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

Securities Code: 2914
June 1, 2009

To Our Shareholders

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

NOTICE OF CONVOCATION OF THE 24TH ORDINARY GENERAL MEETING OF SHAREHOLDERS

You are cordially invited to attend the 24th ordinary general meeting of shareholders of Japan Tobacco Inc. ("JT") to be held as set forth below.

If you cannot attend the meeting, you may exercise your voting rights in written form or by electromagnetic means including the Internet. Please see the "Reference Documents for the General Meeting of Shareholders" hereinafter described and exercise your voting rights by 6:00 p.m., on Monday, June 22, 2009, by returning to us by that time the Voting Rights Exercise Form enclosed herewith indicating whether you are for or against each of the items, or by accessing the web-site designated by us for the exercise of voting rights (http://www.evote.jp/).

Particulars

1. **Date and Time of the Meeting:** Tuesday, June 23, 2009, at 10:00 a.m.
2. **Place of the Meeting:** Tokyo Prince Hotel
   3-1, Shibakoen 3-chome, Minato-ku, Tokyo
3. **Purpose of the Meeting:**

Matters to be Reported:

1. Report on the Business Report, the Consolidated Financial Statements, and the Independent Auditors' Report and JT's Audit Board Report on the Consolidated Financial Statements for the 24th Business Term (From April 1, 2008 to March 31, 2009)
2. Report on the Non-Consolidated Financial Statements for the 24th Business Term (From April 1, 2008 to March 31, 2009)

Matters to be Resolved:

Item 1: Appropriation of Surplus
Item 2: Partial Amendments to the Articles of Incorporation
Item 3: Election of One (1) Director
Item 4: Election of One (1) Auditor

* For those attending, please present the enclosed Voting Rights Exercise Form at the reception desk on arrival at the meeting.
* If there is any amendment to the "Reference Documents for the General Meeting of Shareholders," Business Report (Japanese only), or Non-Consolidated and Consolidated Financial Statements (Japanese only), it will be published on our web-site (http://www.jti.co.jp/).

4. Other Decisions on the Convocation of the Meeting

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

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

[Instructions for Exercising Your Voting Rights]

1. Exercise of the Voting Rights by post:

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

2. Exercise of the Voting Rights via the Internet:

Please access the designated web-site for the exercise of voting rights (http://www.evote.jp/) from your computer and indicate whether you are for or against each of the items following the directions on the web-site using the "Log-in ID" and "Temporary Password" described in the Voting Rights Exercise Form enclosed herewith. You are requested to refer to "Direction for Exercise of the Voting Rights via the Internet" enclosed herewith.

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

[Submitted Documents]

Business Report

(For this fiscal year from April 1, 2008 to March 31, 2009)

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

1. Overview and results of operations

The global economy in the latter part of this fiscal year ended March 31, 2009, was marked by economic deterioration in not only the U.S. and Europe, but also Asia, as the worldwide financial crisis seeped into the real economy. The Japanese economy was also impacted by the global economic deterioration as it faced dire circumstances characterized by drastic drops in corporate earnings and rapid deterioration of the employment situation.

Under these circumstances, the domestic tobacco business face an increasingly tough business environment as total tobacco demand in Japan continues to decline and competition with other tobacco manufacturers intensifies. In an effort to achieve top-line growth, we have been striving to refresh and enhance existing brands as necessary and introduce new products in an effective manner. Moreover, we are making unceasing efforts to improve our productivity. The international tobacco business is further expanding its role as the profit growth engine for the JT Group through top-line growth. Through our business integration with Gallaher, we seek to gain both top-line synergy and cost saving synergy. The pharmaceutical business, working towards the early enhancement of its business value and aiming to become a future business pillar of the JT Group, is steadily advancing the development of compounds currently in the research and development pipeline while expanding and enhancing the pipeline itself. Also, we continue to explore strategic opportunities for license-in and license-out. We position the foods business as a business pillar of the JT Group, focusing on three areas: beverages, processed foods and seasonings. We promote efforts to achieve the highest level of safety control and to further strengthen the business foundation for future growth.

As a result of the above, financial results for this fiscal year ended March 31, 2009, are as follows.

	Billions of yen	Year on year change
Net sales	¥6,832.3	6.6%
Operating income	¥363.8	(15.5%)
Ordinary income	¥307.5	(15.2%)
Net income	¥123.4	(48.3%)

* The s closing date of the consolidated subsidiaries allocated to the international tobacco business segment is December 31, and their financial results used for the consolidated fiscal year ended March 31, 2009, are for the twelve months from January 1 to December 31, 2008. Accordingly, the previous consolidated fiscal year results of Gallaher, whose acquisition was completed in April 18, 2007, included the results for only 8.4 months.

Review of operations by business segment

Domestic tobacco business

The domestic tobacco business is positioned as the core source of profits for the JT Group. The domestic tobacco business face an increasingly tough business environment as total tobacco demand in Japan continues to decline and competition with other tobacco manufacturers intensifies. In an effort to achieve top-line growth, we have been striving to refresh and enhance existing brands as necessary and introduce new products in an effective manner. Moreover, we are making unceasing efforts to improve our productivity. The introduction of age verifying cigarette vending machines, which the JT Group promoted together with various bodies in the industry, was commenced with a gradual region-by-region phase-in that started in March 2008. Since July 2008, the machines have been operating nationwide.

During this fiscal year, we endeavored to enhance the value of our brands by introducing new products as well as by strengthening existing brands, mainly in the Mild Seven family, which is our core brand. These endeavors included active sales promotion activities such as the continuation of the Mild Seven family campaign that has been in operation since the previous fiscal year and the campaign for Seven Stars, which marked its 40th anniversary in February 2009. In the area of new products, Pianissimo Fram Menthol One, a “D-spec” product, Salem Alaska Menthol, Seven Stars Black Impact and others were released. Mild Seven Impact One 100’s Box, which was being gradually released region by region, was launched nationwide and Seven Stars Lights Menthol, which had been released in limited regions, was also released nationwide. In addition, we changed the design and name of some products in the Seven Stars family and added the name Aqua Menthol to two menthol products in the Mild Seven family and changed their design.

Furthermore, Cabin Roast Blend 100’s Box, which had been released in limited regions, was released nationwide from the beginning of April 2009 and Mild Seven 100’s Box and Mild Seven Light 100’s Box will be released nationwide from the beginning of June 2009.

The sales volume of cigarettes for the domestic tobacco business during this fiscal year decreased by 7.8 billion cigarettes, or 4.7%, from the previous fiscal year to 159.9 billion cigarettes* due to an overall decline in demand. However, our market share rose for the second consecutive fiscal year to 65.1%, or 0.2 point, thanks to aggressive sales promotion activities and new product releases. In addition, net sales per 1,000 cigarettes (tax excluded) were ¥4,057.

Consequently, net sales for our domestic tobacco business during this fiscal year declined by ¥161.9 billion, or 4.8%, from the previous fiscal year to ¥3.2004 trillion and operating income fell by ¥34.0 billion, or 15.3%, to ¥188.2 billion, depressed by an increase in sales promotion expenses in addition to the decrease in sales volume.

*In addition to the figure stated above, during this fiscal year ended March 2009, the domestic tobacco business also sold 3.6 billion cigarettes at duty-free shops in Japan, as well as at markets in China, Hong Kong and Macao, markets that are under the control of JT’s China Division.

International tobacco business

The international tobacco business is further expanding its role as the profit growth engine for the JT Group through top-line growth. Through our business integration with Gallaher, we seek to gain both top-line synergy and cost saving synergy.

We have identified eight brands which serve as flagships of the brand portfolio, Winston, Camel, Mild Seven, Benson & Hedges, Silk Cut, LD, Sobranie and Glamour, which we collectively call the Global Flagship Brands (GFB). We are actively exploring opportunities for top-line growth based on the strength of the GFB.

The volume of our international tobacco business’s cigarette sales in this fiscal year increased by 66.7 billion cigarettes, or 17.3%, from the previous fiscal year to 452.3 billion cigarettes. This was mainly due to the steady sales growth of Winston in Russia, Turkey, Ukraine and Spain; Camel in Italy, Russia and Spain; and Mild Seven in Korea, Taiwan, Russia and Malaysia. The sales volume of the GFB was 245.5 billion cigarettes.

Consequently, net sales for our international tobacco business during this fiscal year increased by ¥478.3 billion, or 18.1%, from the previous fiscal year to ¥3.1183 trillion due to the increase in sales volume and the inclusion in full-year results of the operating results of Gallaher. Operating income fell by ¥30.5 billion, or 14.9%, to ¥174.7 billion, depressed by the reporting of amortization of goodwill.

* The foreign exchange rate in this fiscal year was ¥103.48 per U.S. dollar, compared with ¥117.85 per U.S. dollar in the previous fiscal year.

Pharmaceutical business

The pharmaceutical business, working towards the early enhancement of its business value and aiming to become a future business pillar of the JT Group, is steadily advancing the development of compounds currently in the research and development pipeline while expanding and enhancing the pipeline itself.

Although we abandoned the development of anti-obesity compound JTT-553, anti-Hepatitis C compound JTK-652, serum urate level lowering compound JTT-552 and anti-diabetes compound JTT-651, thanks to anti-HIV compound JTK-656 and serum phosphate level lowering compound JTT-751 advancing to the clinical trial stage, the number of compounds developed in-house that are under clinical development is now 9.

Also, we continue to explore strategic opportunities for license-in and license-out. In September 2008, we concluded a license agreement concerning JTT-305, an oral calcium sensing receptor (CaSR) antagonist, which we have been developing, to give Merck (U.S.) the rights to exclusively develop and commercialize this compound worldwide, with the exception of Japan.

Regarding the business performance by our subsidiary Torii Pharmaceutical Co. (“Torii”), JT enjoyed growth in sales for Truvada, an anti-HIV drug, DOVONEX Ointment, used for the treatment of psoriasis vulgaris, ZEFNART, an antifungal agent for external use, and the topical adrenocortical hormone Antebate. However, JT suffered a decline in sales due to the termination in March 2008 of sales of the Stronger Neo-Minophagen C agent for treatment of liver and allergic diseases, and the decline in sales of Futhan for injection use, a protease inhibitor, due to the effects of the drug price revision and promotion measures for use of generic-brand drugs that came into effect in April 2008. In March 2009, Torii began selling REMITCH CAPSULES, an oral antiprutitus drug for hemodialysis patients which was jointly developed by Toray Industries, Inc. (“Toray”), JT and Torii and for which manufacturing and marketing approval was obtained in Japan by Toray in January 2009.

Consequently, despite the decline in sales from Torii Pharmaceutical, net sales for our pharmaceuticals business increased by ¥7.6 billion, or 15.7%, from the previous fiscal year to ¥56.7 billion and operating income was ¥1.0 billion, compared with an operating loss of ¥9.6 billion in the previous fiscal year, attributable to the lump-sum revenue of licensing out JTT-305, an oral calcium sensing receptor (CaSR) antagonist, and the milestone revenue related to the progress made in the development of anti-dyslipidemia compound JTT-705, licensed to Roche in October 2004.

Foods business

We position the foods business as a business pillar of the JT Group, focusing on three areas: beverages, processed foods and seasonings. We promote efforts to achieve the highest level of safety control and to further strengthen the business foundation for future growth.

In the beverage sector, we have steadily expanded our vending machine sales channels, mainly through our subsidiary, Japan Beverage Inc., and actively launched new products developed for the purpose of achieving differentiation from competitors, focusing mainly on the flagship Roots brand.

In the processed foods sector, sales of frozen food products slumped due to the impact of the frozen foods products contamination and other factors. The JT Group is pressing forward with group-wide efforts to ensure thoroughness and enhancement of safety control systems, and striving to regain the trust of our customers through efforts such as: implementing pesticide screening of imported frozen foods at inspection centers located in Japan and China; taking a proactive stance towards providing detailed ingredient information on labeling; and actively working to establish greater food safety with outside specialists, food safety advisors of the JT Group, help.

In the seasonings sector we have been further strengthening the business foundation. In addition to efforts to develop, and expand the sales channels of, natural seasonings such as high-value yeast extract products, based on our in-house technology, we are also utilizing the synergistic benefits of sharing business resources with Fuji Foods Corporation, which we turned into a subsidiary in April 2008, in the areas of raw material procurement, manufacturing and sales.

Also, we reorganized the processed foods sector and the seasonings sector, to assign operational control to subsidiary Katokichi Co., Ltd. We successfully integrated the resources and the various functions of processed foods and seasonings including quality control, research and development, procurement and sales. In addition, we are implementing the measures as necessary to commit to core fields, and through such measures, we are striving to establish a stronger business foundation as a foods manufacturer.

Consequently, net sales for our foods business increased by ¥99.5 billion, or 29.6%, from the previous fiscal year to ¥435.9 billion due to the consolidation of the Katokichi Group and other factors despite declines in sales from the processed food sector, as a result of the impact of the frozen foods products contamination, and others, and from the beverages sector, on account of seasonal weather factors and intensified of competition, as well as the impact of sluggish consumption accompanying the sudden economic recession that we are in. Concerning profits, however, the foods business had an operating loss of ¥11.4 billion, compared with an operating income of ¥0.6 billion in the previous fiscal year, because of the increase in expenses, the soaring prices of raw materials and the impact of amortization of goodwill following the consolidation of the Katokichi Group.

Other business

Net sales for our other business operations declined by ¥1.1 billion, or 5.1%, from the previous fiscal year to ¥20.7 billion and operating income fell by ¥0.7 billion, or 7.2%, to ¥9.6 billion.

2. Status of capital expenditures

In this fiscal year, we made capital expenditures totaling ¥134.2 billion. In the domestic tobacco business, we spent ¥46.5 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 ¥59.7 billion mainly for the purpose of expanding our production capacity. In the pharmaceutical business, we spent ¥3.4 billion mainly for construction and research facilities. In the foods business, we invested ¥23.2 billion, mainly for enhancing production and sales facilities. In our other businesses, we made capital expenditures of ¥1.1 billion.

3. Status of financing

No items to report.

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

On July 1, 2008, JT transferred its processed foods business and seasonings business to its subsidiary Katokichi Co., Ltd. as well as all consolidated subsidiaries engaged in the processed foods business and seasonings business such as JT Foods Co., Ltd. With regard to the beverages business, JT will remain in charge of manufacturing functions such as product development, while the beverages business of JT Foods Co., which was in charge of sales functions, has been transferred to newly incorporated JT Beverage Inc.

5. Business transfers from other companies

No items to report.

6. Succession of rights and obligations relating to other companies' business as a result of absorption-type mergers or company split

No items to report.

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

No items to report.

8. Trends in assets and consolidated operating results

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

	21st term FY2005	22nd term FY2006	23rd term FY2007	24th term FY2008
Net sales (Millions of yen)	4,637,657	4,769,387	6,409,726	6,832,307
Ordinary income (Millions of yen)	297,842	312,044	362,681	307,586
Net income (Millions of yen)	201,542	210,772	238,702	123,400
Net income per share (Yen)	105,084	22,001	24,916	12,880
Total assets (Millions of yen)	3,037,378	3,364,663	5,087,214	3,879,803
Net assets (Millions of yen)	1,762,511	2,024,615	2,154,629	1,624,288

(Notes) 1. In the calculation of net assets, the “Accounting Standard for Presentation of Net Assets in the Balance Sheet” (ASBJ Statement No. 5) and the “Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet” (ASBJ Guidance No. 8) have been applied since the 22nd term.

2. The share split of 5-for-1 was conducted as of April 1, 2006.

(2) Trends in assets and operating results of JT

	21st term FY2005	22nd term FY2006	23rd term FY2007	24th term FY2008
Net sales (Millions of yen)	2,370,645	2,330,453	2,302,704	2,173,552
Ordinary income (Millions of yen)	192,830	189,730	177,757	160,200
Net income (Millions of yen)	126,268	132,456	131,145	89,637
Net income per share (Yen)	65,839	13,826	13,689	9,356
Total assets (Millions of yen)	2,410,096	2,561,865	2,902,509	2,857,330
Net assets (Millions of yen)	1,643,098	1,753,067	1,816,727	1,845,443

(Notes) 1. In the calculation of net assets, the “Accounting Standard for Presentation of Net Assets in the Balance Sheet” (ASBJ Statement No. 5) and the “Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet” (ASBJ Guidance No. 8) have been applied since the 22nd term.

2. The share split of 5-for-1 was conducted as of April 1, 2006.

9. Issues to be addressed

JT formulated the new medium term management plan “JT-11” for the three-year period ending March 2012, which will continue the strategies JT has promoted in the past and will take them to a higher level, in an effort to realize its long-term corporate image of becoming “A company committed to global growth that provides consumers diversified value uniquely available from JT.”

The theme of “JT-11” is to “secure strong business momentum through investment for the future and continuous improvement in business operations in anticipation of possible changes in the business environment that may occur in the future so that we can maintain sustainable growth in the long term.”

The domestic tobacco business is positioned as the core source of profits for the JT Group. We expect total tobacco demand in Japan to continue to decline and competition with other tobacco manufacturers to intensify and, with an eye on environmental changes, we will strive to maintain and promote our brand equity primarily in our core brands and build a strong portfolio. Meanwhile, we will fortify our product exposure at key sales channels, enhance our sales and organizational strengths and secure our competitive advantages over competitors. In addition, the JT Group will implement efforts aimed at the enhancement of our added-value and quality for the maximization of customer satisfaction. We will also build a highly cost efficient business framework capable of adapting to highly uncertain business environments and continue to make greater efforts than ever in order to realize a society in which smokers and non-smokers can coexist harmoniously.

The international tobacco business is continuing its role as the profit growth engine for the JT Group. Therefore, we aim to sustain quality top-line growth by maintaining our primary focus on GFB and realizing the sales volume growth and unit price improvements accompanying building and nurturing outstanding brands. Concurrently, we will expand our earnings base and make proactive business base fortification investments including in markets with growth potential.

The JT Group will also continue to take appropriate response to the WHO Framework Convention on Tobacco Control and the tobacco-related regulations of the EU and other countries.

In the pharmaceutical business, we will continue to build a globally successful, R&D-driven business with unique features and strive to secure a market presence with original new drugs by increasing and advancing compounds in a late phase of clinical trial and enhancing the research and development pipeline. To achieve this, while striving to strengthen the capability for clinical trial, including late-phase development and further improve the drug discovery research capability, we will continue to explore strategic opportunities for out-licensing and strengthen alliances with business partners so that we can realize the value of the pharmaceutical business at an early date.

Concerning the foods business, we will focus on three areas: beverages, processed foods and seasonings, promote efforts to achieve the highest level of safety control, and further strengthen the business foundation for significant future growth. In the beverages sector, we will further strengthen the flagship Roots brand and establish a solid profit base by pursuing efficiency. For processed foods and seasonings, in the Katokichi Group we will pursue integrated synergies and labor to concentrate our forces on key areas and foster a higher sense of oneness all in an effort to buttress our business base.

In the area of environmental protection efforts and social contribution activities, the JT Group is actively engaged in reducing impacts on the environment, contributing to local communities, promoting afforestation and forest conservation projects, youth education and other activities from the aspect of bringing about a “harmony” between its corporate activities and the environment and a feeling of mutual coexistence with society as a “good corporate citizen” in all countries and regions where the Group operates.

Regarding dividends, the JT Group aims to achieve a consolidated dividend payout ratio of 30% (after deducting the goodwill amortization effect) as our mid-term objective. We will continue to strive towards further improving dividend levels by having as our basic policy with the aim to provide a competitive level of returns to shareholders in the capital market while considering the status of the medium to long term growth strategies and our consolidated financial results outlook. With respect to the acquisition of treasury stock effected for the purpose of increasing our management options, a decision will be made taking into account managerial necessity, market conditions, etc. Further, JT has been striving hard to enhance corporate governance on a continuous basis in hopes of realizing more prompt and higher quality decision-making and business execution.

In light of the above, JT will work towards the realization of its goal of becoming "A company committed to global growth that provides consumers diversified value uniquely available from JT" by securing strong business momentum through investment for the future and continuous improvement in business operations in anticipation of possible changes in the business environment that may occur in the future so that we can maintain sustainable growth in the long term.

10. Main business contents

Business segment	Main business
Tobacco business	Manufacture and sale of tobacco products, mainly Mild Seven, Seven Star, Winston, Camel
Pharmaceutical business	Research and development, manufacture and sale of prescription drugs
Foods business	Manufacture and sale of beverages, processed foods and seasonings
Other business	Businesses including real estate

11. Status of important subsidiaries

Company name	Capital	Equity ownership (%)	Main business
TS Network Co., Ltd.	(Millions of yen) 460	74.5	Distribution of tobacco products
Japan Filter Technology Co., Ltd.	(Millions of yen) 461	86.8	Manufacture and sale of filters for tobacco products
JT International S.A.	(Thousand of CHF) 1,215,425	(100.0)	Manufacture and sale of tobacco products
Gallaher Ltd.	(Thousand of GBP) 170,696	(100.0)	Manufacture and sale of tobacco products
Torii Pharmaceutical Co., Ltd.	(Millions of yen) 5,190	53.5	Manufacture and sale of prescription drugs
Katokichi Co., Ltd.	(Millions of yen) 47,502	100.0	Manufacture and sale of processed foods
JT Beverage Inc.	(Millions of yen) 90	100.0	Sale of beverages
Japan Beverage Inc.	(Millions of yen) 10,471	66.7	Sale of beverages by vending machine
JT Real Estate Co., Ltd.	(Millions of yen) 450	100.0	Leasing properties
JT Finance Service Co., Ltd.	(Millions of yen) 160	100.0	Lease of equipment Financing within JT group

(Notes) 1. Figures in parentheses in the "Equity ownership" column indicate indirect holding rates.
2. JT Foods Co., Ltd. is excluded from important subsidiaries from this fiscal year.
3. JT Beverage Inc. is included in important subsidiaries from this fiscal year.

4. There were 274 consolidated subsidiaries in this fiscal year, including 10 abovementioned important subsidiaries, as well as 22 affiliates accounted for by the equity method. In addition, consolidated net sales for this fiscal year amounted to ¥6.8323 trillion (up 6.6% year on year) with consolidated net income at ¥123.4 billion (down 48.3% year on year).

12. Major lenders

Lender	Outstanding balance (Millions of yen)
Syndicated loan	233,104

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

13. Major sales offices and factories

(1) JT

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

Sales Office:

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

Factories: Kita-kanto (Tochigi), Tokai (Shizuoka), Kansai (Kyoto), Kyushu (Fukuoka), and other 9 factories

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

(Note) The Kanazawa factory closed as of March 31, 2009.

(2) Subsidiaries

TS Network Co., Ltd.: Head Office (Tokyo)

Japan Filter Technology Co., Ltd.: Head Office (Tokyo)

JT International S.A.: Head Office (Swiss)

Gallaher Ltd.: Head Office (U.K.)

Torii Pharmaceutical Co., Ltd.: Head Office (Tokyo)

Katokichi Co., Ltd.: Head Office (Kagawa)

JT Beverage Inc.: Head Office (Tokyo)

Japan Beverage Inc.: Head Office (Tokyo)

JT Real Estate Co., Ltd.: Head Office (Tokyo)

JT Finance Service Co., Ltd.: Head Office (Tokyo)

14. Status of employees

(1) Employees of the JT Group

Business segment	Number of employees
	(Person)
Domestic tobacco business	11,281
International tobacco business	23,227
Pharmaceutical business	1,616
Foods business	10,975
Other business	429
Common company-wide services within JT	449
Total	47,977

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

(2) Employees of JT

Male/Female	Number of employees	Year on year increase (decrease)	Average age	Average years of service
	(Person)	(Person)	(Year old)	(Year)
Male	7,949	(75)	43.2	22.1
Female	959	(16)	38.0	17.1
Total or average	8,908	(91)	42.6	21.6

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

II. Matters Concerning Shares of JT

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

2. Number of shares issued: 10,000,000 shares

(Including treasury stock 419,920 shares)

3. Number of shareholders: 62,931

4. Major shareholders

Name of shareholders	Investment in the JT	
	Number of shares held (Share)	Equity ownership (%)
The Minister of Finance	5,001,390	50.01
Japan Trustee Services Bank, Ltd. (Trust Account)	266,683	2.67
Japan Trustee Services Bank, Ltd. (Trust Account No. 4G)	258,891	2.59
The Master Trust Bank of Japan, Ltd. (Trust Account)	212,913	2.13
State Street Bank and Trust Company 505223	171,774	1.72
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	169,000	1.69
State Street Bank and Trust Company	130,567	1.31
Deutsche Bank AG London PB Non-treaty Clients 613	124,737	1.25
The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account	123,711	1.24
The Chase Manhattan Bank 385036	72,215	0.72

(Notes) 1. JT holds 419,920 shares of treasury stock, but it is not listed in the above chart.

2. Among shareholders, only the Minister of Finance holds 10% or more of the total number of outstanding shares of JT (9,580,080 shares) excluding treasury stock. The equity ownership of the Minister of Finace with respect to the total number of outstanding shares excluding treasury stock is 52.21%.

III. Matters Concerning Subscription Rights to Shares

1. Total number of subscription rights to shares, etc. as of March 31, 2009

(1) Total number of subscription rights to shares:

973 units

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

Common stock 973 shares

(1 share per subscription right)

2. Status of subscription rights to shares held by Directors and Auditors of JT as of March 31, 2009

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

Common stock 531 shares

(1 share per subscription right)

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

¥1 per share

(3) Assignment of subscription rights to shares

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

(4) Conditions for exercising subscription rights to shares

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

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

Category	Year granted	Payment due upon allotment of subscription rights to shares	Exercise period of subscription rights to shares	Number of shares	Number of shareholders
Director	FY2007	¥581,269 per unit	From January 9, 2008 to January 8, 2038	205	10
	FY2008	¥285,904 per unit	From October 7, 2008 to October 6, 2038	315	11
Auditor	FY2007	¥581,269 per unit	From January 9, 2008 to January 8, 2038	11	1

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

3. Status of subscription rights to shares granted to employees of JT from April 1, 2008 to March 31, 2009

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

Common stock 232 shares

(1 share per subscription right)

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

¥285,904 per share

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

¥1 per share

(4) Exercise period of subscription rights to shares

From October 7, 2008 to October 6, 2038

(5) Assignment of subscription rights to shares

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

(6) Conditions for exercising subscription rights to shares

Subscription rights to shares holder may exercise his/her subscription rights to shares only if he/she loses his/her all position as director, auditor and operating officer.

(7) Status of granting to employees of JT

232 subscription rights to shares were granted to 14 Executive Officers (excluding persons serving as Directors) of JT.

IV. Matters Concerning Directors and Auditors of JT

1. Directors and Auditors

Position	Name	Responsibility	Representative position at other corporations
Chairman of the Board	Yoji Wakui		NIPPONKOA Insurance Co., Ltd. Director
President, Representative Director	Hiroshi Kimura	Chief Executive Officer	
Executive Deputy President, Representative Director	Munetaka Takeda	Assistant to CEO in Compliance, Finance and Foods Business	Katokichi Co., Ltd. Director
Executive Deputy President, Representative Director *	Masaaki Sumikawa	Assistant to CEO in CSR, Strategy, HR and Operational Review and Business Assurance	
Executive Deputy President, Representative Director	Ichiro Kumakura	President, Tobacco Business and Assistant to CEO in Vending Machinery Business	JT International Holding B.V. Chairman and Managing Director
Executive Deputy President, Representative Director	Ryoichi Yamada	Assistant to CEO in Communications, General Administration and Legal	
Member of the Board	Noriaki Okubo	President, Pharmaceutical Business	JT Pharma Alliance Co., Ltd. President, Representative Director
Member of the Board	Mitsuomi Koizumi	Chief Marketing & Sales Officer, Tobacco Business	
Member of the Board *	Sadao Furuya	President, Foods Business	Katokichi Co., Ltd. Director
Member of the Board	Yasushi Shingai		JT International S.A. Executive Vice President
Corporate Counselor, Member of the Board	Katsuhiko Honda		Tokyo Gas Co., Ltd. Outside Director
Standing Auditor	Hisao Tateishi		
Standing Auditor *	Gisuke Shiozawa		
Auditor	Hiroyoshi Murayama		Attorney at Law
Auditor	Takanobu Fujita		

(Notes) 1. Auditors Hisao Tateishi, Hiroyoshi Murayama and Takanobu Fujita are Outside Auditors.

2. Auditor Gisuke Shiozawa has relevant knowledge about financing and accounting as he was the head of Treasury Division of JT.

3. The asterisk * denotes Directors and Auditors who have been newly appointed on June 24, 2008.

4. Executive Deputy President and Representative Director Kazuei Obata, Director Mutsuo Iwai

and Standing Auditor Masaaki Sumikawa resigned on June 24, 2008. Mr. Sumikawa was appointed as Executive Deputy President and Representative Director on the same date.

5. Transfer of Directors after the end of this fiscal year
The "Responsibility" of a Director was changed as follows on April 1, 2009.
Executive Deputy President and Representative Director Ichiro Kumakura
President, Tobacco Business

2. Remuneration and other payments for Directors and Auditors

Category	Directors		Auditors		Total	
	Number to be paid (Person)	Amount to be paid (Millions of yen)	Number to be paid (Person)	Amount to be paid (Millions of yen)	Number to be paid (Person)	Amount to be paid (Millions of yen)
Basic remuneration	13	395	5	88	18	483
Directors' bonus	8	117	-	-	8	117
Stock option grants	11	90	-	-	11	90
Total	-	602	-	88	-	690

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

3. Matters concerning Outside Directors and Outside Auditors

(1) Interlocking of Outside Directors and Outside Auditors at other firms

Category	Name	Company name	Position
Auditor	Hiroyoshi Murayama	Mitsubishi Electric Corporation	Outside director
		UKAI CO., LTD.	Outside auditor

(2) Major activities during this fiscal year

Category	Name	Status of main activities
Auditor	Hisao Tateishi	Attended all 24 meetings of the Board of Directors, as well as all 19 meetings of the Audit Board held during this fiscal year. Mr. Tateishi asked questions and made remarks where necessary at these meetings, as an auditor.
	Hiroyoshi Murayama	Attended 21 of the 24 meetings of the Board of Directors, as well as all 19 meetings of the Audit Board during this fiscal year. Mr. Murayama asked questions and made remarks where necessary at these meetings, as an auditor.
	Takanobu Fujita	Attended 23 of the 24 meetings of the Board of Directors, as well as all 19 meetings of the Audit Board during this fiscal year. Mr. Fujita asked questions and made remarks where necessary at these meetings, as an auditor.

(3) Total amount of remuneration

Category	Outside Auditor	
	Number to be paid (Person)	Amount to be paid (Millions of yen)
Basic remuneration	3	54

V. Matters Relating to Independent Auditor

1. Name of Independent Auditor: Deloitte Touche Tohmatsu

2. Fees for Independent Auditor relating to this fiscal year

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

i)	Fees for audit attestation based on Article 2, Paragraph (1) of the Certified Public Accountants Act:	¥262 million
ii)	Fees for tasks other than audit attestation based on Article 2, Paragraph (1) of the Certified Public Accountants Act:	¥16 million

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

¥ 369 million

(Notes) 1. Fees paid under the terms of the audit contract concluded between Deloitte Touche Tohmatsu and JT in relation to audit attestation based on the Companies Act and the Financial Instruments and Exchange Act are not clearly classified and, since they cannot be effectively classified, their total is indicated in the amount in "i)" above.

2. JT retain Deloitte Touche Tohmatsu tasks other than audit attestation based on Article 2, Paragraph 1 of the Certified Public Accountants Act, which consist of advisory services on internal controls, etc. relating to financial reporting as well as the review of English financial statements, etc. for which a consideration is paid to the same.

3. Among the important subsidiaries of JT, JT International S.A. and Gallaher Ltd. are audited by Deloitte & Touche LLP and Katokichi Co., Ltd. is audited by Grant Thornton Taiyo ASG. None of these subsidiaries are audited by Deloitte Touche Tohmatsu, the Independent Auditor of JT.

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

In the event the Independent Auditor falls within any of the provisions in Article 340, Paragraph (1) of the Companies Act, or should an incident occur casting serious doubt on the ability of the Independent Auditor to continue to perform its duties, JT are due to dismiss or not reappoint same following procedures provided by laws and regulations.

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

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

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

i) Compliance system

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

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

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

(Internal reporting system)

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

ii) System to ensure the reliability of financial reporting

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

iii) Internal audit system

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

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

i) Storage and management of minutes

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

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

ii) Storage and management of other information

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

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

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

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

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

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

ii) Preparedness for possible emergencies

JT has produced a manual for crisis management and disaster response. In the event of an emergency or a disaster, JT is ready to establish an emergency project system under the supervision of the Corporate Strategy Division, and make prompt and proper responses under the leadership of senior management and through close cooperation between the relevant departments and divisions.

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

i) Board of Directors

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

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

ii) Proper delegation of authority and system of responsibilities

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

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

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

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

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

i) Mission of the JT Group

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

ii) Group management

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

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

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

i) Establishment of Auditor’s Office

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

ii) Allocation of staff

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

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

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

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

ii) Prohibition of concurrent assignments

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

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

i) Reporting to the Audit Board

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

ii) Attendance at important meetings

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

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

(9) Other systems to ensure effective auditing by Auditors

i) Cooperation with audits and auditing expenses

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

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

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

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

Consolidated Balance Sheet

(As of March 31, 2009)

(Millions of yen)

Account title	Amount	Account title	Amount
ASSETS		**LIABILITIES**	
Current assets	**1,095,682**	**Current liabilities**	**1,093,403**
Cash and deposits	164,957	Notes and accounts payable-trade	158,544
Notes and accounts receivable-trade	290,068	Short-term loans payable	113,231
Short-term investment securities	4,910	Current portion of bonds	190,363
Merchandise and finished goods	122,970	Current portion of long-term loans payable	26,380
Semi-finished goods	119,290	Lease obligations	5,512
Work in process	6,561	Accounts payable-other	62,824
Raw materials and supplies	215,334	National tobacco excise taxes payable	172,986
Deferred tax assets	29,675	National tobacco special excise taxes payable	10,470
Other	145,076	Local tobacco excise taxes payable	85,541
Allowance for doubtful accounts	(3,162)	Income taxes payable	51,777
		Deferred tax liabilities	2,915
		Provision	39,172
		Other	173,683
Noncurrent assets	**2,784,121**	**Noncurrent liabilities**	**1,162,111**
Property, plant and equipment	**668,742**	Bonds payable	349,794
Buildings and structures	234,853	Long-term loans payable	299,563
Machinery, equipment and vehicles	188,993	Lease obligations	11,234
Tools, furniture and fixtures	62,422	Deferred tax liabilities	110,389
Land	147,219	Provision for retirement benefits	259,145
Construction in progress	35,253	Provision for directors' retirement benefits	623
		Provision for loss on guarantees	695
		Other	130,665
Intangible assets	**1,831,843**	**Total Liabilities**	**2,255,514**
Goodwill	1,453,961	**NET ASSETS**	
Right of trademark	347,372	**Shareholders’ equity**	**1,986,810**
Other	30,509	Capital stock	100,000
		Capital surplus	736,400
		Retained earnings	1,224,989
Investments and other assets	**283,534**	Treasury stock	(74,578)
Investment securities	90,230	**Valuation and translation adjustments**	**(433,997)**
Long-term loans receivable	9,190	Valuation difference on available-for-sale securities	8,437
Deferred tax assets	128,786	Deferred gains or losses on hedges	92
Other	97,022	Pension liability adjustment of foreign consolidated subsidiaries	(18,965)
Allowance for doubtful accounts	(41,695)	Foreign currency translation adjustment	(423,561)
		Subscription rights to shares	**364**
		Minority interests	**71,109**
		Total net assets	**1,624,288**
Total Assets	**3,879,803**	**Total Liabilities and Net Assets**	**3,879,803**

Consolidated Statement of Income

(Fiscal year ended March 31, 2009)

(Millions of yen)

Account title	Amount	
Net sales		6,832,307
Cost of sales		5,554,398
Gross profit		**1,277,908**
Selling, general and administrative expenses		914,102
Operating income		**363,806**
Non-operating income		
Interest income	10,104	
Dividends income	2,172	
Other	18,059	30,335
Non-operating expenses		
Interest expenses	51,356	
Foreign exchange losses	21,801	
Financial support for domestic leaf tobacco growers	768	
Periodic mutual assistance association cost	2,024	
Other	10,604	86,555
Ordinary income		**307,586**
Extraordinary income		
Gain on sales of noncurrent assets	46,461	
Other	1,915	48,377
Extraordinary loss		
Loss on sales of noncurrent assets	2,169	
Loss on retirement of noncurrent assets	11,505	
Impairment loss	16,364	
Business restructuring costs	24,363	
Introduction costs for vending machines with adult identification functions	13,468	
Other	25,947	93,819
Income before income taxes and minority interests		**262,143**
Income taxes-current	126,732	
Income taxes-deferred	8,240	134,972
Minority interests in income		3,771
Net income		**123,400**

Consolidated Statement of Changes in Net Assets

(Fiscal year ended March 31, 2009)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2008	100,000	736,400	1,344,490	(74,578)	2,106,311
Effect of changes in accounting policies applied to foreign subsidiaries			(193,658)		(193,658)
Changes of items during the period					
Dividends from surplus			(49,816)		(49,816)
Net income			123,400		123,400
Change of scope of consolidation			47		47
Change of scope of equity method			525		525
Net changes of items other than shareholders' equity					
Total changes of items during the period	-	-	74,157	-	74,157
Balance as of March 31, 2009	100,000	736,400	1,224,989	(74,578)	1,986,810

(Millions of yen)

	Valuation and translation adjustments					Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Pension liability adjustment of foreign consolidated subsidiaries (Note)	Foreign currency translation adjustment	Total valuation and translation adjustments			
Balance as of March 31, 2008	21,338	219	(10,711)	(41,085)	(30,238)	185	78,370	2,154,629
Effect of changes in accounting policies applied to foreign subsidiaries								(193,658)
Changes of items during the period								
Dividends from surplus								(49,816)
Net income								123,400
Change of scope of consolidation								47
Change of scope of equity method								525
Net changes of items other than shareholders' equity	(12,901)	(127)	(8,254)	(382,475)	(403,758)	179	(7,260)	(410,839)
Total changes of items during the period	(12,901)	(127)	(8,254)	(382,475)	(403,758)	179	(7,260)	(336,682)
Balance as of March 31, 2009	8,437	92	(18,965)	(423,561)	(433,997)	364	71,109	1,624,288

(Note) "Pension liability adjustment of foreign consolidated subsidiaries" in valuation and translation adjustments is the unfunded obligation recognized by foreign consolidated subsidiaries applying U.S.GAAP.

1. Notes to significant preparation policy of consolidated financial statements

(1) Scope of consolidation

Number of consolidated subsidiaries: 274 companies

Major consolidated subsidiaries: TS Network Co., Ltd., Japan Filter Technology, Ltd., JT International S.A., Gallaher Ltd., Torii Pharmaceutical Co., Ltd., Katokichi Co., Ltd., Japan Beverage Inc., JT Real Estate Inc., JT Financial Service Corporation. In addition, a total of 17 companies, including JT Beverage Inc. and Fuji Foods Corporation, were included in the scope of consolidation from this fiscal year.

A total of 38 companies, including JT Dining Service Inc., were excluded from the scope of consolidation due to the mergers with other consolidated subsidiaries or other reasons. A total of three companies, including Hans Continental Smallgoods Pty. Ltd., were excluded from the scope of consolidation as JT lost its controlling interests in those companies with commencements of procedures for business liquidation, etc. with a view to dissolutions. Former subsidiary Advance Support Co., Ltd. was accounted for by the equity method due to the decrease of JT's voting rights as a result of sales of investments.

Non-consolidated subsidiaries are all small-scale and respective amounts in aggregate of total assets, net sales, net income and retained earnings of non-consolidated subsidiaries would not have a material impact on the consolidated financial statements. For this reason, these companies are excluded from the scope of consolidation.

(2) Scope of equity method

Number of affiliates accounted for by the equity method: 22 companies

Major affiliates subjected to the equity method: HUB CO., LTD. and NTT DATA WAVE CORPORATION.

A total of 4 companies, including SHINWA - OX CORPORATION and R. J. Reynolds–Gallaher International Sàrl, were excluded from the scope of the equity method as JT's equity interests in those companies have been reduced or other reasons.

Non-consolidated subsidiaries and affiliates which are not subjected to the equity method are excluded from the scope of companies accounted for by the equity method because their effects on the consolidated net income and consolidated retained earnings are immaterial, respectively, and they are unimportant overall.

Of the companies subjected to the equity method, some companies' closing dates are different from the consolidated closing date of the accounting period. In that case, the financial statements relating to this fiscal year of each company are used for the consolidation.

(3) Fiscal year of consolidated subsidiaries

Of the consolidated subsidiaries, most foreign consolidated subsidiaries have a closing date on December 31. The consolidated financial statements are prepared using their financial statements on the closing date, and any necessary adjustments for the significant transactions occurred in the period between their closing date and the consolidated year-end are made for consolidation purposes.

(4) Accounting policies

i) Valuation standard and method for securities

Held-to-maturity debt securities:

Stated at amortized cost (straight-line method).

Available-for-sale marketable securities:

Securities with a fair value:

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

Securities without a fair value:

Mainly stated at cost determined by the moving-average method.

ii) Valuation standard and method for derivatives

Stated based on the fair value method.

iii) Valuation standard and method for inventories

Mainly stated at cost determined by the average method.
(Balance sheet amounts are measured at the lower of cost or net selling value.)

iv) Depreciation methods for significant depreciable assets

a. Property, plant and equipment (excluding lease assets)

Mainly, the declining balance method (straight-line method is applied for buildings (excluding accompanying facilities) acquired on or after April 1, 1998) is applied, however, some domestic consolidated subsidiaries apply the straight-line method.

The main useful lives are as follows.

Buildings and structures:	38 to 50 years
Machinery, equipment and vehicles:	10 years

(Additional information)

The useful life of property, plant and equipment with respect to JT and JT's domestic consolidated subsidiaries was changed as a result of the use review of these assets in conjunction with the revision of the Corporate Tax Act. As an example, the useful life of tobacco manufacturing facilities, which are JT's main machinery and equipment, was changed from 8 years to 10 years.

The impact of this change on operating income, ordinary income and income before income taxes and minority interests is immaterial.

b. Intangible assets (excluding lease assets)

Straight-line method

The main useful lives are as follows.

Right of trademark	10 years

c. 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.

(Changes in accounting policies)

The accounting treatment before the change for finance lease transactions not involving the transfer of ownership followed the same method as the accounting treatment for operating lease transactions. However, effective from April 1, 2008, JT applied the "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13 [Business Accounting Council Committee No. 1, June 17, 1993; revised March 30, 2007]) and the "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16 [The Japanese Institute of Certified Public Accountants (JICPA) Accounting Standard Committee, January 18, 1994; revised March 30, 2007]), and the accounting treatment as the acquisition of an asset and the incurrence of an obligation by the lessee and as a sale by the lessor.

Also, the accounting treatment for finance lease transactions not involving the transfer of ownership commenced before the previous fiscal year involves recording lease assets as if acquired at the beginning of this fiscal year, where the present value of future minimum lease payments as of the end of the previous fiscal year (after deducting the interest amount) is the acquisition cost.

The impact of this change on operating income, ordinary income and income before income taxes and minority interests is immaterial.

v) Policy for significant reserve allowances

a. Allowance for doubtful accounts

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

b. Provision for bonuses

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

c. 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 as incurred by the straight-line method over the average remaining years of service of the employees. (Mainly 10 years)

Actuarial gains or losses are amortized from the year following the year in which the gains or losses are recognized by the straight-line method over the average remaining years of service of the employees. (Mainly 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 Mutual Assistance Association of Public Corporation Employees Law, etc.).

d. Provision for directors' retirement benefits

Provided for directors' retirement benefits to be paid at the end of this fiscal year in accordance with internal rules.

e. Provision for loss on guarantees

Provided for possible losses on guarantees estimated taking into consideration the outlook of the financial position, among others, of guaranteed parties.

vi) Policy for translation of significant foreign currency denominated assets and liabilities into Japanese yen

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the rates prevailing at the closing date of the accounting period with translation differences treated as gains or losses occurring in the corresponding fiscal year. All assets and liabilities of foreign consolidated subsidiaries are translated into Japanese yen at the exchange rates prevailing at each subsidiary's respective fiscal year end. All revenue and expense accounts are translated at average exchange rates during each subsidiary's respective fiscal year. Differences arising from such translation are shown as foreign currency translation adjustment and minority interests in net assets.

vii) Significant hedge accounting method

Deferral hedge accounting is applied.

Foreign currency forward contracts are translated at the foreign exchange rate stipulated in the contracts where requirements are met.

viii) Accounting treatment policies of foreign consolidated subsidiaries

JT International S.A. and other foreign consolidated subsidiaries principally maintain their accounting records in conformity with U.S.GAAP. The significant accounting policies, which are different from JT's, are as follows:

a. Valuation standard and method of inventories

Inventories are generally stated at the lower price of cost or market, cost being determined by the first-in, first-out method or average cost.

b. Depreciation of significant depreciable assets

Property, plant and equipment

Generally depreciated applying the straight-line method over the estimated useful lives of the respective assets.

Intangible assets

Right of trademark is principally amortized over 20 years in equal amounts and other intangible assets are amortized using the straight-line method over the estimated useful lives of the respective assets.

c. Retirement benefit pension plans

The difference of retirement benefits obligation and fair value of pension plan assets is recognized on the consolidated balance sheet as assets or liabilities. Unrecognized net actuarial gains or losses and prior service cost, which are adopted tax effect accounting, is recorded as pension liability adjustment of foreign consolidated subsidiaries under valuation and translation adjustments of net assets.

d. Derivative treatment method

Derivatives related to foreign currency and interest rate related derivatives are entered into for hedging. Fair values for all derivatives are recognized by fair value on the balance sheet as assets or liabilities and its fluctuations are recognized as income.

(Changes in accounting policies)

Effective from April 1, 2008, JT applied the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ PITF No. 18, May 17, 2006), and adjusted necessary items in the consolidation process.

As a result of this change, operating income, ordinary income and income before income taxes and minority interests for this fiscal year decreased by ¥ 94,235 million respectively, and as of April 1, 2008, retained earnings decreased by ¥193,658 million as JT amortized goodwill posted at consolidated foreign subsidiaries. Also, income before income taxes and minority interests for this fiscal year decreased by ¥911 million respectively, as JT posted the retrospective adjustment in the consolidated statement of income. The adjustment was caused by an accounting policy change in foreign subsidiaries as a result of a change of U.S. GAAP.

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

(5) Valuation of assets and liabilities of consolidated subsidiaries

The assets and liabilities of consolidated subsidiaries are fully evaluated using the fair value at the time when JT acquired control of the respective subsidiaries.

(6) Amortization of goodwill

Goodwill is amortized over the years estimated individually between 5 and 20 years. However, immaterial amounts of goodwill are charged to income when incurred.

(7) Changes in methods of presentation

i) In the previous fiscal year, “Inventories” was presented separately in the consolidated balance sheet, however, in this fiscal year, it is presented as “Merchandise and finished goods” (¥138,870 million recorded in the previous fiscal year), “Semi-finished goods” (¥120,527 million recorded in the previous fiscal year), “Work in process” (¥7,938 million recorded in the previous fiscal year), “Raw materials and supplies” (¥226,735 million recorded in the previous fiscal year) and “Other” (¥64,777 million recorded in the previous fiscal year; ¥69,245 million recorded in this fiscal year) in “Current assets.”

ii) In the previous fiscal year, “Lease obligations,” included in “Other” of “Current liabilities” (¥1,340 million recorded in the previous fiscal year), and “Lease obligations,” included in “Other” of “Noncurrent liabilities” (¥1,111 million recorded in the previous fiscal year), in the consolidated balance sheet are now presented separately due to their increased materiality.

iii) In the previous fiscal year, “Loss on valuation of investment securities” (¥7,062 million recorded in this fiscal year) was presented separately in “Extraordinary loss” of the consolidated statement of income, however, in this fiscal year, it is included “Other” of “Extraordinary loss” due to decreased materiality.

2. Notes to consolidated balance sheet

(1) Accumulated depreciation of property, plant and equipment: ¥942,782 million

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

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

Amount of liabilities relating to collateral

Yen bonds:	¥299,994 million

ii) Assets pledged as collateral related to some consolidated subsidiaries are ¥11,467 million.

Type and amount of assets pledged as collateral

Buildings and structures:	¥5,331 million
Land:	¥4,315 million
Other:	¥1,820 million

The amount of liabilities related to assets pledged as collateral is ¥9,353 million.

Amount of liabilities relating to collateral

Short-term loans payable and Long-term loans payable: ¥8,673 million

Other: ¥680 million

(3) Guarantee Obligations

Guaranteed party	Guarantee amount (Millions of yen)	Type of guarantee obligation (Millions of yen)
Mitoyo Cable Television Co., Ltd.	357	Loan guarantee 357
Others (3 companies)	351	Loan guarantee
Total	709	

(4) Notes receivable discounted: ¥106 million

3. Notes to consolidated statement of income

(1) Total research and development expenses are ¥47,296 million, all of which recorded as general and administrative expenses.

(2) "Business restructuring costs" in "Extraordinary loss" are costs associated with the business restructuring measures and its main components consist of costs associated with changes made to the license business structure in the Philippine market for the international tobacco business as well as rationalizing costs for the domestic and international tobacco businesses.

4. Notes to consolidated statements of changes in net assets

(1) Type and total number of issued shares and type and total number of treasury stock

(Thousands of shares)

	Number of shares as of March 31, 2008	Increase in this fiscal year ended March 31, 2009	Decrease in this fiscal year ended March 31, 2009	Number of shares as of March 31, 2009
Issued shares				
Common stock	10,000	–	–	10,000
Total	10,000	–	–	10,000
Treasury stock				
Common stock	419	–	–	419
Total	419	–	–	419

(2) Cash dividends

i) Dividend payments

(Resolution)	Type of shares	Total amount of dividends (Millions of yen)	Cash dividends per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 24, 2008	Common stock	24,908	2,600	March 31, 2008	June 25, 2008
Meeting of the Board of Directors held on October 30, 2008	Common stock	24,908	2,600	September 30, 2008	December 1, 2008

ii) Dividends whose record dates are in this fiscal year but whose effective dates fall in the next fiscal year

The following proposal will be placed on the agenda of the Ordinary General Meeting of Shareholders to be held on June 23, 2009.

(Proposal)	Type of shares	Total amount of dividends (Millions of yen)	Source of dividends	Cash dividends per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders to be held on June 23, 2009	Common stock	26,824	Retained earnings	2,800	March 31, 2009	June 24, 2009

(3) Type and number of shares underlying each subscription right to shares at the end of this fiscal year (excluding rights whose exercise period has yet to begin)

Resolved on September 19, 2008

Number of subscription rights to shares	547 units
Type and number of underlying shares	Common stock 547 shares
Amount per share to be paid upon exercise	¥1
Exercise period	October 7, 2008 to October 6, 2038

5. Notes to tax effect accounting

(1) Breakdown of deferred tax assets and deferred tax liabilities

Deferred tax assets	
Provision for retirement benefits	¥55,717 million
Obligations pertaining to mutual assistance association	¥47,725 million
Net operating loss carry forwards	¥42,855 million
Foreign exchange losses	¥26,558 million
Allowance for doubtful accounts	¥16,329 million
Other	¥99,558 million
Subtotal	¥288,744 million
Less valuation allowance	(¥64,919) million
Total	¥223,824 million
Deferred tax liabilities	
Reserve for reduction entry	(¥32,360) million
Basis differences in assets acquired and liabilities assumed upon acquisition	(¥73,387) million
Other	(¥72,920) million
Total	(¥178,668) million
Net deferred tax assets	¥45,156 million

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

Normal effective statutory tax rate	40.35 %
(Adjustment)	
Tax rate difference applied for foreign consolidated subsidiaries	(12.60) %
Non-deductible expenses	3.77 %
Amortization of goodwill	10.05 %
Less valuation allowance	5.42 %
Uncertainty in income taxes of foreign consolidated subsidiaries	3.41 %
Other	1.09 %
Actual effective tax rate	51.49 %

6. Notes to per share information

(1) Net assets per share: ¥162,087.74

(2) Net income per share: ¥12,880.90

(3) Diluted net income per share: ¥12,879.77

7. Notes to short-term investment securities and investment securities

(1) Held-to-maturity debt securities with fair value

(Millions of yen)

	Consolidated balance sheet amount	Fair value	Difference
Government bonds and municipal bonds	600	600	0
Total	600	600	0

(2) Available-for-sale securities with fair value

(Millions of yen)

	Acquisition cost	Consolidated balance sheet amount	Difference
Equity securities	35,334	49,514	14,180
Bonds	4,124	4,229	104
Other	8,082	7,547	(535)
Total	47,541	61,291	13,749

8. Notes to impairment loss

An impairment loss was posted for the following asset groups.

Location	Usage	Assets category	Impairment loss (Millions of yen)
Tokyo metropolitan area	Company housing planned to be demolished, etc.	Buildings and structures	3,832
Kinki region	Company housing planned to be demolished, etc.	Buildings and structures	3,855
Others	Company housing planned to be demolished, etc.	Buildings and structures	8,677

Asset grouping is based on the smallest identifiable unit that generates cash flows that are largely independent of the cash flows from other assets.

During this fiscal year, it was resolved to demolish certain buildings and structures of company housing. Most of the impairment loss recognized was on such buildings and structures. The book value of such assets was written down to the recoverable value. The impairment loss therefore was ¥11,993 million.

The recoverable value of such assets was calculated mainly by its value in use, which is set at zero.

9. Notes to derivatives

(1) Currency

(Millions of yen)

Classification	Type	Contract/ notional amount	Over one year	Fair value	Gain (loss)
Transactions out of markets	Foreign currency forward contracts:				
	Buying	154,552	5,480	151,600	(2,952)
	Selling	183,727	-	185,286	(1,558)
	Currency swaps:				
	Buying	59,712	59,712	(242)	(242)
	Selling	3,148	2,220	287	287
Total		-	-	-	(4,466)

(Notes) 1. Calcuation of fair value is based on information provided by the financial institutions.

2. The amount recorded for “Contract /notional amount,” for currency swaps (buying) is the notional amount relating to coupon swaps and the amount itself does not represent the level of risk for derivative transactions.

(2) Interest rate

(Millions of yen)

Classification	Type	Contract/ notional amount	Over one year	Fair value	Gain (loss)
Transactions out of markets	Interest rate swaps:				
	Receive fixed pay floating	72,283	32,856	2,811	2,811
	Receive floating pay fixed	469	384	(5)	(5)
	Interest rate cap options:				
	Buying	318,041	278,564	100	(1,503)
Total		-	-	-	1,302

(Note) Calcuation of fair value is based on information provided by the financial institutions.

10. Notes to retirement benefits

(1) Retirement benefits

i) Overview of the adopted retirement benefit pension plans

JT and its domestic consolidated subsidiaries have unfunded severance indemnity plans, and a cash balance pension plans, which are both defined payment plans, as well as a defined contribution plans.

Foreign consolidated subsidiaries have defined payment plans, while certain foreign consolidated subsidiaries also provide health and life insurance benefits for retired employees.

When employees leave JT, they are entitled, in certain circumstances, to receive additional retirement benefits, which are not included in projected benefit obligations that are based on actuarial calculations as prescribed by retirement benefit accounting.

ii) Projected retirement benefit obligations

a.	Projected benefit obligations	(¥424,412) million
b.	Fair value of plan assets	¥280,513 million
c.	Funded status (a+b)	(¥143,899) million
d.	Unrecognized actuarial net loss	¥44,996 million
e.	Unrecognized prior service cost	¥6,203 million
f.	Net amount recognized (c+d+e)	(¥92,699) million
g.	Pension liability adjustment of foreign consolidated subsidiaries (Note 2)	(¥25,661) million
h.	Prepaid pension cost	¥27,642 million
i.	Other current liabilities (Note 3)	(¥5,136) million
j.	Provision for retirement benefits (f+g-h-i) (Note 4)	(¥140,866) million

(Notes) 1. Certain consolidated subsidiaries apply a simplified method for computing projected benefit obligations.

2. Unfunded obligation recognized by foreign consolidated subsidiaries applying U.S.GAAP as described in “1. Notes to Significant Preparation Policy of Consolidated Financial Statements, (4) Accounting policies, viii). Accounting treatment policies of foreign consolidated subsidiaries, c. Retirement benefit pension plans.” In the Consolidated Balance Sheet and Consolidated Statement of Changes in Net Assets, this amount is presented as “Pension liability adjustment of foreign consolidated subsidiaries” under “Valuation and translation adjustments.”

3. The amount by which the actuarial present value of benefits included in the retirement benefit obligation payable in the next term exceeds the fair value of plan assets in foreign consolidated subsidiaries applying U.S.GAAP is included in “Other” under current liabilities.

4. The reserve for expense for mutual assistance association benefits is calculated separately from “j. Provision for retirement benefits” above and included in “Provision for retirement benefits” as described in “1. Notes to Significant Preparation Policy of Consolidated Financial Statements, (4) Accounting policies, v) Policy for significant reserve allowances, c. Provision for retirement benefits.” The amount thereof was ¥118,278 million.

5. Certain domestic consolidated subsidiaries participate in multi-employer contributory pension plans. The required contributions to the pension plan are recognized as a net pension cost for the year. Of these pension plans, information related to Tokyo Pharmaceutical Industry Employees’ Pension Fund (multi-enterprise integrated type) is as follows:

a) Funded status of the entire plan as of March 31, 2008:

Fair value of plan assets	¥415,832 million
Benefit obligations	¥497,473 million
Deficit	(¥81,640) million

b) Proportion of the domestic consolifated subsidiaries companies' contributions to the entire plan as of March 31, 2009: 1.2%

iii) Net periodic retirement benefit cost

a.	Service cost (Note 1)	¥13,123 million
b.	Interest cost	¥21,719 million
c.	Expected return on plan assets	(¥20,132) million
d.	Recognized actuarial net loss (Note 2)	¥748 million
e.	Amortization of prior service cost (Note 2)	¥1,255 million
f.	Net periodic retirement benefit cost (a+b+c+d+e)	¥16,713 million

(Notes) 1. Retirement benefit cost to which the simplified method is applied is included in "a. Service cost."

2. Additional retirement benefits, actuarial gains or losses charged to lump-sum expenses upon early retirement and costs associated with prior service liabilities totaling ¥2,722 million are recorded in "Extraordinary loss."

3. In addition to the above, a total of ¥3,947 million was recorded as necessary amounts relating to the defined contribution plan.

iv) Assumptions used for computation of projected retirement benefit obligations

a.	Periodic allocation standard for projected retirement benefit obligation:	Principally, standard of fixed-amount for period
b.	Discount rate:	Principally, 2.5%
c.	Expected rate of return on plan assets:	Principally, 2.5%
d.	Period over which prior service cost is amortized (years):	Principally, 10 years
e.	Period over which actuarial gains or losses are amortized (years):	Principally, 10 years

(2) Mutual assistance association

The following are details relating to the calculation of obligations relating to expense for mutual assistance association as described in "1. Notes to Significant Preparation Policy of Consolidated Financial Statements, (4) Accounting policies, v) Policy for significant reserve allowances, c. Provision for retirement benefits."

i) Obligations relating to mutual assistance association

a.	Benefit obligations (Note 1)	(¥116,889) million
b.	Unrecognized actuarial loss (Note 2)	(¥1,388) million
c.	Liabilities recognized (a+b) (Note 3)	(¥118,278) million

(Notes) 1. Present discounted value of the future obligation related to the service of public mutual assistance association provided before June 1, 1956, which consists of JT's cost of government-sponsored pension.

2. Unrecognized actuarial difference between numerical assumption used to compute liabilities concerning benefit obligations under the Mutual Assistance Association of Public Corporation Employees Law and actual figure.

3. Included in provision for retirement benefits.

ii) Net periodic costs for obligations relating to mutual assistance association

a.	Interest cost	¥1,918 million
b.	Recognized actuarial loss (Note 1)	¥106 million
c.	Net periodic costs (a+b)	¥2,024 million

(Note) Actuarial gains or losses are charged individually to income from the following year in which they occurred in line with the straight-line method.

iii) Assumptions used for obligations relating to mutual assistance association

a.	Discount rate:	1.5%
b.	Period over which actuarial gains or losses are amortized (years):	10 years

11. Additional information

(1) On August 11, 2004, JTI-Macdonald Corp. ("JTI-Mac"), JT's Canadian subsidiary received a Notice of Assessment from the Quebec Ministry of Revenue ("QMR") requiring an immediate payment of approximately C$1.36 billion (approximately ¥106.4 billion), based on allegations that JTI-Mac had contributed to tobacco smuggling from 1990 to 1998, prior to JT's acquisition of RJR Nabisco Inc.'s overseas (non-US) tobacco operations.

JTI-Mac filed an application for protection with the Ontario Superior Court of Justice on August 24, 2004 under the Companies' Creditors Arrangement Act ("CCAA"), because JTI-Mac's failure to pay the tax bill immediately could have prompted the QMR to confiscate its business assets, making it difficult for it to continue its normal business operations. As of March 31, 2009 (the end of this fiscal year), JTI-Mac was continuing business operations with its assets protected under the CCAA.

In order to enable JTI-Mac to repay part of its debts to other subsidiaries of JT, JT International Holding B.V., JT's Dutch subsidiary, provided a court-appointed monitor in April 2006 with a letter of credit issued by a financial institution for the amount corresponding to the repayment.

JT believes that if JTI-Mac incurs financial damage or bears costs associated with this case, it will be entitled to seek indemnification from RJR Nabisco Inc. or its successors, based on the contract entered into among JT, RJR Nabisco Inc. and RJR at the time of JT's acquisition of JTI-Mac in 1999.

(2) In July 2004, ZAO JTI Marketing and Sales ("M&S Corp."), JT's Russian subsidiary, received an assessment from the Moscow tax authorities in which it was ordered to pay approximately 2.4 billion rubles (approximately ¥6.9 billion) for the period from January to December 2000. The amount includes unpaid taxes (VAT, etc.), interest and additional taxes.

Believing that the assessment by the Moscow tax authorities was based upon a misinterpretation of facts, M&S Corp. filed a lawsuit with the Moscow Arbitration Court seeking to invalidate the assessment. Although the Court of First Instance, the Court of Appeals and the Court of Cassation dismissed M&S Corp.'s argument, the Russian Federation Higher Arbitration Court reversed the lower courts' judgments and remanded the case to the Court of First Instance in April 2006. In October 2007, the Court of First Instance rendered judgment upholding M&S Corp.'s argument and invalidated the tax assessment, and both the Court of Appeals and the Court of Cassation dismissed the appeal by the tax authorities and upheld M&S Corp.'s argument in February and May 2008, respectively. In October of that year, Russian Federation Higher Arbitration Court refused to take the appeal by the tax authorities and the case is now closed.

(3) On July 11, 2008, the Office of Fair Trading ("OFT"), the UK competition authority, announced that

Gallaher Group Ltd. (former Gallaher Group Plc) and Gallaher Ltd. (together, hereinafter, “Gallaher”), JT’s tobacco subsidiaries in the United Kingdom, have concluded an early resolution agreement with the OFT. Gallaher has agreed to pay a fine for anti-competitive business practices relating to the retail pricing of tobacco products in the UK market during the period prior to JT’s acquisition of Gallaher.

In August 2003, the OFT notified Gallaher of an inquiry into vertical agreements between manufacturers and retailers in the UK cigarette, tobacco and tobacco-related markets. Since that time, Gallaher has been fully cooperating with the OFT regarding the investigation. Regarding this matter, the OFT issued a statement of objections on April 25, 2008. Following a careful and comprehensive review of the document, the JT Group decided to conclude an early resolution agreement with the OFT, which JT believes best serves the interests of all parties involved.

A certain amount, based on JT’s assumptions about the fine, has been booked as noncurrent liabilities in the purchase price allocation related to JT’s acquisition of Gallaher Group Plc (now Gallaher Group Ltd.). In the consolidated balance sheet for this fiscal year, the amount is included in current liabilities and noncurrent liabilities. This agreement requires us to cooperate with the OFT regarding the investigation. The fine of approximately ₤93 million (approximately ¥13.0 billion) payable by Gallaher is scheduled to be finally decided after such investigation has been completed. In cases where the payment amount is decided as the fine amount specified in this agreement, the difference between such fine and the liability already posted, approximately ₤71 million (approximately ¥10.0 billion), will be recorded as extraordinary income.

While the agreement reached with the OFT relates only to Gallaher’s past business activities prior to JT’s acquisition of the Gallaher group of companies, JT considers that compliance with all applicable laws in each market in which it operates is of the utmost importance. JT will continue to enhance efforts to ensure compliance of the whole group of companies.

12. Important subsequent events

JT’s Board of Directors decided on April 30, 2009 that JT would close three cigarette factories in Japan. The Morioka factory and the Yonago factory will cease to manufacture at the end of March 31, 2010, and the Odawara factory cease to manufacture at the end of March 31, 2011.

The financial impact of this resolution has not yet been confirmed.

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

Non-Consolidated Balance Sheet

(As of March 31, 2009)

(Millions of yen)

Account title	Amount	Account title	Amount
ASSETS		**LIABILITIES**	
Current assets	**280,004**	**Current liabilities**	**591,159**
Cash and deposits	7,090	Accounts payable-trade	13,592
Accounts receivable-trade	49,446	Short-term loans payable from cash management system	184,123
Merchandise and finished goods	21,266	Current portion of bonds	150,000
Semi-finished goods	118,789	Current portion of long-term loans payable	20,200
Work in process	3,706	Lease obligations	14,041
Raw materials and supplies	37,506	Accounts payable-other	41,805
Advance payments-trade	195	National tobacco excise taxes payable	45,357
Prepaid expenses	4,940	National tobacco special excise taxes payable	10,470
Deferred tax assets	15,317	Local tobacco excise taxes payable	55,847
Other	21,918	Income taxes payable	29,623
Allowance for doubtful accounts	(175)	Accrued consumption taxes	8,148
		Provision for bonuses	12,990
Noncurrent assets	**2,577,325**	Other	4,959
Property, plant and equipment	**338,571**	**Noncurrent liabilities**	**420,726**
Buildings	128,545	Bonds payable	149,994
Structures	3,839	Long-term loans payable	60,560
Machinery and equipment	66,122	Lease obligations	8,404
Vehicles	1,449	Provision for retirement benefits	191,264
Tools, furniture and fixtures	30,754	Lease and guarantee deposits received	8,567
Land	101,025	Long-term accounts payable-other	1,937
Construction in progress	6,833	**Total Liabilities**	**1,011,886**
		NET ASSETS	
Intangible assets	**21,461**	**Shareholders' equity**	**1,837,372**
Goodwill	5,156	**Capital stock**	**100,000**
Patent right	451	**Capital surplus**	**736,400**
Right of trademark	4,904	Legal capital surplus	736,400
Software	10,639	**Retained earnings**	**1,075,550**
Other	309	Legal retained earnings	18,776
		Other retained earnings	1,056,773
Investments and other assets	**2,217,293**	Reserve for reduction entry	44,734
Investment securities	39,893	Special account for reduction entry	2,413
Stocks of subsidiaries and affiliates	2,096,524	General reserve	916,300
Investments in capital of subsidiaries and affiliates	782	Retained earnings brought forward	93,326
Long-term loans receivable	7,294	**Treasury stock**	**(74,578)**
Long-term loans receivable from subsidiaries and affiliates	1,212	**Valuation and translation adjustments**	**7,706**
Long-term prepaid expenses	6,514	Valuation difference on available-for-sale securities	7,627
Deferred tax assets	51,166	Deferred gains or losses on hedges	79
Other	21,619	**Subscription rights to shares**	**364**
Allowance for doubtful accounts	(7,715)	**Total net assets**	**1,845,443**
Total Assets	**2,857,330**	**Total Liabilities and Net Assets**	**2,857,330**

Non-Consolidated Statement of Income

(Fiscal year ended March 31, 2009)

(Millions of yen)

Account title	Amount	
Net sales		2,173,552
Cost of sales		1,690,247
Gross profit		**483,305**
Selling, general and administrative expenses		315,617
Operating income		**167,687**
Non-operating income		
Interest income	348	
Dividends income	3,616	
Other	4,496	8,460
Non-operating expenses		
Interest expenses	3,418	
Interest on bonds	4,700	
Foreign exchange losses	2,337	
Financial support for domestic leaf tobacco growers	768	
Periodic mutual assistance association cost	2,024	
Provision of allowance for doubtful accounts	49	
Other	2,648	15,947
Ordinary income		**160,200**
Extraordinary income		
Gain on sales of noncurrent assets	45,580	
Other	182	45,762
Extraordinary loss		
Loss on sales of noncurrent assets	1,806	
Loss on retirement of noncurrent assets	10,119	
Impairment loss	12,534	
Loss on transfer of business	9,863	
Introduction costs for vending machines with adult identification functions	13,468	
Other	10,997	58,791
Income before income taxes		**147,172**
Income taxes-current	52,588	
Income taxes-deferred	4,946	57,535
Net income		**89,637**

Non-Consolidated Statement of Changes in Net Assets

(Fiscal year ended March 31, 2009)

(Millions of yen)

	Shareholders' equity										
		Capital surplus		Retained earnings							
					Other retained earnings						
	Capital stock	Legal capital surplus	Total capital surplus	Legal retained earnings	Reserve for reduction entry	Special account for reduction entry	General reserve	Retained earnings brought forward	Total retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2008	100,000	736,400	736,400	18,776	46,180	3,833	836,300	130,639	1,035,729	(74,578)	1,797,551
Changes of items during the period											
Provision of reserve for reduction entry					5,415			(5,415)	-		-
Reversal of reserve for reduction entry					(6,862)			6,862	-		-
Provision of reserve for special account for reduction entry						2,413		(2,413)	-		-
Reversal of reserve for special account for reduction entry						(3,833)		3,833	-		-
Provision of general reserve							80,000	(80,000)	-		-
Dividends from surplus								(49,816)	(49,816)		(49,816)
Net income								89,637	89,637		89,637
Net changes of items other than shareholders' equity											
Total changes of items during the period	-	-	-	-	(1,446)	(1,419)	80,000	(37,313)	39,820	-	39,820
Balance as of March 31, 2009	100,000	736,400	736,400	18,776	44,734	2,413	916,300	93,326	1,075,550	(74,578)	1,837,372

(Millions of yen)

	Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance as of March 31, 2008	18,578	411	18,990	185	1,816,727
Changes of items during the period					
Provision of reserve for reduction entry					-
Reversal of reserve for reduction entry					-
Provision of reserve for special account for reduction entry					-
Reversal of reserve for special account for reduction entry					-
Provision of general reserve					-
Dividends from surplus					(49,816)
Net income					89,637
Net changes of items other than shareholders' equity	(10,951)	(331)	(11,283)	179	(11,104)
Total changes of items during the period	(10,951)	(331)	(11,283)	179	28,716
Balance as of March 31, 2009	7,627	79	7,706	364	1,845,443

1. Notes to significant preparation policy of financial statements

(1) Valuation standard and method for securities

Stocks of subsidiaries and affiliates:

Stated at cost determined by the moving average method.

Available-for-sale marketable securities:

Securities with a fair value:

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

Securities without a fair value:

Stated at cost determined by the moving-average method.

(2) Valuation standard and method for derivatives

Stated based on the fair value method.

(3) Valuation standard and method for inventories

Stated at cost determined by the average method.
(Balance sheet amounts are measured at the lower of cost or net selling value.)

(4) Depreciation methods for depreciable assets

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

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

The main useful lives are as follows.

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

(Additional information)

The useful life of property, plant and equipment was changed as a result of the use review of these assets conjunction with the revision of the Corporate Tax Act. As an example, the useful life of tobacco manufacturing facilities, which are JT's main machinery and equipment, was changed from 8 years to 10 years.

As a result, depreciation expense decreased ¥2,623 million during this fiscal year and operating income, ordinary income and net income before income taxes increased ¥2,476 million, respectively.

ii) Intangible assets (excluding lease assets)

Straight-line method

The main useful lives are as follows.

Goodwill	5 years
Patent right	8 years
Right of trademark	10 years
Software	5 years

iii) Lease assets

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

(Changes in accounting policies)

The accounting treatment before the change for finance lease transactions not involving the transfer of ownership followed the same method as the accounting treatment for operating lease transactions. However, effective from April 1, 2008, JT applied the "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13 [Business Accounting Council Committee No. 1, June 17, 1993; revised March 30, 2007]) and the "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16 [The Japanese Institute of Certified Public Accountants (JICPA) Accounting Standard Committee, January 18, 1994; revised March 30, 2007]), and the accounting treatment as the acquisition of an asset and the incurrence of an obligation by the lessee and as a sale by the lessor.

Also, the accounting treatment for finance lease transactions not involving the transfer of ownership commenced before the previous fiscal year involves recording lease assets as if acquired at the beginning of this fiscal year, where the present value of future minimum lease payments as of the end of the previous fiscal year (after deducting the interest amount) is the acquisition cost.

The impact of this change on operating income, ordinary income and income before income taxes is immaterial.

(5) Policy for reserve allowances

i) Allowance for doubtful accounts

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

ii) Provision for bonuses

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

iii) Provision for retirement benefits

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

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

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

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

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

(7) Hedge accounting method

Deferral hedge accounting is applied.

Foreign currency forward contracts are translated at the foreign exchange rate stipulated in the contracts where requirements are met.

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

(9) Changes in methods of presentation

In the previous fiscal year, “Long-term loans receivable” (¥310 million recorded in the previous fiscal year) was included in “Other” of “Investments and other assets” of non-consolidated balance sheet, however, it is now presented separately due to its increased materiality.

2. Notes to non-consolidated balance sheet

(1) Receivables and payables with respect to subsidiaries and affiliates

Short-term receivables:	¥35,314 million
Long-term receivables:	¥1,212 million
Short-term payables:	¥216,671 million
Long-term payables:	¥15,156 million

(2) Accumulated depreciation of property, plant and equipment: ¥648,110 million

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

Amount of liabilities relating to collateral	Yen bonds	¥299,994 million

(4) Guarantee Obligations

Guaranteed party	Guarantee amount (Millions of yen)	Type of guarantee obligation	
JTI (UK) Finance PLC	255,176	Bond guarantee, guarantee denominated in foreign currencies	¥255,176 million (EUR 1,348 million) (GBP 569 million)
JT International Holding B.V.	231,434	Loan guarantee, guarantee denominated in foreign currencies	¥231,434 million (GBP 1,149 million) (USD 450 million) (EUR 202 million)
JT International Germany GmbH	15,338	Loan Guarantee, guarantee denominated in foreign currencies	¥15,338 million (EUR 118 million)
JT International S.A.	13,797	Loan Guarantee, guarantee denominated in foreign currencies	¥13,797 million (CHF 64 million) (SIT 50 million) (EUR 44 million) (USD 25 million) (TND 0 million)
JT Finance Service Co., Ltd.	13,000	Loan Guarantee	¥13,000 million
JTI Polska sp.z.o.o.	12,442	Loan Guarantee, guarantee denominated in foreign currencies	¥12,442 million (PLN 453 million)
Others (44 companies)	68,048	Loan Guarantee	
Total	609,237		

(5) Payables to Directors and Auditors

Long-term payables ¥269 million

(6) "Short-term loans payable from cash management system" represent funds borrowed from JT Finance Service Co., Ltd. (consolidated subsidiary), which controls the JT Group's cash management system for domestic group companies.

3. Notes to non-consolidated statement of income

(1) Balance of transactions with subsidiaries and affiliates

Net sales:	¥115,977 million
Purchase of goods:	¥100,782 million
Selling, general and administrative expenses:	¥68,252 million
Amount of non-operating transactions:	¥63,884 million

(2) Total research and development expenses are ¥41,895 million, all of which recorded as general and administrative expenses.

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

Type and total number of treasury stock

(Thousands of shares)

	Number of shares as of March 31, 2008	Increase in this fiscal year ended March 31, 2009	Decrease in this fiscal year ended March 31 2009	Number of shares as of March 31, 2009
Treasury stock				
Common stock	419	-	-	419
Total	419	-	-	419

5. Notes to tax effect accounting

Breakdown of deferred tax assets and deferred tax liabilities

Deferred tax assets	
Provision for retirement benefits	¥29,449 million
Obligations pertaining to mutual assistance association	¥47,725 million
Impairment loss	¥5,258 million
Provision for bonuses	¥5,241 million
Other	¥25,125 million
Subtotal	¥112,800 million
Less valuation allowance	(¥2,768) million
Total	¥110,031 million
Deferred tax liabilities	
Reserve for reduction entry	(¥30,260) million
Other	(¥13,287) million
Total	(¥43,547) million
Net deferred tax assets	¥66,484 million

6. Note to related party transaction

Subsidiaries and Affiliates

Type	Name	Ownership ratio of voting rights	Relation with related parties	Description of transaction	Transaction amount		Item	End-of-period balance
					Repayment of funds	Borrowing of funds		
Subsidiary	JT Finance Service Co., Ltd.,	Direct ownership 100%	Borrowing of funds Lease transactions	Borrowing of funds (*1)	million yen 2,342,429	million yen 2,291,433	Short-term loans payable from cash management system	million yen 184,123

Type	Name	Ownership ratio of voting rights	Relation with related parties	Description of transaction	Transaction amount	Item	End-of-period balance
Subsidiary	JT (UK) Finance PLC	Indirect ownership 100%	Guarantee obligations	Guarantee obligations (*2)	million yen 255,176	-	million yen -
	JT International Holding B.V.	Indirect ownership 100%	Guarantee obligations	Guarantee obligations (*2)	231,434	-	-
	Katokichi Co., Ltd.	Indirect ownership 100%	Business transfer	Business transfer (*3) Transferred assets Transferred liabilities Valuation difference Transfer price Transfer loss	 37,128 31 232 27,000 9,863	-	-

Transaction conditions and policy on determination of transaction conditions

(*1) Interest rates on loans are determined based on interest rates on the market.

(*2) Guarantee obligations are effective to bonds and bank loans and guarantee fees are calculated based on the guarantee amount, etc.

(*3) The business transfer consists of processed foods business transfer, the price of the business is determined upon negotiations based on prices calculated by JT.

(Additional information)

From this fiscal year, the “Accounting Standard for Related Party Disclosures” (ASBJ Statement No. 11, October 17, 2006) and the “Guidance on Accounting Standard for Related Party Disclosures” (ASBJ Guidance No. 13, October 17, 2006) are applied.

7. Notes to per share information

(1) Net assets per share: **¥192,595.36**

(2) Net income per share: **¥9,356.60**

(3) Diluted net income per share: **¥9,355.78**

8. Notes to short-term investment securities and investment securities

Available-for-sale marketable securities with fair value

(Millions of yen)

	Acquisition costs	Consolidated balance sheet amount	Difference
Equity securities	22,773	34,238	11,464
Bonds	73	81	7
Other	3,232	2,857	(375)
Total	26,080	37,177	11,096

9. Notes to impairment loss

An impairment loss was posted for the following asset groups.

Location	Usage	Assets category	Impairment loss (Millions of yen)
Tokyo metropolitan area	Company housing planned to be demolished, etc.	Buildings and structures	3,803
Kinki region	Company housing planned to be demolished, etc.	Buildings and structures	1,940
Others	Company housing planned to be demolished, etc.	Buildings and structures	6,791

Asset grouping is based on the smallest identifiable unit that generates cash flows that are largely independent of the cash flows from other assets.

During this fiscal year, it was resolved to demolish certain buildings and structures of company housing. Most of the impairment losses recognized was on such buildings and structures. The book value of such assets was written down to the recoverable value. The impairment loss therefore was ¥11,993 million.

The recoverable value of such assets was calculated mainly by its value in use, which is set at zero.

10 Notes to retirement benefits

(1) Retirement benefits

i) Overview of the adopted retirement benefit pension plans

JT has an unfunded severance indemnity plan, and a cash balance pension plan, which are both defined payment plans, as well as a defined contribution plan.

When employees leave JT, they are entitled, in certain circumstances, to receive additional retirement benefits, which are not included in projected benefit obligations that are based on actuarial calculations as prescribed by retirement benefit accounting.

ii) Projected retirement benefit obligations

a.	Projected benefit obligations	(¥158,059) million
b.	Fair value of plan assets	¥85,541 million
c.	Funded status (a+b)	(¥72,517) million
d.	Unrecognized actuarial gains	¥12,861 million
e.	Unrecognized prior service cost	¥6,378 million
f.	Net amount recognized (c+d+e)	(¥53,278) million
g.	Prepaid pension cost	¥19,707 million
h.	Provision for retirement benefits (f-g) (Note)	(¥72,985) million

(Note) The reserve for expense for mutual assistance association is calculated separately from "h." Provision for retirement benefits" above and included in "Provision for retirement benefits" as described in "1. Notes to Significant Preparation Policy of Financial Statements, (5) Policy for reserve allowances, iii) Provision for retirement benefits." The amount thereof was ¥118,278 million.

iii) Net periodic retirement benefit cost

a.	Service cost	¥4,654 million
b.	Interest cost	¥4,060 million
c.	Expected return on plan assets	(¥2,589) million
d.	Recognized actuarial loss	¥87 million
e.	Amortization of prior service cost	¥1,251 million
f.	Net periodic retirement benefit cost (a+b+c+d+e)	¥7,465 million

(Note) In addition to the above, a total of ¥1,821 million was recorded as necessary amounts relating to the defined contribution plan.

iv) Assumptions used for computation of projected retirement benefit obligations

a.	Periodic allocation standard for projected retirement benefit obligation:	Standard of fixed-amount for period
b.	Discount rate:	2.5%
c.	Expected rate of return on plan assets:	2.5%
d.	Period over which prior service cost is amortized (years):	10 years
e.	Period over which actuarial gains or losses are amortized (years):	10 years

(2) Mutual assistance association

The following are details relating to the calculation of obligations relating to expenses for mutual assistance association as described in "1. Notes to Significant Preparation Policy of Financial Statements, (5) Policy for reserve allowances, iii) Provision for retirement benefits."

i) Obligations relating to mutual assistance association

a.	Benefit obligations (Note 1):	(¥116,889) million
b.	Unrecognized actuarial loss (Note 2):	(¥1,388) million
c.	Liabilities recognized (a+b) (Note 3):	(¥118,278) million

(Notes) 1. Present discounted value of the future obligation related to the service of public mutual assistance association provided before June 1, 1956, which consists of JT's cost of government-sponsored pension.

2. Unrecognized actuarial difference between numerical assumption used to compute liabilities concerning benefit obligations under the Mutual Assistance Association of Public Corporation Employees Law and actual figure.
3. Included in provision for retirement benefits.

ii) Net periodic costs for obligations relating to mutual assistance association

a.	Interest cost:	¥1,918 million
b.	Recognized actuarial loss (Note 1):	¥106 million
c.	Net periodic costs (a+b):	¥2,024 million

(Note) Actuarial gains or losses are charged individually to income from the following year in which they occurred in line with the straight-line method.

iii) Assumptions used for obligations relating to mutual assistance association

a.	Discount rate:	1.5%
b.	Period over which actuarial gains or losses are amortized (years):	10 years

11. Important subsequent events

JT's board of directors decided on April 30, 2009 that JT would close three cigarette factories in Japan. The Morioka factory and the Yonago factory will cease to manufacture at the end of March 31, 2010, and the Odawara factory will cease to manufacture at the end of March 31, 2011.

The financial impact of this resolution has not yet been confirmed.

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

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

INDEPENDENT AUDITORS' REPORT

May 1, 2009

To the Board of Directors of
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu

Designated Partner,
Engagement Partner,
Certified Public Accountant: Tatsuo Igarashi (Seal)

Designated Partner,
Engagement Partner,
Certified Public Accountant: Shuichi Momoki (Seal)

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

Pursuant to the fourth paragraph of Article 444 of the Companies Act, we have audited the consolidated financial statements, namely, the consolidated balance sheet as of March 31, 2009 of Japan Tobacco Inc. (the "Company") and consolidated subsidiaries, and the related statements of income and changes in net assets for the fiscal year from April 1, 2008 to March 31, 2009. These consolidated financial statements are the responsibility of the Company's management. 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 of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and consolidated subsidiaries as of March 31, 2009, and the results of their operations for the year then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Additional information(1), JTI-Macdonald Corp. ("JTI-MC"), JT's Canadian subsidiary, received a Notice of Assessment from the Quebec Ministry of Revenue on August 11, 2004, demanding payment of approximately 1.36 billion Canadian dollars (approximately ¥106.4 billion). JTI-MC filed an application for protection with the Ontario Superior Court of Justice on August 24, 2004, under the Companies' Creditors Arrangement Act, to make it possible for JTI-MC to continue business operations with its assets safeguarded.

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

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

INDEPENDENT AUDITORS' REPORT

May 1, 2009

To the Board of Directors of
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu

Designated Partner,
Engagement Partner,
Certified Public Accountant: Tatsuo Igarashi (Seal)

Designated Partner,
Engagement Partner,
Certified Public Accountant: Shuichi Momoki (Seal)

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

Pursuant to the first item, second paragraph of Article 436 of the Companies Act, we have audited the financial statements, namely, the balance sheet as of March 31, 2009 of Japan Tobacco Inc. (the "Company"), and the related statements of income and changes in net assets for the 24th fiscal year from April 1, 2008 to March 31, 2009, and the accompanying supplemental schedules.

These financial statements and the accompanying supplemental schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the accompanying supplemental schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the accompanying supplemental schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and the accompanying supplemental schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement and the accompanying supplemental schedules presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements and the accompanying supplemental schedules referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2009, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in Japan.

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

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

Audit Report of the Board of Auditors

AUDIT REPORT

Regarding the performance of duties by the Directors for the 24th business year from April 1, 2008 to March 31, 2009, the Board of Auditors hereby submits its audit report, which has been prepared through discussions based on the audit report prepared by each Auditor.

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

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

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

Furthermore, we monitored and verified whether the Accounting Auditors maintained their independence and implemented appropriate audits, and we received reports from the Accounting Auditors regarding the performance of their duties and sought explanations as necessary. In addition, we received notice from the Accounting Auditors that "the system for ensuring that duties are performed properly" (matters set forth in each Item of Article 159 of the Accounting Rules) is organized in accordance with the "product quality management standards regarding audits" (Business Accounting Council, October 28, 2005) and other relevant standards, and sought explanations as necessary. Based on the above methods, we examined the non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of income, and non-consolidated statement of changes in shareholders' equity) and the table for detailed statement, as well as consolidated financial statements (consolidated balance sheets, consolidated statements of income, and consolidated statements of changes in shareholders' equity) related to the relevant business year.

2. Audit Results

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

1. In our opinion, the business report and the table for detailed statement are in accordance with the related laws and regulations and Articles of Incorporation, and fairly represent JT's condition.
2. With regard to the performance of duties by the Directors, we have found no evidence of wrongful action or material violation of related laws and regulations, nor of any violation with respect to the Articles of Incorporation.
3. In our opinion, the contents of the resolutions of the Board of Directors regarding the internal controls system are fair and reasonable. In addition, we have found no matters on which to remark in regard to the performance of duties of the Directors regarding the internal controls system.

(2) Results of Audit of Non-Consolidated Financial Statements and the table for detailed statement

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

(3) Results of Audit of Consolidated Financial Statements

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

May 7, 2009

Board of Auditors, Japan Tobacco Inc.

Standing Auditor	Hisao Tateishi	(seal)
Auditor	Gisuke Shiozawa	(seal)
Auditor	Hiroyoshi Murayama	(seal)
Auditor	Takanobu Fujita	(seal)

(Note) Auditors Hisao Tateishi, Hiroyoshi Murayama and Takanobu Fujita are Outside Auditors provided for by Article 2, item (xvi) and Article 335, paragraph (3) of the Companies Act.

REFERENCE DOCUMENTS
FOR THE GENERAL MEETING OF SHAREHOLDERS

Items and Relevant Information

Item 1: Appropriation of Surplus

The surplus is proposed to be appropriated as follows:

1. Year-end dividends

   The year-end dividends on shares of Common Stock for the 24th Business Term are proposed to be paid on the following terms, for the purpose of making a return to JT's shareholders while ensuring the internal reserve fund required for the future business development.

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

   Cash

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

   ¥2,800 per share of Common Stock of JT — Aggregate amount: ¥26,824,224,000

   Together with the interim dividends of ¥2,600 per share paid in December 2008, the annual dividends for the 24th Business Term will be ¥5,400 per share.

   (3) Effective date for distribution of surplus:

   June 24, 2009

2. Other appropriation of surplus

   (1) Item of surplus to be increased and its amount:

   General reserve: ¥39,000,000,000

   (2) Item of surplus to be decreased and its amount:

   Retained earnings brought forward: ¥39,000,000,000

Item 2: Partial Amendments to the Articles of Incorporation

1. Reasons for amendments

In response to the enforcement of the Act for Partial Revision of the Act on Transfer of Bonds, etc. for Streamlining Settlement Concerning Stock Trading, etc. (Act No. 88 of 2004; hereinafter referred to as the "Act for Streamlining Settlement of Stocks, etc.") on January 5, 2009 (hereinafter, "Enforcement Date"), which made all share certificates dematerialized, the following amendments are proposed.

(1) In accordance with Article 6, Paragraph 1 of the Supplementary Provisions of the Act for Streamlining Settlement of Stocks, etc., it is deemed that a resolution has been passed on the Enforcement Date to amend the current Articles of Incorporation abolishing the provisions thereof pertaining to the issuance of share certificates. Accordingly, provisions pertaining to the issuance of share certificates (Article 8) and any wording referring to share certificates will be deleted.

(2) In accordance with Article 2 of the Supplementary Provisions of the Act for Streamlining Settlement of Stocks, etc., the Act on Custody and Transfer of Share Certificates, etc. (Act No. 30 of 1984) was repealed as of the Enforcement Date. As a result, any wording referring to beneficial shareholders and the registry of beneficial shareholders will be deleted.

(3) For a period of one year from the day following the Enforcement Date, the registry of lost share certificates shall be prepared and retained in accordance with the provisions of the Companies Act (Act No. 86 of 2005). Therefore, supplementary provisions will be established as needed.

(4) Incidentally to the above changes, the numbering of the articles and other necessary adjustments will be effected.

2. Details of amendments

Details of amendments are as follows:

(Underlined portions are to be amended.)

Current Articles of Incorporation	Proposed Amendment
Article 8. (Share Certificates) JT shall issue share certificates relating to its shares.	(Deleted)
Article 9. (Rules relating to Handling of Shares) The type of share certificates and procedures and fees relating to the shares and subscription rights to shares of JT, such as entering or recording in the registry of shareholders (hereinafter including the registry of beneficial shareholders), the registry of subscription rights to shares and the registry of lost share certificates and the reissue of share certificates, etc. shall be in accordance with the rules relating to handling of shares established by the Board of Directors.	Article 8. (Share Handling Regulations) Procedures and fees relating to the share and subscription rights to shares of JT shall be in accordance with laws and regulations, these Articles of Incorporation as well as the rules relating to handling of shares established by the Board of Directors.
Article 10. (Notification of Addresses, etc.) Shareholders (hereinafter including beneficial shareholders), registered pledgees of shares or their statutory agents or representatives shall report their names, addresses and seals to JT. The same shall apply in the event of changes thereof.	Article 9. (Notification of Addresses, etc.) Shareholders, registered pledgees of shares or their statutory agents or representatives shall file their names and addresses with JT. The same shall apply in the event of changes thereof.

Current Articles of Incorporation	Proposed Amendment
2. Shareholders, registered pledgees of shares or their statutory agents or representatives residing in a foreign country shall establish a temporary address or an agent in Japan and report to JT thereon. The same shall apply in the event of changes thereof.	2. (Same as at present)
3. The provisions in Paragraph 1 above shall apply mutatis mutandis to the aforementioned agent. 4. JT shall not be liable for any damages incurred with respect to individuals failing to make reports in accordance with Paragraphs 1 to 3 above. Article 11. (Record Date) (Provisions omitted) Article 12. (Administrator of the Registry of Shareholders) JT shall have an Administrator of the Registry of Shareholders. 2. The Administrator of the Registry of Shareholders and its place of business shall be designated by resolution of the Board of Directors and announced in a public notice. 3. The preparation and retention of JT's registry of shareholders, registry of subscription rights to shares and registry of lost share certificates as well as other business related to the registry of shareholders, registry of subscription rights to shares and registry of lost share certificates shall be handled by the Administrator of the Registry of Shareholders and shall not be handled by JT. Article 13 to Article 30 (Provisions omitted) (Newly established) (Newly established)	3. (Same as at present) 4. (Same as at present) Article 10. (Record Date) (Same as at present) Article 11. (Administrator of the Registry of Shareholders) (Same as at present) 2. (Same as at present) 3. The preparation and retention of JT's registry of shareholders and registry of subscription rights to shares as well as other business related to the registry of shareholders and registry of subscription rights to shares shall be handled by the Administrator of the Registry of Shareholders and shall not be handled by JT. Article 12 to Article 29 (Same as at present) Supplementary Provisions Article 1. The preparation and retention of JT's registry of lost share certificates as well as other business related to the registry of lost share certificates shall be handled by the Administrator of the Registry of Shareholders and shall not be handled by JT. Article 2. This Article and the preceding Article shall be valid until January 5, 2010 and deleted on January 6, 2010.

Item 3: Election of One (1) Director

Three (3) Directors, Mr. Ichiro Kumakura, Mr. Ryoichi Yamada, and Mr. Katsuhiko Honda will resign at the conclusion of this ordinary general meeting of shareholders. Accordingly, the election of one (1) Director as their replacement is proposed.

The candidate for the office of Director is as follows:

Name (Date of Birth)	Brief Personal History, Positions and Responsibilities in JT, and Representative Positions in Other Companies		Number of JT's Shares Held
Masakazu Shimizu (April 22, 1953)	Apr. 1977 Apr. 1998 Sep. 1999 Jul. 2001 Jul. 2004 Jun. 2005 Jun. 2007	Joined JT (Japan Tobacco and Salt Public Corporation) Head of Domestic Leaf Tobacco Division, Tobacco Business Head of Treasury Division Head of Temporary Systems Task Force Head of General Administration Division Senior Vice President, Chief Communications Officer Executive Vice President, Chief Communications Officer (Current Position)	51 shares

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

Item 4: Election of One (1) Auditor

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

JT's Audit Board has approved this proposition.

The candidate for the office of Auditor is as follows:

Name (Date of Birth)	Brief Personal History, Positions and Responsibilities in JT, and Representative Positions in Other Companies		Number of JT's Shares Held
Koichi Ueda (December 17, 1943)	Apr. 1967 Apr. 1969 Jun. 2006 Dec. 2006 Jan. 2007 Apr. 2007 Jan. 2009 Mar. 2009	Judicial Apprentice Appointed as Public Prosecutor Superintending Public Prosecutor, the Tokyo High Public Prosecutors Office Took mandatory retirement Registered as an attorney at law Specially Appointed Professor of Meiji University Law School (Current Position) Representative Director, The Resolution and Collection Corporation President and Representative Director, The Resolution and Collection Corporation (Current Position)	0 shares

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

2. Mr. Koichi Ueda is a candidate for Outside Auditor.
3. Mr. Koichi Ueda was selected as candidate for Outside Auditor of JT based on the overall judgment that he would be suitable as such due to his abundant experience and broad insight in the legal profession.
4. Mr. Koichi Ueda has receiveds a fee from JT for his role as external member of the Compliance Committee since July 2007.