March 31, 2012
Intangible assets				
Patent right		221		147
Leasehold right		13		13
Trademark		4,906		4,603
Design right		99		88
Software		11,554		9,334
Other		182		6,100
Total intangible assets		16,975		20,287
Investments and other assets				
Investment securities		27,805		32,764
Stocks of subsidiaries and affiliates		2,018,927		2,019,048
Investments in capital of subsidiaries and affiliates		782		782
Long-term loan receivables		310		290
Long-term loan receivables from subsidiaries and affiliates		14,450		14,464
Long-term prepaid expenses		7,158		6,867
Deferred tax assets		39,698		29,978
Other		17,335		15,355
Allowance for doubtful accounts		(579)		(555)
Total investments and other assets		2,125,886		2,118,994
Total non-current assets		2,458,912		2,449,808
Total assets		2,879,354		3,016,651
Liabilities				
Current liabilities				
Account payables-trade	*2	10,526	*2	15,864
Short-term loan payables		−		5
Current portion of bonds	*1	40,000	*1	60,000
Current portion of long-term loan payables		20,200		120
Lease obligations	*2	3,328	*2	4,324
Account payables-other	*2	44,272	*2	53,141
Accrued expenses	*2	7,972	*2	2,947
National tobacco excise tax payables		52,703	*6	97,323
National tobacco special excise tax payables		8,151	*6	15,052
Local tobacco excise tax payables		61,868	*6	112,516
Income tax payables		33,888		9,767
Consumption tax payables		23,011		25,608
Advances received		0		42
Deposits received		638		1,136
Cash management system deposits received	*3	232,175	*3	267,817
Unearned revenue	*2	194	*2	193
Provision for bonuses		11,753		12,070
Other	*2	1,018	*2	1,904
Total current liabilities		551,697		679,830

(Millions of yen)

		As of March 31, 2011		As of March 31, 2012
Non-current liabilities				
Bonds	*1	239,999	*1	180,000
Long-term loan payables		50,160		50,040
Lease obligations	*2	6,096	*2	8,712
Provision for retirement benefits		163,963		160,396
Asset retirement obligations		398		677
Lease and guarantee deposits received	*2	7,254	*2	4,853
Long-term account payables-other		5,385		7,406
Total non-current liabilities		473,255		412,083
Total liabilities		1,024,952		1,091,912
Net assets				
Shareholders' equity				
Capital stock		100,000		100,000
Capital surplus				
Legal capital surplus		736,400		736,400
Other capital surplus		10		10
Total capital surpluses		736,410		736,410
Retained earnings				
Legal retained earnings		18,776		18,776
Other retained earnings				
Reserve for reduction entry		37,128		37,113
Special account for reduction entry		1,882		10,595
General reserve		955,300		955,300
Retained earnings brought forward		92,829		150,684
Total retained earnings		1,105,915		1,172,469
Treasury stock		(94,574)		(94,574)
Total shareholders' equity		1,847,751		1,914,305
Valuation and translation adjustments				
Valuation difference on available-for-sale securities		5,887		9,406
Total valuation and translation adjustments		5,887		9,406
Subscription rights to shares		763		1,028
Total net assets		1,854,401		1,924,739
Total liabilities and net assets		2,879,354		3,016,651

b. Non-consolidated statement of income

(Millions of yen)

		Fiscal year ended March 31, 2011		Fiscal year ended March 31, 2012
Net sales	*1	749,252	*1	734,902
Cost of sales				
Beginning merchandise and finished goods		35,446		8,438
Cost of products manufactured		263,268		267,706
Cost of purchased goods		534		495
Transfer to other account	*2	3,897	*2	2,485
Ending merchandise and finished goods		8,438		24,607
Cost of sales on real estate business		3,373		3,085
Total cost of sales		290,286		252,631
Gross profit		458,966		482,270
Selling, general and administrative expenses				
Advertising expenses		12,792		12,243
Promotion expenses		54,360		55,780
License fee		3,190		3,813
Transportation and warehousing expenses		22,028		19,184
Compensations, salaries and allowances		33,312		33,435
Retirement benefit expenses		5,721		12,713
Legal welfare expenses		6,039		6,102
Employees' bonuses		6,885		7,336
Provision for bonuses		7,204		7,430
Business consignment expenses		23,432		25,195
Depreciation		17,385		15,513
Research and development expenses	*6	41,956	*6	43,378
Other		39,240		39,104
Total selling, general and administrative expenses		273,543		281,225
Operating income		185,423		201,045
Non-operating income				
Interest income		518		478
Dividend income	*5	4,880	*5	3,651
Rent income from subsidiaries and affiliates		815		823
Other	*5	2,736	*5	2,674
Total non-operating income		8,948		7,626

(Millions of yen)

		Fiscal year ended March 31, 2011		Fiscal year ended March 31, 2012
Non-operating expenses				
Interest expenses		1,849		1,308
Interest on bonds		3,159		2,978
Financial support for domestic leaf tobacco growers		1,492		2,863
Other		5,053		3,452
Total non-operating expenses		11,552		10,601
Ordinary income		182,819		198,071
Extraordinary income				
Gains on sales of land		8,092		28,067
Gains on sales of other non-current assets		77		1,551
Gains on sales of investment securities		1,382		−
Other		82	*8	5,566
Total extraordinary income		9,634		35,185
Extraordinary loss				
Losses on sales of non-current assets	*3	716	*3	793
Losses on retirement of non-current assets	*4	4,210	*4	7,483
Impairment losses		1,974		3,001
Losses on valuation of investments in subsidiaries and affiliates	*7	74,942		−
Losses on the Great East Japan Earthquake	*8	8,668	*8	13,425
Cooperation fee for terminating leaf tobacco farming		−		12,469
Other		3,354		3,181
Total extraordinary loss		93,864		40,352
Income before income taxes		98,589		192,903
Income taxes-current		62,031		40,244
Income taxes-deferred		4,341		9,933
Total income taxes		66,373		50,178
Net income		32,216		142,726

Detailed statement of manufacturing cost

(Millions of yen)

Category	Note	Fiscal year ended March 31, 2011 Amount	%	Fiscal year ended March 31, 2012 Amount	%
I. Raw material cost		177,090	68.9	167,255	67.1
II. Labor cost		23,220	9.0	23,844	9.6
III. Other expenses		56,955	22.1	58,073	23.3
Total manufacturing cost of this fiscal year		257,264	100.0	249,172	100.0
Beginning semifinished goods		108,998		102,959	
Beginning work in progress		3,719		2,032	
Total		369,981		354,162	
Ending semifinished goods		102,959		80,958	
Ending work in progress		2,032		3,570	
Transfer to other account	*1	1,723		1,928	
Cost of products manufactured		263,268		267,706	

(Millions of yen)

Item	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Major item of other expenses		
Depreciation and amortization	19,220	20,066

Note: *1. Mainly consisting of transfers of semifinished goods to losses on the Great East Japan Earthquake

Method of cost accounting

Process cost accounting system is used for the cost accounting for our major products, tobacco, where processes are classified as the process of threshing and processing tobacco leaves (process to manufacture semifinished goods) and the process of manufacturing finished goods from semifinished goods of tobacco leaves threshed and processed.

c. Non-consolidated statement of changes in net assets

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Shareholders' equity		
Capital stock		
Balance at the beginning of current period	100,000	100,000
Balance at the end of current period	100,000	100,000
Capital surplus		
Legal capital surplus		
Balance at the beginning of current period	736,400	736,400
Balance at the end of current period	736,400	736,400
Other capital surplus		
Balance at the beginning of current period	7	10
Changes of items during the period		
Disposal of treasury stock	3	–
Total changes of items during the period	3	–
Balance at the end of current period	10	10
Total capital surplus		
Balance at the beginning of current period	736,407	736,410
Changes of items during the period		
Disposal of treasury stock	3	–
Total changes of items during the period	3	–
Balance at the end of current period	736,410	736,410
Retained earnings		
Legal retained earnings		
Balance at the beginning of current period	18,776	18,776
Balance at the end of current period	18,776	18,776
Other retained earnings		
Reserve for reduction entry		
Balance at the beginning of current period	38,320	37,128
Changes of items during the period		
Provision of reserve for reduction entry	4,969	5,339
Reversal of reserve for reduction entry	(6,162)	(8,192)
Increase in reserve for reduction entry due to tax rate change	–	2,839
Total changes of items during the period	(1,193)	(14)
Balance at the end of current period	37,128	37,113
Special account for reduction entry		
Balance at the beginning of current period	4,254	1,882
Changes of items during the period		
Provision of reserve for special account for reduction entry	1,882	9,785
Reversal of reserve for special account for reduction entry	(4,254)	(1,882)
Increase in reserve for special account for reduction entry due to tax rate change	–	810
Total changes of items during the period	(2,372)	8,713
Balance at the end of current period	1,882	10,595

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
General reserve		
Balance at the beginning of current period	955,300	955,300
Balance at the end of current period	955,300	955,300
Retained earnings brought forward		
Balance at the beginning of current period	112,613	92,829
Changes of items during the period		
Provision of reserve for reduction entry	(4,969)	(5,339)
Reversal of reserve for reduction entry	6,162	8,192
Increase in reserve for reduction entry due to tax rate change	–	(2,839)
Provision of reserve for special account for reduction entry	(1,882)	(9,785)
Reversal of reserve for special account for reduction entry	4,254	1,882
Increase in reserve for special account for reduction entry due to tax rate change	–	(810)
Dividend from surplus	(55,565)	(76,172)
Net income	32,216	142,726
Total changes of items during the period	(19,784)	57,855
Balance at the end of current period	92,829	150,684
Total retained earnings		
Balance at the beginning of current period	1,129,264	1,105,915
Changes of items during the period		
Dividend from surplus	(55,565)	(76,172)
Net income	32,216	142,726
Total changes of items during the period	(23,348)	66,554
Balance at the end of current period	1,105,915	1,172,469
Treasury stock		
Balance at the beginning of current period	(74,575)	(94,574)
Changes of items during the period		
Purchase of treasury stock	(20,000)	–
Disposal of treasury stock	1	–
Total changes of items during the period	(19,999)	–
Balance at the end of current period	(94,574)	(94,574)
Total shareholders' equity		
Balance at the beginning of current period	1,891,095	1,847,751
Changes of items during the period		
Dividend from surplus	(55,565)	(76,172)
Net income	32,216	142,726
Purchase of treasury stock	(20,000)	–
Disposal of treasury stock	4	–
Total changes of items during the period	(43,344)	66,554
Balance at the end of current period	1,847,751	1,914,305

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Valuation and translation adjustments		
Valuation difference on available-for-sale securities		
Balance at the beginning of current period	10,100	5,887
Changes of items during the period		
Net changes of items other than shareholders' equity	(4,213)	3,519
Total changes of items during the period	(4,213)	3,519
Balance at the end of current period	5,887	9,406
Total valuation and translation adjustments		
Balance at the beginning of current period	10,100	5,887
Changes of items during the period		
Net changes of items other than shareholders' equity	(4,213)	3,519
Total changes of items during the period	(4,213)	3,519
Balance at the end of current period	5,887	9,406
Subscription rights to shares		
Balance at the beginning of current period	565	763
Changes of items during the period		
Net changes of items other than shareholders' equity	199	265
Total changes of items during the period	199	265
Balance at the end of current period	763	1,028
Total net assets		
Balance at the beginning of current period	1,901,760	1,854,401
Changes of items during the period		
Dividend from surplus	(55,565)	(76,172)
Net income	32,216	142,726
Purchase of treasury stock	(20,000)	–
Disposal of treasury stock	4	–
Net changes of items other than shareholders' equity	(4,014)	3,784
Total changes of items during the period	(47,358)	70,338
Balance at the end of current period	1,854,401	1,924,739

Significant accounting policies

1. Basis and method of valuation for securities

(1) Investments in subsidiaries and affiliates:

Stated at cost determined by the moving-average method.

(2) 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

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

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

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

The main useful lives are as follows:

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

(2) 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

(3) 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 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.

6. Policy on accounting of provisions

(1) Allowance for doubtful accounts

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

(2) Provision for bonuses

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

(3) 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 occurred 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).

7. Method of hedge accounting

(1) 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.

(2) Hedging instruments and hedged items

Hedging instruments --- Interest rate and currency swaps

Hedged items --- Loans payable

(3) Hedging policy

Derivative transactions are mainly used in line with the Group Basic Policy on Financial Operations for the purpose of avoiding or reducing foreign currency exchange risks associated with future foreign currency transactions and for the purpose of avoiding interest rate risks associated with interest receipts on debt securities and interest payments on loans.

(4) Assessment of hedge effectiveness

As a general rule, the effectiveness of hedging instruments is determined by comparing the accumulated amount of changes in hedging instruments with the accumulated amount of changes in hedged items. Assessment of effectiveness is omitted for interest rate and currency swaps treated with accounting that incorporates the swaps into underlying accounting items.

8. Other significant accounting policies

Consumption taxes

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

Changes in accounting policies

(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 consolidation 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)."

This change in accounting policy has been applied retrospectively, and the financial statements for the previous fiscal year are shown in accordance with this retrospective application.

As a result, net sales and cost of sales for the previous fiscal year have decreased by ¥1,317,088 million compared to preretrospective application. However, there is no impact on operating income, ordinary income or income before income taxes. In addition, it has no effect on the balance of retained earnings brought forward at the beginning of the previous fiscal year in the non-consolidated statement of changes in net asset, since there is no cumulative impact from this retrospective application to be reflected in net assets at the beginning of the previous fiscal year.

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

(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 net income per share: for stock options that vest after a specified service period, the Company now includes the portion of stock options' fair value attributable to future service rendered to the Company when calculating the cash proceeds assumed to be received upon exercise of the stock options.

Consequently, the figure shown for diluted net income per share for the fiscal year ended March 31, 2011 reflects this change in accounting policies through retrospective application.

The impact of this change is immaterial.

Changes in method of presentation

(Non-consolidated statement of income)

1. In the previous fiscal year, “Foreign exchange losses” was presented separately in “Non-operating expenses:” however, in this fiscal year, it is included in “Other” in “Non-operating expenses” due to its decreased materiality. In order to reflect this change in presentation method, the financial statements for the previous fiscal year have been reclassified.

   Accordingly, in the statement of income for the previous fiscal year, ¥1,467 million that was previously shown as “Foreign exchange losses” has been reclassified and is shown as “Other” in “Non-operating expenses.”

2. In the previous fiscal year, “Periodic mutual assistance association cost” was presented separately in “Non-operating expenses;” however, in this fiscal year, it is included in “Other” in “Non-operating expenses” due to its decreased materiality. In order to reflect this change in presentation method, the financial statements for the previous fiscal year have been reclassified.

   Accordingly, in the statement of income for the previous fiscal year, ¥1,384 million that was previously shown as “Periodic mutual assistance association cost” has been reclassified and is shown as “Other” in “Non-operating expenses.”

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).

Notes to non-consolidated financial statements

(Notes to non-consolidated balance sheet)

*1. Pursuant to Article 6 of the Japan Tobacco Inc. Act, JT's assets are pledged as general collateral for corporate bonds issued by JT. Bondholders have the right to receive payment of their own claims for assets of JT in preference to other general creditors (with the exception of national taxes, local taxes and other obligations of a public nature).

*2. Amounts of transactions with subsidiaries and affiliates that are included in the relevant accounts other than those separately presented as such are as follows:

(Millions of yen)

	As of March 31, 2011	As of March 31, 2012
Assets for subsidiaries and affiliates	37,614	33,009
Liabilities for subsidiaries and affiliates	33,347	42,922

*3. "Cash management system deposits received" represents the fund entrusted in the cash management system of domestic group companies.

4. Contingent obligations

Guarantees are provided for bank loans and bonds of subsidiaries and affiliates as follows:

Bank loans

As of March 31, 2011			As of March 31, 2012		
	(Millions of yen)			(Millions of yen)	
JT International Holding B.V.	124,626	(EUR 510 million) (GBP 455 million) (CAD 45 million)	JT International Holding B.V.	54,446	(GBP 306 million) (EUR 131 million) (USD 0 million)
JTI Ireland Limited	22,787	(EUR 194 million)	JTI Ireland Limited	21,415	(EUR 195 million)
JT International Hellas A.E.B.E.	20,497	(EUR 175 million)	JT International Hellas A.E.B.E.	19,638	(EUR 179 million)
JT International Germany GmbH	14,253	(EUR 121 million)	JT International Company Netherlands B.V.	14,237	(EUR 130 million)
JT International S.A.	13,198	(EUR 55 million) (CHF 54 million) (USD 23 million)			
Other (47 companies)	70,743		Other (44 companies)	76,863	
Total	266,105		Total	186,598	

Bonds

As of March 31, 2011			As of March 31, 2012		
	(Millions of yen)			(Millions of yen)	
JTI (UK) Finance PLC	192,562	(EUR 1,352 million) (GBP 252 million)	JTI (UK) Finance PLC	90,130	(EUR 522 million) (GBP 252 million)
Total	192,562		Total	90,130	

Note: Guarantee obligations denominated in foreign currencies were translated to yen amounts using the exchange rate as of the closing date of the accounting period.

*5. "Short-term loan receivables" in current assets are repurchase agreements, and the market value of the securities received from the counterparties as collateral is ¥279,923 million.

*6. National tobacco excise tax payable, national tobacco special excise tax payable and local tobacco excise tax payable include the following amounts because the last day of this fiscal year was a holiday of financial institutions.

(Millions of yen)

	As of March 31, 2011	As of March 31, 2012
National tobacco excise tax payables	－	45,711
National tobacco special excise tax payables	－	7,070
Local tobacco excise tax payables	－	52,749

(Notes to non-consolidated statement of income)

*1. Net sales including tobacco excise taxes

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Net sales including tobacco excise taxes	2,066,340	2,019,143

Note: Net sales including tobacco excise taxes is net sales plus the amount equivalent to tobacco excise taxes.

*2. "Transfer to other account" represents the amount of merchandise and finished goods related to losses on the Great East Japan Earthquake or for other purposes.

*3. The main components of "Losses on sales of non-current assets" are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Buildings	557	685

*4. The main components of "Losses on retirement of non-current assets" are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Buildings	1,776	2,952
Machinery and equipment	1,437	2,892

*5. Amounts of transactions with subsidiaries and affiliates that are included in the relevant accounts other than those separately presented as such are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Dividend income	4,314	1,880
"Other" in non-operating income	1,002	507

*6. Research and development expenses

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Research and development expenses	41,956	43,378

Note: All research and development expenses are recorded as selling, general and administrative expenses.

*7. Losses on valuation of investments in subsidiaries and affiliates for the fiscal year ended March 31, 2011 represents an impairment losses on the stock of JT's subsidiary, TableMark Co., Ltd.

*8. Losses on the Great East Japan Earthquake for the fiscal year ended March 31, 2011 mainly consist of restoration costs of non-current assets and losses on destruction of inventories.

Losses on the Great East Japan Earthquake for the fiscal year ended March 31, 2012 mainly consist of losses on abandonment of inventories and fixed costs from the discontinuation of operations.

For the fiscal year ended March 31, 2012, aside from the above-mentioned losses, there were a ¥1,591 million reversal of the previous fiscal year's estimate, and ¥1,475 million of insurance income connected to the restoration costs of non-current assets damaged in the earthquake disaster and the losses on destruction of such inventories. These were recorded in "Other" in extraordinary income.

(Notes to non-consolidated statement of changes in net assets)

Fiscal year ended March 31, 2011

Class and number of treasury shares

(Thousands of shares)

	Number of shares as of April 1, 2010	Increase in the fiscal year ended March 31, 2011	Decrease in the fiscal year ended March 31, 2011	Number of shares as of March 31, 2011
Common stock (Note)	420	59	0	479
Total	420	59	0	479

Note: The increase of 58,630 shares in the number of common shares of treasury stock is the increase due to the acquisition implemented pursuant to the provision of Article 156 of the Companies Act, as applied under Article 165, paragraph 3 of the Act, and the decrease of 7 shares is due to the exercise of stock options.

Fiscal year ended March 31, 2012

Class and number of treasury shares

(Thousands of shares)

	Number of shares as of April 1, 2011	Increase in the fiscal year ended March 31, 2012	Decrease in the fiscal year ended March 31, 2012	Number of shares as of March 31, 2012
Common stock (Note)	479	–	–	479
Total	479	–	–	479

(Lease transactions)

[As lessee]

Operating leases

Future minimum lease payments under noncancelable operating leases

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Due within one year	5	1
Due after one year	1	–
Total	7	1

(Securities)

As of March 31, 2011

Investments in subsidiaries and affiliates

(Millions of yen)

Type	Balance sheet amount	Fair value	Difference
Investments in subsidiaries	41,580	25,516	(16,064)
Total	41,580	25,516	(16,064)

As of March 31, 2012

Investments in subsidiaries and affiliates

(Millions of yen)

Type	Balance sheet amount	Fair value	Difference
Investments in subsidiaries	41,580	23,961	(17,620)
Total	41,580	23,961	(17,620)

Note: Investments in subsidiaries and affiliates whose fair value is deemed extremely difficult to determine

(Millions of yen)

Type	As of March 31, 2011	As of March 31, 2012
Investments in subsidiaries	1,977,192	1,977,313
Investments in affiliates	155	155

The above are not included in "Investments in subsidiaries and affiliates" because their market values are not available and their fair values are deemed extremely difficult to determine.

(Tax effect accounting)

1. Breakdown of deferred tax assets and deferred tax liabilities by major cause

(Millions of yen)

	As of March 31, 2011	As of March 31, 2012
Deferred tax assets		
Provision for retirement benefits	25,406	24,085
Obligations pertaining to mutual assistance association	40,753	32,711
Impairment losses on non-current assets	942	1,497
Provision for bonuses	4,742	4,560
Losses on valuation of investments in subsidiaries and affiliates	31,260	–
Other	17,641	14,805
Subtotal	120,745	77,658
Less valuation allowance	(33,407)	(1,931)
Total	87,338	75,727
Deferred tax liabilities		
Reserve for reduction entry	(25,115)	(20,347)
Other	(10,067)	(14,643)
Total	(35,182)	(34,990)
Net deferred tax assets	52,156	40,738

2. Reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the non-consolidated statement of income, if there is a significant difference

(%)

	As of March 31, 2011	As of March 31, 2012
Normal effective statutory tax rates	40.35	40.35
(Adjustment)		
Expenses not deductible permanently such as entertainment expenses	0.77	0.35
Income not taxable permanently such as dividends income	(1.74)	(0.41)
Tax credit on research and development	(3.01)	(1.50)
Valuation allowance	30.88	(16.18)
Reduction in deferred tax assets at fiscal year-end due to change in tax rate	–	2.82
Other	0.07	0.58
Actual effective tax rate	67.32	26.01

3. Amendments to amounts of deferred tax assets and deferred tax liabilities due to change in corporate 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 fiscal 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 fiscal year beginning on April 1, 2012 to the fiscal year beginning on April 1, 2014, and to 35.41% for temporary differences expected to be eliminated in the fiscal 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.

(Business combination)

No items to report.

(Asset retirement obligations)

Omitted because of immateriality.

(Per share information)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Net assets per share (Yen)	194,679.73	202,039.18
Net income per share (Yen)	3,365.00	14,989.87
Diluted net income per share (Yen)	3,364.04	14,984.00

Note: Basis for computing basic and diluted net income per share is as follows:

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Net income per share		
Net income (Millions of yen)	32,216	142,726
Amounts not attributable to common shareholders (Millions of yen)	–	–
Net income related to common shares (Millions of yen)	32,216	142,726
Average number of common shares during the period (Thousands of shares)	9,574	9,521
Diluted net income per share		
Dilutive effects (Millions of yen)	–	–
Number of increased common shares (Thousands of shares)	3	4
(of which, subscription rights to shares) (Thousands of shares)	(3)	(4)

Dilutive shares that are not included in the calculation of diluted net income per share as they have no dilutive effects	−	−

(Subsequent events)

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 a 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 above-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 previous fiscal year on the assumption that the share split was conducted at the beginning of the previous fiscal year and per share information for the current fiscal year are respectively as follows:

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012
Net assets per share (Yen)	973.40	1,010.20
Net income per share (Yen)	16.83	74.95
Diluted net income per share (Yen)	16.82	74.92

d. Supplementary statements

Detailed schedule of short-term investment securities and investment securities

Shares

Issues			Number of shares (Share)	Balance sheet amount (Millions of yen)
Investment securities	Available-for-sale securities	KT&G Corporation	2,864,904	16,700
		Seven & i Holdings Co., Ltd.	852,000	2,094
		Mizuho Financial Group, Inc.	12,750,700	1,721
		Mitsubishi UFJ Financial Group, Inc.	3,511,050	1,447
		DOUTOR-NICHIRES Holdings Co., Ltd.	1,320,000	1,437
		Sumitomo Mitsui Financial Group, Inc.	340,901	928
		OKAMURA CORPORATION	1,206,000	695
		Central Japan Railway Company	1,000	682
		NIPPON TELEGRAPH AND TELEPHONE CORPORATION	153,000	575
		NIPPON EXPRESS CO., LTD.	1,730,400	559
		48 other issues	13,634,265	5,007
Total			38,364,220	31,845

Other

Issues			Number of investment units (Unit)	Balance sheet amount (Millions of yen)
Short-term investment securities	Available-for-sale securities	Certificates of deposit	–	7,000
		Subtotal	–	7,000
Investment securities	Available-for-sale securities	Securities issued by government agencies	50,000	500
		Preferred securities	1,115,540	319
		Investments for limited liability partnership (2 partnerships)	100	101
		Subtotal	–	920
Total			–	7,920

Detailed schedule of property, plant and equipment and others

(Millions of yen)

Type of assets	Balance as of April 1, 2011	Increase in the fiscal year ended March 31, 2012	Decrease in the fiscal year ended March 31, 2012	Balance as of March 31, 2012	Accumulated depreciation or accumulated amortization as of March 31, 2012	Depreciation during the fiscal year ended March 31, 2012	Balance as of March 31, 2012
Property, plant and equipment							
Buildings	397,526	8,525	16,846 (2,886)	389,205	281,876	9,282	107,329
Structures	20,072	324	719 (67)	19,677	16,725	447	2,953
Machinery and equipment	338,508	15,964	35,956 (191)	318,517	248,536	18,611	69,980
Vehicles	2,939	501	504	2,935	1,489	438	1,447
Tools, furniture and fixtures	81,615	14,599	6,958	89,256	64,288	9,728	24,968
Land	91,721	2	387 (48)	91,336	–	–	91,336
Construction in progress	7,206	33,412	28,104	12,515	–	–	12,515
Total property, plant and equipment	939,587	73,328	89,474 (3,192)	923,441	612,914	38,505	310,528
Intangible assets							
Patent right	1,191	28	–	1,218	1,071	102	147
Leasehold right	13	–	–	13	–	–	13
Trademark	7,992	456	–	8,448	3,844	758	4,603
Design right	123	8	–	131	43	19	88
Software	56,729	3,655	2,119	58,265	48,930	4,144	9,334
Other	236	5,939	74	6,100	0	11	6,100
Total intangible assets	66,284	10,085	2,193	74,175	53,889	5,033	20,287
Long-term prepaid expenses	16,967	2,989	2,665	17,292	10,425	2,534	6,867

Notes: 1. The figures in parentheses in the "Decrease in the fiscal year ended March 31, 2012" column represent decreases due to impairment losses included in the figures above.

2. The balances as of April 1, 2011 of intangible assets (excluding software) and long-term prepaid expenses are presented net of the accumulated amortization up to April 1, 2011.

3. Other includes software in progress.

4. Major breakdowns of "Increase in the fiscal year ended March 31, 2012" and "Decrease in the fiscal year ended March 31, 2012" are as follows:

(Millions of yen)

Buildings	Decrease	Idle assets	9,331
Machinery and equipment	Increase	Tobacco products manufacturing equipment and other	15,285
	Decrease	Tobacco products manufacturing equipment and other	35,537
Tools, furniture and fixtures	Increase	Lease assets (fixtures and fittings for tobacco sales purposes)	7,459

Detailed schedule of reserve allowances

(Millions of yen)

Category	Balance as of April 1, 2011	Increase in the fiscal year ended March 31, 2012	Decrease in the fiscal year ended March 31, 2012 (specific purposes)	Decrease in the fiscal year ended March 31, 2012 (other)	Balance as of March 31, 2012
Allowance for doubtful accounts	1,001	6	346	102	559
Provision for bonuses	11,753	12,070	11,753	–	12,070

Note: "Decrease in the fiscal year ended March 31, 2012 (other)" for allowance for doubtful accounts consists of ¥1 million of the credited reserve amount added back in full to the income in the following period on the historical default ratio for ordinary receivables and ¥102 million of reversal due to collection.

(2) Major assets and liabilities

Breakdowns of major assets and liabilities as of March 31, 2012 are as follows:

a. Assets

(a) Cash and deposits

(Millions of yen)

Category	Amount
Cash	62
Type of deposits	
Checking accounts	31
Saving accounts	8,170
Subtotal	8,201
Total	8,263

(b) Account receivables-trade

i. Balance by counter party

(Millions of yen)

Business partner	Amount
JT International S.A.	11,400
JT Beverage Inc.	9,567
LAWSON, INC.	5,879
FamilyMart Co., Ltd.	5,051
Circle K Sunkus Co., Ltd.	3,692
Other	21,851
Total	57,438

ii. Accrual, collection and retention of accounts receivable-trade

Balance as of April 1, 2011 (Millions of yen) (A)	Accrual in the fiscal year ended March 31, 2012 (Millions of yen) (B)	Collection in the fiscal year ended March 31, 2012 (Millions of yen) (C)	Balance carried forward (Millions of yen) (D)	Collection rate (%) $\frac{(C)}{(A)+(B)} \times 100$	Detention period (Day) $\frac{\frac{(A)+(D)}{2}}{\frac{(B)}{366}}$
55,919	2,117,288	2,115,769	57,438	97.4	9.8

Note: In JT's accounting, consumption taxes are, in general, excluded from transaction amounts. However, "Accrual in the fiscal year ended March 31, 2012" above includes consumption taxes.
In addition, although JT uses a method that excludes the amount equivalent to tobacco excise taxes in its accounting treatment for net sales, "Accrual in the fiscal year ended March 31, 2012" above includes the amount equivalent to tobacco excise taxes.

(c) Inventories

i. Merchandise and finished goods

(Millions of yen)

	Item	Amount
Merchandise	Vending machinery related products	64
	Other	44
	Subtotal	108
Finished goods	Tobacco products	21,750
	Other	2,749
	Subtotal	24,499
Total		24,607

ii. Semifinished goods

(Millions of yen)

Item	Amount
Processed raw materials for tobacco products (threshed tobacco)	80,958
Total	80,958

iii. Work in progress

(Millions of yen)

Item	Amount
Tobacco products	3,570
Total	3,570

iv. Raw materials and supplies

(Millions of yen)

	Item	Amount
Raw materials	Leaf tobacco	27,657
	Other	3,044
	Subtotal	30,700
Supplies	Supplies for tobacco products	3,010
	Other	3,550
	Subtotal	6,560
Total		37,260

(d) Short-term loan receivables

Details are described in “Notes to non-consolidated balance sheets, Notes to non-consolidated financial statements of (1) Non-consolidated financial statements in 2. Non-consolidated financial statements.”

(e) Investments in subsidiaries and affiliates

(Millions of yen)

Issue	Amount
JT Europe Holding B.V.	1,831,099
TableMark Co., Ltd.	67,776
Japan Beverage Holdings Inc.	47,565
Torii Pharmaceutical Co., Ltd.	41,580
Japan Filter Technology Co., Ltd.	12,706
Other	18,322
Total	2,019,048

b. Liabilities

(a) Account payables-trade

(Millions of yen)

Business partner	Amount
Japan Filter Technology Co., Ltd.	2,613
JT International S.A.	2,433
HOKKAI CAN CO., LTD	1,187
KEY COFFEE INC.	883
TOPPAN PROSPRINT CO., LTD.	862
Other	7,885
Total	15,864

(b) Cash management system deposits received

Details are described in “Notes to non-consolidated balance sheets, Notes to non-consolidated financial statements of (1) Non-consolidated financial statements in 2. Non-consolidated financial statements.”

(c) Bonds

The breakdown is described in “21. Bonds and borrowings (including other financial liabilities)”, Notes to consolidated financial statements of (1) Consolidated financial statements in 1. Consolidated financial statements.”

(d) Provision for retirement benefits

i. Retirement benefits

(Millions of yen)

Category	Amount
Projected benefit obligations	191,318
Fair value of plan assets	(71,857)
Unrecognized actuarial gains or losses	(61,847)
Unrecognized prior service cost	(3,173)
Prepaid pension cost	13,576
Subtotal	68,018

ii. Obligations pertaining to mutual assistance association (Note)

(Millions of yen)

Category	Amount
Benefit obligations	89,794
Unrecognized actuarial gains or losses	2,584
Subtotal	92,378

(Millions of yen)

Total	160,396

Note: As described in "(3) Provision for retirement benefits, 6. Policy for reserve allowances of Significant accounting policies of (1) Non-consolidated financial statements in 2. Non-consolidated financial statements," JT computes the amount of mutual assistance association obligation separately and includes it in provision for retirement benefits.

(3) Others

No items to report.

VI. Outline of filing company's business concerning shares

Business year	From April 1 to March 31
Annual General Meeting of Shareholders	June
Record date	March 31
Record dates for dividends from surplus	September 30 March 31
Share trade unit	Not applicable.(Note 1)
Purchase/sale of shares less than one unit:	(Note 2)
Office for handling business	Not applicable.
Shareholder registry administrator	Not applicable.
Forwarding office	Not applicable.
Handling charge for purchase/sale	Not applicable.
Method of public notice	Electronic public notice will be made. However, if JT is unable to make electronic public notice due to an accident or any other compelling reason, it will make an alternative public notice on "The Nikkei" newspaper. Electronic public notice will be notified on JT's website (http://www.jti.co.jp/).
Special benefits for shareholders	Special benefits for shareholders(Note 3) (1) Scope: All shareholders who appear in the shareholder registry as of March 31 and September 30 each year and hold one or more shares. (2) Description: JT presents one of various own products (including products of JT Group companies and gifts and novelties with JT name) a. Shareholders with one or more than one and less than five shares — ¥2,000 equivalent b. Shareholders with five or more shares — ¥3,000 equivalent * It is possible to choose for a contribution to be made to an organization that carries out social contribution activities in lieu of the presentation of products.

Notes: 1. By resolution of the meeting of the Board of Directors held on April 13, 2012, JT will adopt a unit share system which sets a share trading unit to 100 shares, effective July 1, 2012.

2. In accordance with the above, the following will apply from July 1, 2012.

Purchase/sale of shares less than one unit:	
Office for handling business	(Special account) 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan Mitsubishi UFJ Trust and Banking Corporation Corporate Agency Division
Shareholder registry administrator	(Special account) 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan Mitsubishi UFJ Trust and Banking Corporation Corporate Agency Division
Forwarding office	–
Handling charge for purchase/sale	Free

3. The system of special benefits for shareholders will be changed as follows starting from the special benefits for all shareholders who appear in the shareholder registry as of September 30, 2012.

(1) Scope

All shareholders who appear in the shareholder registry as of March 31 and September 30 each year and hold 100 or more shares.

(2) Description

JT presents its own products (including products of JT Group companies and gifts and novelties with JT name)

a. Shareholders with 100 or more than 100 and less than 200 shares	¥1,000 equivalent
b. Shareholders with 200 or more than 200 and less than 1,000 shares	¥2,000 equivalent
c. Shareholders with 1,000 or more than 1,000 and less than 2,000 shares	¥3,000 equivalent
d. Shareholders with 2,000 or more shares	¥6,000 equivalent

* It is possible to choose for a contribution to be made to an organization that carries out social contribution activities in lieu of the presentation of products.

VII. Reference information on filing company

1. Information on filing company's parent company

JT does not have a parent company as described by the provisions of Article 24-7, paragraph 1 of the Financial Instruments and Exchange Act.

2. Other reference information

From the beginning of this fiscal year until the filing date of this Annual Securities Report, JT has filed the following documents.

(1) Annual Securities Report and Appendices, and Written Confirmation

Filed to Director-General of Kanto Local Finance Bureau on June 24, 2011.

26th term; from April 1, 2010 to March 31, 2011

(2) Internal Control Report

Filed to Director-General of Kanto Local Finance Bureau on June 24, 2011.

26th term; from April 1, 2010 to March 31, 2011

(3) Quarterly Securities Reports and Written Confirmations

Filed to Director-General of Kanto Local Finance Bureau on August 12, 2011.

(First quarter of the 27th term; from April 1, 2011 to June 30, 2011)

Filed to Director-General of Kanto Local Finance Bureau on November 14, 2011.

(Second quarter of the 27th term; from July 1, 2011 to September 30, 2011)

Filed to Director-General of Kanto Local Finance Bureau on February 14, 2012.

(Third quarter of the 27th term; from October 1, 2011 to December 31, 2011)

(4) Extraordinary Reports

Filed to Director-General of Kanto Local Finance Bureau on June 29, 2011.

Extraordinary Report based on Article 19, paragraph 2, item (ix-2) (Results of Exercise of Voting Rights at the Annual General Meeting of Shareholders) of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

Filed to Director-General of Kanto Local Finance Bureau on September 16, 2011.

Extraordinary Report based on Article 19, paragraph 2, item (ii-2) (Issuance of Subscription Rights to Shares as Stock Options) of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

Filed to Director-General of Kanto Local Finance Bureau on January 30, 2012.

Extraordinary Report based on Article 19, paragraph 2, item (iii) (Changes in Specified Subsidiaries) of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

Filed to Director-General of Kanto Local Finance Bureau on June 19, 2012.

Extraordinary Report based on Article 19, paragraph 2, item (xiv) (Lawsuits Against JT Subsidiaries) of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

(5) Amendment Report of Extraordinary Report

Filed to Director-General of Kanto Local Finance Bureau on October 4, 2011.

Amendment Report of Extraordinary Report filed on September 16, 2011.

(6) Shelf Registration Statement (straight bonds) and Appendices

Filed to Director-General of Kanto Local Finance Bureau on July 20, 2011.

(7) Amendment to Shelf Registration Statements

Filed to Director-General of Kanto Local Finance Bureau on August 12, 2011, September 16, 2011, October 4, 2011, November 14, 2011, January 30, 2012, February 14, 2012 and June 19, 2012.

Amendment to Shelf Registration Statements pertaining to Shelf Registration Statement (straight bonds) filed on July 20, 2011.

B. Information on Guarantee Companies, etc. of Filing Company

No items to report

INDEPENDENT AUDITOR'S REPORT

June 22, 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)

[Audit of Financial Statements]

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements included in the Accounting Section, namely, the consolidated statement of financial position, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows of Japan Tobacco Inc. (the "Company") and its consolidated subsidiaries for the fiscal year from April 1, 2011 to March 31, 2012, and 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 International Financial Reporting Standards under the provision of Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements, 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 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 and their cash flows for the year then ended in conformity with International Financial Reporting Standards.

Emphasis of Matter

As mentioned in subsequent events, 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.

[Audit of Internal Control]

Pursuant to the second paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited management's report on internal control over financial reporting of the Company as of March 31, 2012.

Management's Responsibility for the Report on Internal Control

Management is responsible for designing and operating effective internal control over financial reporting and for the preparation and fair presentation of its report on internal control in conformity with assessment standards for internal control over financial reporting generally accepted in Japan. There is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

Auditor's Responsibility

Our responsibility is to express an opinion on management's report on internal control based on our internal control audit. We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether management's report on internal control is free from material misstatement.

An internal control audit involves performing procedures to obtain audit evidence about the results of the assessment of internal control over financial reporting in management's report on internal control. The procedures selected depend on the auditor's judgment, including the significance of effects on reliability of financial reporting. An internal control audit includes examining representations on the scope, procedures and results of the assessment of internal control over financial reporting made by management, as well as evaluating the overall presentation of management's report on internal control.

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

Opinion

In our opinion, management's report on internal control over financial reporting referred to above, which represents that the internal control over financial reporting of the Company as of March 31, 2012 is effectively maintained, presents fairly, in all material respects, the results of the assessment of internal control over financial reporting in conformity with assessment standards for internal control over financial reporting generally accepted in Japan.

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.

INDEPENDENT AUDITOR'S REPORT

June 22, 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 paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the non-consolidated financial statements included in the Accounting Section, namely, the balance sheet, and the related statements of income, and changes in net assets of Japan Tobacco Inc. (the "Company") for the 27th fiscal year from April 1, 2011 to March 31, 2012, the significant accounting policies and other related notes and supplemental schedules.

Management's Responsibility for the Non-Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 non-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 non-consolidated financial statements 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 subsequent events, 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.