[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 2, 2010

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 25TH ORDINARY GENERAL MEETING OF SHAREHOLDERS

You are cordially invited to attend the 25th ordinary general meeting of shareholders of Japan Tobacco Inc. ("JT" or the "Company") to be held as set forth below.

If you cannot attend the meeting, you may exercise your voting rights in written form or by electromagnetic means including the Internet. Please see the "Reference Documents for the General Meeting of Shareholders" hereinafter described and exercise your voting rights by 6:00 p.m., on Wednesday, June 23, 2010, 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:** Thursday, June 24, 2010, 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 results of the audit of the Consolidated Financial Statements by the Independent Auditors and JT's Audit Board for the 25th Business Term (From April 1, 2009 to March 31, 2010)
   2. Report on the Non-Consolidated Financial Statements for the 25th Business Term (From April 1, 2009 to March 31, 2010)

   Matters to be Resolved:

   Item 1: Appropriation of Surplus
   Item 2: Election of Nine (9) Directors

* 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" (Japanese only) on page 62.

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, 2009 to March 31, 2010)

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

1. Overview and results of operations

The global economy towards the latter part of the fiscal year ended March 31, 2010 continued to be severe as the employment situation further deteriorated in Europe despite a recovery in Asia and signs of a modest comeback in the U.S. The Japanese economy, notwithstanding positive movements in exports and production, continued to see severe conditions in corporate earnings and the employment situation, among others.

Under these circumstances, the domestic tobacco business faces 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 secure our competitive advantages over competitors, we are building a strong brand portfolio and working tirelessly to enhance our added-value and quality for the maximization of customer satisfaction as well as build a highly cost efficient business framework. The international tobacco business is further continuing its role as the profit growth engine for the JT Group. The business will concentrate its resources on the GFB (Note) and increase margin rates by improving unit prices, etc. in our quest to actively explore opportunities for top-line growth. In the pharmaceutical business, we 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. Also, we will continue to explore strategic opportunities for out-licensing and in-licensing and strengthen alliances with business partners so that we can realize the value of the pharmaceutical business at an early date. The food business is 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.

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

As a result of the above, financial results for this fiscal year ended March 31, 2010, are as follows.

	Billions of yen	Year on year change
Net sales	¥6,134.6	(10.2%)
Operating income	¥296.5	(18.5%)
Ordinary income	¥255.3	(17.0%)
Net income	¥138.4	12.2%

* The 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, 2010, are for the twelve months from January 1 to December 31, 2009.

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 faces 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 secure our competitive advantages over competitors, we are building a strong brand portfolio and working tirelessly to enhance our added-value and quality for the maximization of customer satisfaction as well as build a highly cost efficient business framework.

During the current 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 and the Seven Stars family which are our core brands. These endeavors included the nationwide release of Mild Seven 100’s Box, Mild Seven Light 100’s Box, Seven Stars Black Charcoal Menthol Box, Pianissimo Icene Menthol One and Mild Seven Impact One Menthol Box, as well as the release in limited regions of Camel Menthol Mini. And Seven Stars Black Impact Box was released nationwide in April 2010, which will be followed by the nationwide release in June of Winston Lights 6 Box, Winston Extra 3 Box and Winston Ultra One 100’s Box.

Moreover, JT strengthened and enhanced the Pianissimo family, the Mild Seven family and the Caster family brand value aiming for continuous growth by integrating the Icene and Lucia brands into the Pianissimo brand, changing the design for 15 core products of the Mild Seven family and renewing all 9 products of the Caster family (April 2010).

In addition, in May 2010, JT will release in limited regions Zerostyle Mint, an all-new style of smokeless tobacco which does not require a flame. JT is committed to increasing customer satisfaction by meeting a diverse range of consumer needs, including the development of many new tobacco products not limited to cigarettes as well as improving product taste and flavor so that people can enjoy their favorite tobacco products more.

The sales volume of cigarettes for the domestic tobacco business during the current fiscal year decreased by 8.0 billion cigarettes, or 5.0%, from the previous fiscal year to 151.8 billion cigarettes [Note] due to a fall in aggregate demand. Our market share also declined to 64.9%, or by 0.2 point, and net sales per 1,000 cigarettes (tax excluded) was ¥4,056.

Consequently, net sales for our domestic tobacco business during the current fiscal year declined by ¥157.6 billion, or 4.9%, from the previous fiscal year to ¥3.0428 trillion due to a decrease in sales volume. Operating income increased by ¥15.0 billion, or 8.0%, to ¥203.3 billion, due to lower amortization expenses following the completion of the amortization of some trademark rights and lower depreciation expenses related to vending machines despite a decline in net sales.

(Note) In addition to the figure stated above, during the fiscal year ended March 31, 2010, 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 Macau, markets that are under the control of JT’s China Division.

International tobacco business

The international tobacco business is further continuing its role as the profit growth engine for the JT Group. The business will concentrate its resources on the GFB and increase margin rates by improving unit prices, etc. in our quest to actively explore opportunities for top-line growth.

The sales volume of the GFB during the current fiscal year decreased by 2.1 billion cigarettes, or 0.9%, from the previous fiscal year to 243.4 billion cigarettes. This was mainly due to effects from an unstable business environment in Iran and the replacement of a license agreement with outsourced manufacturing in the Philippines, despite the steady sales growth of Winston in Italy, France and Turkey and Camel in Italy and Ukraine. The volume of our international tobacco business’s cigarette sales including GFB decreased by 11.0 billion cigarettes, or 2.5%, from the previous fiscal year to 434.9 billion cigarettes [Note].

Regarding results for the current fiscal year, net sales for our international tobacco business declined by ¥484.6 billion, or 15.5%, from the previous fiscal year to ¥2.6336 trillion as a result of the devaluation of the currencies of major markets against the U.S. dollar, which is used by the subsidiary which consolidates the accounts of the subsidiaries in the international tobacco business, compared to the previous fiscal year, compounded by the effects of a high yen when making conversions to that currency. Operating income fell by ¥65.6 billion, or 37.6%, to ¥109.1 billion as a result of an increase in manufacturing costs in the wake of an increase in the price of leaf tobacco in addition to the above currency exchange effects.

(Note) From the current fiscal year, the sales volume of the international tobacco business's cigarette sales includes the sales volume of cigars, pipes and snus. For the fiscal year ended March 31, 2010, the sales volume of cigars, pipes and snus was 0.6 billion. Also, the sales volume of private label products, mainly for the German market and previously included in the sales volume of the international tobacco business's cigarette sales, was excluded from the current fiscal year. The sales volume of private label products was 3.9 billion for the fiscal year ended March 31, 2010.

* The foreign exchange rate in the fiscal year ended March 31, 2010 was ¥93.65 per U.S. dollar, compared with ¥103.48 per U.S. dollar in the previous fiscal year.

Pharmaceutical business

In the pharmaceutical business, we 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. The number of compounds developed in-house that are under clinical development is now 10, as anti-Hepatitis C compound JTK-853 has advanced to the clinical trial stage.

Also, we will continue to explore strategic opportunities for outlicensing and inlicensing and strengthen alliances with business partners so that we can realize the value of the pharmaceutical business at an early date.

Regarding the business performance by our subsidiary Torii Pharmaceutical Co., Ltd. ("Torii"), despite the decline in sales of FUTHAN for injection use, a protease inhibitor, in March 2009, Torii began selling REMITCH CAPSULES, an oral antiprutitus drug for hemodialysis patients, and enjoyed growth in sales for Truvada Tablets, an anti-HIV drug, and Serotone, an agent used for the treatment of emesis, leading to an increase in sales.

Net sales for our pharmaceutical business declined by ¥12.6 billion, or 22.4%, from the previous fiscal year to ¥44.0 billion and an operating loss was ¥13.5 billion, compared with operating income of ¥1.0 billion in the previous fiscal year. This is mainly due to the non-recurrence of lump-sum revenue from licensing to Merck (U.S.) in November 2008 of JTT-305, a calcium sensing receptor (CaSR) antagonist and milestone revenue related to the progress made in the development of anti-dyslipidemia compound JTT-705, licensed to Roche in October 2004, which were recorded during the the previous fiscal year, despite the increase in sales from Torii.

[Reference] Clinical development

Code	Stage	Key indication	Rights
JTT-705 (oral)	Phase 2 (Japan)	Dyslipidemia	Roche (Switzerland) obtained the rights to develop and commercialize the compound worldwide, with the exception of Japan. * Development stage by Roche: Phase 3
JTT-130 (oral)	Phase 2 (Japan) Phase 2 (Overseas)	Dyslipidemia	
JTT-303 (oral)	Phase 1 (Japan)	HIV infection	Gilead Sciences (U.S.) obtained the rights to develop and commercialize this compound worldwide, with the exception of Japan. * Development stage by Gilead Sciences: Phase 3
JTT-302 (oral)	Phase 2 (Overseas)	Dyslipidemia	
JTT-305 (oral)	Phase 2 (Japan)	Osteoporosis	Merck (U.S.) obtained the rights to develop and commercialize this compound worldwide, with the exception of Japan.
JTS-653 (oral)	Phase 1 (Japan)	Pain, Overactive bladder	
JTT-654 (oral)	Phase 1 (Japan) Phase 2 (Overseas)	Type 2 diabetes mellitus	
JTK-656 (oral)	Phase 1 (Overseas)	HIV infection	
JTT-751 (oral)	Phase 2 (Japan)	Hyperphosphatemia	JT obtained the rights to develop and commercialize this compound in Japan from Keryx Biopharmaceuticals (U.S.) (Developed jointly with Torii Pharmaceutical Co., Ltd.)
JTK-853 (oral)	Phase 1 (Overseas)	Hepatitis C	

Food business

The foods business is 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 are further strengthening our flagship Roots brand and expanding our sales channels, mainly through our subsidiary, Japan Beverage Inc., a vending machine operator, steadily expanding our business through these measures and promoting efforts to bolster our earning capabilities.

Regarding the processed foods and seasonings sectors, we are working to bolster our earning capabilities and establish a strong business foundation by propping up each value chain function within the TableMark Group.

Net sales for our foods business declined by ¥41.3 billion, or 9.5%, from the previous fiscal year to ¥394.6 billion due to our withdrawal from chilled processed foods and the exclusion from the scope of consolidation of some subsidiaries. Concerning profits, despite effects from cost reductions, etc., the foods business had an operating loss of ¥13.6 billion, compared with an operating loss of ¥11.4 billion in the previous fiscal year, because of the impact of amortization of goodwill following the additional purchase of shares of the subsidiary Green Foods Co., Ltd. by another subsidiary TableMark Co., Ltd., in June 2009 as well as a temporary loss recorded by our fishery products business.

(Note) TableMark Co., Ltd. has changed its corporate name from Katokichi Co., Ltd. on January 1, 2010.

Other business

Net sales for our other business declined by ¥1.2 billion, or 6.1%, from the previous fiscal year to ¥19.5 billion and operating income increased by ¥0.8 billion, or 8.9%, to ¥10.5 billion.

2. Status of capital expenditures

In this fiscal year, we made capital expenditures totaling ¥137.1 billion. In the domestic tobacco business, we spent ¥45.8 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 ¥64.5 billion mainly for the purpose of expanding our production capacity. In the pharmaceutical business, we spent ¥2.9 billion mainly for production and research facilities. In the food business, we invested ¥23.4 billion, mainly for enhancing production and sales facilities. In the other business, we made capital expenditures of ¥0.3 billion.

3. Status of financing

The Company issued bonds totaling ¥100.0 billion on June 3, 2009 to be allocated for the redemption of bonds.

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

No items to report.

5. Business transfers from other companies

No items to report.

6. Succession of rights and obligations relating to other 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 companies

No items to report.

8. Trends in assets and operating results

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

	22nd term FY2006	23rd term FY2007	24th term FY2008	25th term FY2009
Net sales (Millions of yen)	4,769,387	6,409,726	6,832,307	6,134,695
Ordinary income (Millions of yen)	312,044	362,681	307,586	255,377
Net income (Millions of yen)	210,772	238,702	123,400	138,448
Net income per share (Yen)	22,001	24,916	12,880	14,451
Total assets (Millions of yen)	3,364,663	5,087,214	3,879,803	3,872,595
Net assets (Millions of yen)	2,024,615	2,154,629	1,624,288	1,723,278

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

	22nd term FY2006	23rd term FY2007	24th term FY2008	25th term FY2009
Net sales (Millions of yen)	2,330,453	2,302,704	2,173,552	2,052,654
Ordinary income (Millions of yen)	189,730	177,757	160,200	161,606
Net income (Millions of yen)	132,456	131,145	89,637	107,361
Net income per share (Yen)	13,826	13,689	9,356	11,206
Total assets (Millions of yen)	2,561,865	2,902,509	2,857,330	3,027,503
Net assets (Millions of yen)	1,753,067	1,816,727	1,845,443	1,901,759

(Note) 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.

9. Issues to be addressed

In April 2009, 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.

On March 24, 2010, the Diet resolved to implement the planned tobacco excise tax hike of ¥3.5 per cigarette (¥70 per 20-cigarette package) starting from October 1. In addition to the decreasing birth rate, aging population and other structural factors, this unprecedentedly large and drastic tax increase will inevitably lead to a significant decrease in total tobacco demand. Under such circumstances, in order to continue providing the quality and services which will satisfy our consumers, JT has applied for an amendment of its retail prices which exceed the excise tax hike, given our cost reduction efforts alone will be insufficient to absorb the impact. JT will provide a stable supply of products always striving to enhance product quality for customer satisfaction and improve services such as securing smoking areas.

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 TableMark 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, and Camel
Pharmaceutical business	Research and development, manufacture and sale of prescription drugs
Food 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	87.1	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
TableMark 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

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

2. TableMark Co., Ltd. has changed its corporate name from Katokichi Co., Ltd. on January 1, 2010.

3. There were 258 consolidated subsidiaries in this fiscal year, including 10 above-mentioned important subsidiaries, as well as 17 affiliates accounted for by the equity method. In addition, consolidated net sales for this fiscal year amounted to ¥6.1346 trillion (down 10.2% year on year) with consolidated net income at ¥138.4 billion (up 12.2% year on year).

12. Major lenders

Lender	Outstanding balance (Millions of yen)
Syndicated loan	102,458

(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 7 factories

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

(Note) Morioka factory and Yonago factory closed as of March 31, 2010.

(2) Subsidiaries

TS Network Co., Ltd. (Tokyo)

Japan Filter Technology Co., Ltd. (Tokyo)

JT International S.A. (Switzerland)

Gallaher Ltd. (U.K.)

Torii Pharmaceutical Co., Ltd. (Tokyo)

TableMark Co., Ltd. (Kagawa)

JT Beverage Inc. (Tokyo)

Japan Beverage Inc. (Tokyo)

JT Real Estate Co., Ltd. (Tokyo)

JT Finance Service Co., Ltd. (Tokyo)

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

14. Status of employees

(1) Employees of the JT Group

Business segment	Number of employees (Person)
Domestic tobacco business	11,282
International tobacco business	24,751
Pharmaceutical business	1,634
Food business	11,143
Other business	352
Common company-wide services within JT	503
Total	49,665

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

(2) Employees of JT

Male/Female	Number of employees (Person)	Year on year increase (Person)	Average age (Year old)	Average years of service (Year)
Male	7,973	24	43.4	22.2
Female	988	29	37.6	16.3
Total or average	8,961	53	42.8	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 419,903 shares)

3. Number of shareholders: 57,389

4. Major shareholders

Name of shareholders	Number of shares held (Share)	Equity ownership (%)
The Minister of Finance	5,001,359	52.21
Japan Trustee Services Bank, Ltd. (Trust Account)	280,288	2.93
The Master Trust Bank of Japan, Ltd. (Trust Account)	219,754	2.29
State Street Bank and Trust Company 505223	188,236	1.96
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	1.76
State Street Bank and Trust Company	111,112	1.16
Mellon Bank, N.A. as Agent for its Client Melon Omnibus US Pension	86,891	0.91
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	71,455	0.75
Morgan Stanley & Co. Inc	64,447	0.67
HSBC BANK PLC A/C THE CHILDRENS INVESTMENT MASTER FUND	62,765	0.66

(Note) Equity ownership is calculated after deducting treasury stock (419,903 shares).

III. Matters Concerning Subscription Rights to Shares

1. Total number of subscription rights to shares, etc. as of March 31, 2010

(1) Total number of subscription rights to shares:

2,109 units

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

Common stock 2,109 shares

(1 share per subscription right to shares)

2. Status of subscription rights to shares held by Directors and Auditors of JT as of March 31, 2010

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

Common stock 1,024 shares

(1 share per subscription right to shares)

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

¥1 per share

(3) Assignment of subscription rights to shares

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

(4) Conditions for exercising subscription rights to shares

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

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

Category	Year granted	Payment due upon allotment of subscription rights to shares	Exercise period of subscription rights to shares	Number of units	Number of shareholders
Director	FY2007	¥581,269 per unit	From January 9, 2008 to January 8, 2038	148	8
	FY2008	¥285,904 per unit	From October 7, 2008 to October 6, 2038	239	9
	FY2009	¥197,517 per unit	From October 14, 2009 to October 13, 2039	626	9
Auditor	FY2007	¥581,269 per unit	From January 9, 2008 to January 8, 2038	11	1

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

3. Status of subscription rights to shares granted to employees of JT from April 1, 2009 to March 31, 2010

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

Common stock 527 shares

(1 share per subscription right to shares)

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

¥197,517 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 14, 2009 to October 13, 2039

(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

527 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	Significant concurrent positions outside the Company
Chairman of the Board	Yoji Wakui		NIPPONKOA Insurance Co., Ltd. Outside Director
President, Representative Director	Hiroshi Kimura		
Executive Deputy President, Representative Director	Munetaka Takeda	Assistant to CEO in Compliance, Finance and Food Business	
Executive Deputy President, Representative Director	Masaaki Sumikawa	Assistant to CEO in Strategy, HR, Legal Affairs and Operational Review and Business Assurance	
Executive Deputy President, Representative Director	Mitsuomi Koizumi	President, Tobacco Business	JT International Holding B.V. Chairman
Executive Deputy President, Representative Director *	Masakazu Shimizu	Chief Communications Officer and Assistant to CEO in CSR and General Administration	
Member of the Board	Noriaki Okubo	President, Pharmaceutical Business	
Member of the Board	Sadao Furuya	President, Food Business	TableMark Co., Ltd. Outside Director
Member of the Board	Yasushi Shingai		JT International S.A. Executive Vice President
Standing Auditor	Hisao Tateishi		
Standing Auditor	Gisuke Shiozawa		
Auditor	Takanobu Fujita		
Auditor *	Koichi Ueda		The Resolution and Collection Corporation Representative Director and President Koichi Ueda Law Office Attorney at Law

(Notes) 1. Auditors Hisao Tateishi, Takanobu Fujita and Koichi Ueda 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 23, 2009.

4. Executive Deputy Presidents and Representative Directors Ichiro Kumakura and Ryoichi Yamada, Corporate Counselor and Member of the Board Katsuhiko Honda and Auditor Hiroyoshi Murayama resigned on June 23, 2009.

5. Auditors Hisao Tateishi, Takanobu Fujita and Koichi Ueda were notified as independent officers (auditors) to the financial instruments exchange.

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	12	383	5	88	17	471
Directors' bonus	7	52	-	-	7	52
Stock option grants	9	123	-	-	9	123
Total	-	559	-	88	-	647

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

3. Matters concerning Outside Directors and Outside Auditors

(1) Significant concurrent positions outside the Company

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

(Note) There are no special interests between the above organizations where concurrent positions are held and JT.

(2) Major activities during this fiscal year

Category	Name	Status of main activities
Auditor	Hisao Tateishi	Attended all 18 meetings of the Board of Directors, as well as all 16 meetings of the Audit Board held during this fiscal year. Mr. Tateishi asked questions and made remarks where necessary at these meetings, as an auditor.
	Takanobu Fujita	Attended all 18 meetings of the Board of Directors, as well as all 16 meetings of the Audit Board during this fiscal year. Mr. Fujita asked questions and made remarks where necessary at these meetings, as an auditor.
	Koichi Ueda	Attended all 13 meetings of board of Directors, as well as all 12 meetings of the Audit Board held since the assumption of his office on June 23, 2009. Mr. Ueda 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	4	54

V. Matters Relating to Independent Auditor

1. Name of Independent Auditor: Deloitte Touche Tohmatsu LLC

2. Fees for Independent Auditor relating to this fiscal year

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

i)	Fees for audit attestation based on Article 2, Paragraph (1) of the Certified Public Accountants Act:	¥252 million
ii)	Fees for tasks other than audit attestation based on Article 2, Paragraph (1) of the Certified Public Accountants Act:	¥21 million

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

¥ 496 million

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

2. JT retain Deloitte Touche Tohmatsu LLC tasks other than audit attestation based on Article 2, Paragraph (1) of the Certified Public Accountants Act, which consist of advisory services on International Accounting Standards for which a consideration is paid to the same.

3. Among the important subsidiaries of JT, JT International S.A. and Gallaher Ltd. are audited by Deloitte & Touche LLP. None of these subsidiaries are audited by Deloitte Touche Tohmatsu, the Independent Auditor of JT.

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

In the event the Independent Auditor falls within any of the items listed 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, 2010)

(Millions of yen)

Account title	Amount	Account title	Amount
ASSETS		**LIABILITIES**	
Current assets	**1,195,843**	**Current liabilities**	**1,101,535**
Cash and deposits	155,444	Notes and accounts payable-trade	149,462
Notes and accounts receivable-trade	296,884	Short-term loans payable	109,263
Short-term investment securities	11,950	Commercial paper	119,000
Merchandise and finished goods	151,062	Current portion of bonds	50,395
Semi-finished goods	109,621	Current portion of long-term loans payable	23,024
Work in process	5,522		
Raw materials and supplies	288,893	Lease obligations	4,936
Deferred tax assets	26,615	Accounts payable-other	73,738
Other	153,470	National tobacco excise taxes payable	212,066
Allowance for doubtful accounts	(3,622)	National tobacco special excise taxes payable	10,490
		Local tobacco excise taxes payable	85,238
		Income taxes payable	54,057
		Consumption taxes payable	60,105
		Deferred tax liabilities	2,357
		Provision	39,610
		Other	107,789
Noncurrent assets	**2,676,752**	**Noncurrent liabilities**	**1,047,782**
Property, plant and equipment	**679,561**	Bonds payable	409,014
Buildings and structures	231,039	Long-term loans payable	149,569
Machinery, equipment and vehicles	212,870	Lease obligations	9,126
Tools, furniture and fixtures	55,042	Deferred tax liabilities	94,577
Land	138,702	Provision for retirement benefits	251,902
Construction in progress	41,905	Provision for directors' retirement benefits	763
		Other	132,827
Intangible assets	**1,769,064**	**Total Liabilities**	**2,149,317**
Goodwill	1,387,397	**NET ASSETS**	
Right of trademark	350,900	**Shareholders' equity**	**2,072,501**
Other	30,766	Capital stock	100,000
		Capital surplus	736,406
		Retained earnings	1,310,669
Investments and other assets	**228,127**	Treasury stock	(74,575)
Investment securities	83,760	**Valuation and translation adjustments**	**(423,387)**
Deferred tax assets	85,375	Valuation difference on available-for-sale securities	12,043
Other	93,685	Pension liability adjustment of foreign consolidated subsidiaries	(26,269)
Allowance for doubtful accounts	(34,695)	Foreign currency translation adjustment	(409,160)
		Subscription rights to shares	**564**
		Minority interests	**73,599**
		Total net assets	**1,723,278**
Total Assets	**3,872,595**	**Total Liabilities and Net Assets**	**3,872,595**

Consolidated Statement of Income

(Fiscal year ended March 31, 2010)

(Millions of yen)

Account title	Amount	
Net sales		6,134,695
Cost of sales		5,022,637
Gross profit		**1,112,057**
Selling, general and administrative expenses		815,552
Operating income		**296,504**
Non-operating income		
Interest income	4,473	
Dividend income	2,509	
Equity in earnings of affiliates	2,401	
Other	6,224	15,608
Non-operating expenses		
Interest expense	26,111	
Foreign exchange losses	20,228	
Financial support for domestic leaf tobacco growers	522	
Periodic mutual assistance association cost	1,724	
Other	8,150	56,736
Ordinary income		**255,377**
Extraordinary income		
Gain on sales of noncurrent assets	32,341	
Gain from the reversal of liability on a fine levied under UK competition law	16,710	
Other	9,464	58,516
Extraordinary loss		
Loss on sales of noncurrent assets	4,237	
Loss on retirement of noncurrent assets	6,334	
Impairment loss	6,042	
Business restructuring costs	9,900	
Expense for disposal of PCB-containing wastes	4,055	
Other	7,268	37,838
Income before income taxes and minority interests		**276,054**
Income taxes-current	114,145	
Income taxes-deferred	17,158	131,303
Minority interests in income		6,302
Net income		**138,448**

Consolidated Statement of Changes in Net Assets

(Fiscal year ended March 31, 2010)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2009	100,000	736,400	1,224,989	(74,578)	1,986,810
Changes of items during the period					
Dividends from surplus			(53,648)		(53,648)
Net income			138,448		138,448
Change of scope of equity method			880		880
Disposal of treasury stock		6		3	9
Net changes of items other than shareholders' equity					
Total changes of items during the period	-	6	85,680	3	85,690
Balance as of March 31, 2010	100,000	736,406	1,310,669	(74,575)	2,072,501

(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 derivatives under hedge accounting	Pension liability adjustment of foreign consolidated subsidiaries (Note)	Foreign currency translation adjustment	Total valuation and translation adjustments			
Balance as of March 31, 2009	8,437	92	(18,965)	(423,561)	(433,997)	364	71,109	1,624,288
Changes of items during the period								
Dividends from surplus								(53,648)
Net income								138,448
Change of scope of equity method								880
Disposal of treasury stock								9
Net changes of items other than shareholders' equity	3,606	(92)	(7,304)	14,400	10,610	200	2,489	13,299
Total changes of items during the period	3,606	(92)	(7,304)	14,400	10,610	200	2,489	98,990
Balance as of March 31, 2010	12,043	-	(26,269)	(409,160)	(423,387)	564	73,599	1,723,278

(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: 258 companies

Major consolidated subsidiaries: TS Network Co., Ltd., Japan Filter Technology, Ltd., JT International S.A., Gallaher Ltd., Torii Pharmaceutical Co., Ltd., TableMark Co., Ltd., Japan Beverage Inc., JT Real Estate Inc., JT Financial Service Corporation.

In addition, a total of 15 companies, including JTI Kannenberg Comércio de Tabacos do Brasil Ltda., were included in the scope of consolidation from this fiscal year.

A total of 31 companies, including Tokyo Tobacco Shoji Co., Ltd., were excluded from the scope of consolidation due to completion of the liquidation or other reasons.

Non-consolidated subsidiaries are all small-scale companies and respective amounts in aggregate of total assets, net sales, net income or loss and retained earnings of the non-consolidated subsidiaries would not have had 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: 17 companies

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

In addition, as a result of the new acquisition of shares, Cargo Handling Services Limited is included in the scope of affiliates accounted for by the equity method and 6 companies, including HUB CO., LTD. and DAIREI CO., LTD., were excluded from the scope of affiliates accounted for by the equity method as JT's equity interest in those companies has been reduced or due to other reasons.

Non-consolidated subsidiaries and affiliates which are not accounted for by 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 accounted for by the equity method, some companies' closing dates are different from the closing date for the consolidated financial statements. In that case, their financial statements as at their closing dates 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 bonds:

Stated at amortized cost (straight-line method).

Available-for-sale 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 cost 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

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.

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 using 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 using 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.).

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.

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 closing date. 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.

Transactions under foreign currency forward contracts are translated into Japanese yen at the foreign exchange rate stipulated in the contracts where requirements are met. Interest rate swaps are treated by the exceptional treatment if the swaps qualify for such treatments.

viii) Accounting 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 method.

b. Depreciation of significant depreciable assets

Property, plant and equipment

Generally depreciated using 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 are entered into for hedging. All derivatives are recognized at fair value on the balance sheet as assets or liabilities and the fluctuations are recognized in income.

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 evaluated using the full fair value method 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, “Long-term loans receivable” (¥1,403 million recorded in this fiscal year) was presented separately in “Investments and other assets” of the consolidated balance sheet, however, in this fiscal year, it is included in “Other” of “Investments and other assets” due to its decreased materiality.

ii) In the previous fiscal year, “Consumption taxes payable” (¥43,847 million recorded in the previous fiscal year) was included in “Other” in “Current liabilities” of the Consolidated Balance Sheet; however, it is now presented separately due to its increased materiality.

iii) In the previous fiscal year, “Equity in earnings of affiliates” (¥2,369 million recorded in the previous fiscal year) was included in “Other” in “Non-operating income” of the consolidated statement of income; however, it is now presented separately due to its increased materiality.

2. Notes to consolidated balance sheet

(1) Accumulated depreciation of property, plant and equipment: ¥952,070 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 straight bonds: ¥249,996 million

ii) Assets pledged as collateral related to some consolidated subsidiaries are ¥17,076 million.

Type and amount of assets pledged as collateral

Buildings and structures:	¥5,821 million
Land:	¥4,315 million
Other:	¥6,939 million

The amount of liabilities related to assets pledged as collateral is ¥18,319 million.

Amount of liabilities relating to collateral

Short-term loans payable and Long-term loans payable:	¥17,899 million
Other:	¥420 million

3. Notes to consolidated statement of income

(1) Total research and development expenses are ¥49,644 million, all of which are recorded as general and administrative expenses.

(2) On April 16, 2010, Gallaher Group Ltd. (former Gallaher Group Plc) and Gallaher Ltd. (together, hereinafter, "Gallaher"), JT's consolidated subsidiaries in the United Kingdom,, received the decision from the Office of Fair Trading ("OFT"), the UK competition authority, concluding that a fine of ₤50 million was levied to Gallaher for anti-competitive business practices relating to the retail pricing of tobacco products in the market during the period prior to JT's acquisition of Gallaher. ₤164 million, based on the company's assumption about the risk of fine being levied, had been booked as liabilities in the purchase price allocation related to JT's acquisition of Gallaher Group Plc (now Gallaher Group Ltd.) on April 18, 2007 and such liabilities had been included in Other of Current liabilities and Noncurrent liabilities on the Consolidated Balance Sheet. As the amount of fine decided by the OFT was lower than the liabilities which had been originally booked, the liabilities has been reversed to the amount of fine sentenced in the decision by the OFT, and consequently, the relevant variance of ₤114 million has been recognized and disclosed on the Consolidated Statement of Income, which is presented "Gain from the reversal of liabilities on a fine levied under the UK competition law"in extraordinary income.

(3) "Business restructuring costs" in "Extraordinary loss" are costs associated with the business restructuring measures and its main components consist of 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, 2009	Increase in this fiscal year ended March 31, 2010	Decrease in this fiscal year ended March 31, 2010	Number of shares as of March 31, 2010
Issued shares				
Common stock	10,000	-	-	10,000
Total	10,000	-	-	10,000
Treasury stock				
Common stock	419	-	0	419
Total	419	-	0	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
Annual General Meeting of Shareholders held on June 23, 2009	Common stock	26,824	2,800	March 31, 2009	June 24, 2009
Meeting of the Board of Directors held on October 29, 2009	Common stock	26,824	2,800	September 30, 2009	December 1, 2009

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 Annual General Meeting of Shareholders to be held on June 24, 2010.

(Proposal)	Type of shares	Total amount of dividends (Millions of yen)	Source of dividends	Cash dividends per share (Yen)	Record date	Effective date
Annual General Meeting of Shareholders to be held on June 24, 2010	Common stock	28,740	Retained earnings	3,000	March 31, 2010	June 25, 2010

(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)

Common stock 2,109 shares

5. Tax effect accounting

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

Deferred tax assets	
Provision for retirement benefits	¥42,984 million
Obligations pertaining to mutual assistance pension benefits	¥44,195 million
Net operating loss carry forwards	¥45,685 million
Foreign exchange losses	¥20,139 million
Allowance for doubtful accounts	¥10,488 million
Other	¥73,255 million
Subtotal	¥236,748 million
Less valuation allowance	(¥74,102) million
Total	¥162,646 million
Deferred tax liabilities	
Reserve for reduction entry	(¥26,306) million
Basis differences in assets acquired and liabilities assumed upon acquisition	(¥72,286) million
Prepaid pension cost	(¥8,782) million
Other	(¥40,213) million
Total	(¥147,589) million
Net deferred tax assets	¥15,056 million

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

Normal effective statutory tax rate	40.35 %
(Adjustment)	
Tax rate difference applied for foreign consolidated subsidiaries	(6.90%)
Non-deductible expenses	1.95%
Amortization of goodwill	8.81%
Valuation allowance	6.10%
Gain from the reversal of liability on a fine levied the under UK competition law	(2.44%)
Other	(0.31%)
Actual effective tax rate	47.56%

6. Financial instruments

(1) Matters regarding financial instruments

JT and its major consolidated subsidiaries efficiently raise necessary funds, mainly from bank loans and bond issuances, considering the changes in the business environment. Cash surplus, if any, is invested in low risk and highly liquid financial instruments.

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

(2) Matters regarding fair values of financial instruments

Consolidated balance sheet amounts and fair values at March 31, 2010 (the closing date of the fiscal year) and their differences are as follows.

(If the determination of a fair value is deemed extremely difficult, it is not included in this table.)

(Millions of yen)

	Consolidated balance sheet amount	Fair value	Difference
1) Cash and deposits	155,444	155,444	-
2) Notes and accounts receivable-trade	296,884		
Allowance for doubtful accounts (*1)	(2,860)		
	294,024	294,024	-
3) Short-term investment securities and investment securities	67,310	67,310	0
a. Held-to-maturity bonds	300	300	0
b. Available-for-sale securities	67,010	67,010	-
Total assets	516,779	516,779	0
1) Notes and accounts payable-trade	149,462	149,462	-
2) Short-term loans payable	109,263	109,263	-
3) Commercial papers	119,000	119,000	-
4) Accounts payable-other	73,738	73,738	-
5) National tobacco excise taxes payable	212,066	212,066	-
6) National tobacco special excise taxes payable	10,490	10,490	-
7) Local tobacco excise taxes payable	85,238	85,238	-
8) Income taxes payable	54,057	54,057	-
9) Consumption taxes payable	60,105	60,105	-
10) Bonds payable	459,409	474,272	14,862
11) Long-term loans payable	172,594	173,732	1,138
Total liabilities	1,505,426	1,521,427	16,001
Derivative transactions (*2)	2,039	2,039	-

(*1) The allowance for doubtful accounts corresponding to notes and accounts receivable-trade is excluded.

(*2) Net receivables and payables generated by derivative transactions are presented as net amounts.

(Note) Fair value measurement of financial instruments and matters regarding securities and derivative transactions

Assets

1) Cash and deposits and 2) Notes and accounts receivable-trade
Stated as book value because fair value approximates book value because of their short maturity.

3) Short-term investment securities and investment securities

Regarding shares, fair value is stated at the quoted market price of the stock exchange and, for bonds, fair value is stated at the quoted market price of the stock exchange or the price obtained from the financial institutions.

Notes concerning securities by purpose of holding are as follows.

a. Consolidated balance sheet amounts, fair values and their differences by type of held-to-maturity bonds are as follows.

(Millions of yen)

	Type	Consolidated balance sheet amount	Fair value	Difference
Held-to-maturity bonds which fair values exceed their consolidated balance sheet amounts	Government bonds and municipal bonds	300	300	0
Total		300	300	0

b. Consolidated balance sheet amounts, acquisition cost/amortized cost and differences by type of available-for-sale securities are as follows.

(Millions of yen)

	Type	Consolidated balance sheet amount	Acquisition cost or amortized cost	Difference
Available-for-sale securities which consolidated balance sheet amounts exceed their acquisition costs or amortized costs	(1) Equity securities	38,127	18,371	19,755
	(2) Bonds	6,651	6,523	127
	(3) Other	4,293	3,245	1,047
	Subtotal	49,072	28,141	20,931
Available-for-sale securities which consolidated balance sheet amounts do not exceed their acquisition costs or amortized costs	(1) Equity securities	8,823	10,698	(1,874)
	(2) Bonds	1,066	1,079	(12)
	(3) Other	8,047	8,154	(107)
	Subtotal	17,937	19,932	(1,994)
Total		67,010	48,073	18,936

Liabilities

1) Notes and accounts payable-trade, 2) Short-term loans payable, 3) Commercial papers, 4) Accounts payable-other, 5) National tobacco excise taxes payable, 6) National tobacco special excise taxes payable, 7) Local tobacco excise taxes payable, 8) Income taxes payable, and 9) Consumption taxes payable

Stated at book value because fair value approximates book value because of their short maturities.

10) Bonds payable

Fair value of bonds issued by JT and its consolidated subsidiaries is based on a quoted market price. For bonds which do not have any quoted market price, fair value is determined by discounting total of principal and interest to the present value at a rate considering the bonds’ remaining period and credit risk.

11) Long-term loans payable

Fair value of long-term loans payable is determined by discounting the total of principal and interest to the present value at a rate assumed for similar new loans being borrowed.

Derivative transactions

Regarding notional contracted amounts of the following derivative transactions, the amounts themselves do not indicate the market risk relating to derivative transactions.

The fair value is based on information provided by financial institutions.

a. Derivatives to which hedge accounting is not applied

Regarding derivative transactions to which hedge accounting is not applied, contract amounts on the closing date, amounts equivalent to the principal specified in the contracts, fair value, gain or loss on valuation, and the measurement method of fair value by type of hedged item, are provided below.

(a) Derivatives related to currencies

(Millions of yen)

Category	Type	Contract/ notional amount	Over one year	Fair value	Gain (loss) on valuation
Non-market transactions	Foreign currency forward contracts:				
	Buying	296,522	2,894	654	654
	Selling	133,767	2,416	(489)	(489)
	Currency swaps:				
	Buying	59,712	-	(122)	(122)
	Selling	2,259	2,259	(460)	(460)
Total		492,262	7,570	(418)	(418)

(b) Derivatives related to interest rates

(Millions of yen)

Category	Type	Contract/ notional amount	Over one year	Fair value	Gain (loss) on valuation
Non-market transactions	Interest rate swaps:				
	Fixed rate receipt and floating rate payment	36,606	36,606	2,296	2,296
	Interest rate caps:				
	Buying	297,744	36,606	161	(1,208)
Total		334,350	73,212	2,457	1,088

b. Derivatives to which hedge accounting is applied

Regarding derivative transactions that qualify for hedge accounting, contract amounts on the closing date and amounts equivalent to the principal specified in the contracts by hedge accounting method are provided below.

(Millions of yen)

Category	Type	Main hedged item	Contract/ notional amount		Fair value	Gain (loss) on valuation
				Over one year		
Exceptional treatment of interest rate swaps	Interest rate swaps: Floating rate receipt and fixed rate payment	Long-term loans payable	1,136	437	(*1)	

(*1) Interest rate swaps qualified for the exceptional treatment are accounted for with the long-term loans payable, and their fair values are included in the fair value of those long-term loans payable.

7. Investment and rental property

(1) Matters regarding investment and rental property

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

(2) Matters regarding fair value of investment and rental property

Consolidated balance sheet amounts and fair values of investment and rental properties at March 31, 2010 are as follows.

(Millions of yen)

Usage	Consolidated balance sheet amount	Fair value
Office building	39,086	140,605
Residence	5,136	26,737
Others	18,319	66,774
Total	62,542	234,118

(Notes) 1. Consolidated balance sheet amount is net of accumulated depreciation and accumulated impairment losses, if any.

2. Fair value of investment properties at March 31, 2010 is principally measured based on the real-estate appraisal assessed by the external real-estate appraiser. And the others are measured by the JT Group based on the assessed value of taxable fixed asset. However, unless the appraisal or indicators that are regarded to reflect the fair value of the investment properties appropriately change significantly since the date of acquisition or the date of the latest appraisal, the JT Group measures the fair value of the investment properties based on such appraisal or indicators.

8. Per share information

(1) Net assets per share: ¥172,139.61

(2) Net income per share: ¥14,451.67

(3) Diluted net income per share: ¥14,448.89

9. Retirement benefits

(1) Retirement benefits

i) Overview of the adopted retirement benefit pension plans

JT and its domestic consolidated subsidiaries have defined payment plans, including unfunded severance indemnity plans and a cash balance pension plans. They also have defined contribution plans.

Foreign consolidated subsidiaries also have defined payment plans, and certain foreign consolidated subsidiaries 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	(¥455,264) million
b.	Fair value of plan assets	¥321,317 million
c.	Funded status (a+b)	(¥133,946) million
d.	Unrecognized actuarial net loss	¥42,196 million
e.	Unrecognized prior service cost	¥4,789 million
f.	Net amount recognized (c+d+e)	(¥86,960) million
g.	Pension liability adjustment of foreign consolidated subsidiaries (Note 2)	(¥35,742) million
h.	Prepaid pension cost	¥23,390 million
i.	Other current liabilities (Note 3)	(¥3,720) million
j.	Provision for retirement benefits (f+g-h-i) (Note 4)	(¥142,372) 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 following year exceeds the fair value of plan assets in foreign consolidated subsidiaries applying U.S.GAAP is included in “Other current liabilities.”

4. 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 reserve for mutual assistance pension benefits is calculated separately from "j. Provision for retirement benefits" above and included in "Provision for retirement benefits." The amount thereof was ¥109,529 million.
5. Certain domestic consolidated subsidiaries participate in multi-employer contributory pension plans. The required contributions to the pension plans 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, 2009:

Fair value of plan assets	¥325,177 million
Benefit obligations	¥502,794 million
Deficit	(¥177,616) million

b) Proportion of the domestic consolidated subsidiaries companies' contributions to the entire plan as of March 31, 2010: 1.3%

iii) Net periodic retirement benefit cost

a.	Service cost (Note 1)	¥11,293 million
b.	Interest cost	¥18,090 million
c.	Expected return on plan assets	(¥12,902) million
d.	Recognized actuarial net loss (Note 2)	¥3,876 million
e.	Amortization of prior service cost (Note 2)	¥1,744 million
f.	Net periodic retirement benefit cost (a+b+c+d+e)	¥22,102 million

(Notes) 1. Retirement benefit cost for the consolidated subsidiaries which apply the simplified method 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 amount to ¥8,523 million and are recorded in "Extraordinary loss."

3. In addition to the above, a total of ¥5,679 million was recorded as necessary amounts relating to the defined contribution plan.

iv) Assumptions used for computation of projected retirement benefit obligations

(Domestic retirement benefit pension plans)

a.	Periodic allocation standard for projected retirement benefit obligation:	Principally, straight-line method
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:	Principally, 10 years
e.	Period over which actuarial gains or losses are amortized:	Principally, 10 years

(Overseas retirement benefit pension plans)

a.	Periodic allocation standard for projected retirement benefit obligation:	Principally, plan's benefit formula.
b.	Discount rate:	Principally, 3.0 to 5.8%
c.	Expected rate of return on plan assets:	Principally, 4.5% to 6.2%
d.	Period over which prior service cost is amortized:	Principally, 6 to 10 years
e.	Period over which actuarial gains or losses are amortized:	Principally, 5 to 19 years

(2) Mutual assistance pension benefits

The following are details relating to the calculation of obligations relating to mutual assistance pension benefit 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 pension benefits

a.	Benefit obligations (Note 1)	(¥106,345) million
b.	Unrecognized actuarial (gain) loss (Note 2)	(¥3,183) million
c.	Liabilities recognized (a+b) (Note 3)	(¥109,529) 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 Public Official Mutual Assistance Association Law and actual figure.

3. Included in provision for retirement benefits in the consolidated balance sheet.

ii) Net periodic costs for obligations relating to mutual assistance pension benefits

a.	Interest cost	¥1,753 million
b.	Recognized actuarial (gain)loss (Note 1)	(¥28) million
c.	Net periodic costs (a+b)	¥1,724 million

(Note) Actuarial gains or losses are amortized using the straight-line method from the following year in which they occurred.

iii) Assumptions used for obligations relating to mutual assistance pension benefits

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

10. Additional information

On September 29, 2009, the Government of Ontario, Canada filed a lawsuit against 13 tobacco manufacturers including JT's Canadian consolidated subsidiary JTI-Macdonald Corp. (" JTI-Mac") and 1 industry organization. The detail is as follows.

(1) Parties to the lawsuit

Plaintiff Government of Ontario (Canada)

Defendants 14 parties of tobacco manufacturers and other including JTI-Mac

(2) Content of the complaint

To seek compensation from 13 tobacco manufacturers and 1 industry organization for damages for the cost of health care benefits, resulting from the treatment of tobacco related disease or the risk of tobacco related disease, which have been paid or will be paid by the government of Ontario for insured persons.

3. Amount of the claim

CAD50.0 billion (approximately ¥4,568.0 billion)

* The statement of claim in this case contains allegations of joint and several liabilities amongst all the defendants but does not specify any individual amount or percentages, within the total amount of the claim, which is claimed from any individual defendant.

JTI-Mac has valid grounds to defend the action which it will pursue by all appropriate means with the full support of JT.

There are similar pending lawsuits against tobacco manufacturers and others including a JT Group company filed in Canada by the Government of British Columbia and the Government of New Brunswick claiming the recovery of health care costs; however, the amounts of claims have not been specified in these lawsuits.

11. Significant subsequent events

On April 13, 2010, JTI-Macdonald Corp. ("JTI-Mac"), JT's Canadian consolidated subsidiary, entered into a comprehensive agreement with the Government of Canada and all provinces and territories (the "Canadian Governments ") to establish a cooperation mechanism in combating cigarette smuggling and contraband. In addition, JTI-Mac pleaded to regulatory offense for its involvement in the illicit trade of cigarettes prior to JT's acquisition of non-US tobacco operations of RJR Nabisco Inc. ("RJR") and paid CAD150 million (approximately ¥13.8 billion). As a result, all of the contraband-related claims against JTI-Mac and others associated with it by the Canadian Governments have been withdrawn and the Notice of Assessment from the Quebec Ministry of Revenue has been withdrawn.

At the same time, on April 13, 2010, the RJR Group entered into another agreement with the Canadian Governments and made the payment of CAD400 million (approximately ¥37.0 billion), resulting in total payments by the JT Group and RJR Group to the Canadian Governments of CAD550 million (approximately ¥50.9 billion). As a result of indemnification rights under the Purchase Agreement in 1999 and subsequent negotiations with the RJR Group, the JT Group and the RJR Group entered into an agreement whereby the JT Group would incur CAD150 million among the aforementioned CAD550 million total.

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

Non-Consolidated Balance Sheet

(As of March 31, 2010)

(Millions of yen)

Account title	Amount	Account title	Amount
ASSETS		**LIABILITIES**	
Current assets	**460,328**	**Current liabilities**	**688,722**
Cash and deposits	2,466	Accounts payable-trade	15,266
Accounts receivable-trade	53,662	Short-term loans payable	30,543
Short-term investment securities	6,760	Commercial paper	119,000
Merchandise and finished goods	35,446	Current portion of bonds	50,000
Semi-finished goods	108,997	Current portion of long-term loans payable	20,200
Work in process	3,719		
Raw materials and supplies	39,965	Lease obligations	6,116
Advance payments-trade	452	Accounts payable-other	48,241
Prepaid expenses	4,796	National tobacco excise taxes payable	45,439
Deferred tax assets	13,988	National tobacco special excise taxes payable	10,490
Short-term loans receivable from subsidiaries and affiliates	174,555	Local tobacco excise taxes payable	55,982
Other	15,945	Income taxes payable	30,697
Allowance for doubtful accounts	(425)	Consumption taxes payable	13,904
		Deposits in cash management system	227,108
		Provision for bonuses	11,534
Noncurrent assets	**2,567,175**	Other	4,197
Property, plant and equipment	**316,176**	**Noncurrent liabilities**	**437,020**
Buildings	122,242	Bonds payable	199,996
Structures	3,509	Long-term loans payable	40,360
Machinery and equipment	65,840	Lease obligations	5,244
Vehicles	1,561	Provision for retirement benefits	177,988
Tools, furniture and fixtures	21,290	Lease and guarantee deposits received	7,695
Land	93,453	Long-term accounts payable-other	5,735
Construction in progress	8,278	**Total Liabilities**	**1,125,743**
		NET ASSETS	
Intangible assets	**13,759**	**Shareholders' equity**	**1,891,095**
Patent right	338	**Capital stock**	**100,000**
Right of trademark	2,182	**Capital surplus**	**736,406**
Software	10,996	Legal capital surplus	736,400
Other	241	Other capital surplus	6
		Retained earnings	**1,129,263**
Investments and other assets	**2,237,239**	Legal retained earnings	18,776
Investment securities	43,896	Other retained earnings	1,110,487
Stocks of subsidiaries and affiliates	2,093,949	Reserve for reduction entry	38,320
Investments in capital of subsidiaries and affiliates	782	Special account for reduction entry	4,254
		General reserve	955,300
Long-term loans receivable	310	Retained earnings brought forward	112,612
Long-term loans receivable from subsidiaries and affiliates	32,540	**Treasury stock**	**(74,575)**
		Valuation and translation adjustments	**10,099**
Long-term prepaid expenses	7,131	Valuation difference on available-for-sale securities	10,099
Deferred tax assets	39,704		
Other	19,573	**Subscription rights to shares**	**564**
Allowance for doubtful accounts	(648)	**Total net assets**	**1,901,759**
Total Assets	**3,027,503**	**Total Liabilities and Net Assets**	**3,027,503**

Non-Consolidated Statement of Income

(Fiscal year ended March 31, 2010)

(Millions of yen)

Account title	Amount	
Net sales		2,052,654
Cost of sales		1,603,720
Gross profit		**448,934**
Selling, general and administrative expenses		285,086
Operating income		**163,847**
Non-operating income		
Interest income	587	
Dividend income	5,917	
Other	3,725	10,229
Non-operating expenses		
Interest expense	2,724	
Interest on bonds	3,791	
Financial support for domestic leaf tobacco growers	522	
Periodic mutual assistance association cost	1,724	
Other	3,707	12,470
Ordinary income		**161,606**
Extraordinary income		
Gain on sales of noncurrent assets	30,415	
Other	3,492	33,907
Extraordinary loss		
Loss on sales of noncurrent assets	3,514	
Loss on retirement of noncurrent assets	4,144	
Impairment loss	1,859	
Loss on transfer of business	5,004	
Expense for disposal of PCB-containing wastes	4,055	
Other	2,023	20,601
Income before income taxes		**174,912**
Income taxes-current	56,358	
Income taxes-deferred	11,192	67,551
Net income		**107,361**

Non-Consolidated Statement of Changes in Net Assets

(Fiscal year ended March 31, 2010)

(Millions of yen)

	Shareholders' equity											
		Capital surplus			Retained earnings							
						Other retained earnings						
	Capital stock	Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Reserve for reduction entry	Special account for reduction entry	General reserve	Retained earnings brought forward	Total retained earnings	Treasury stock	Total shareholders' equity
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
Changes of items during the period												
Provision of reserve for reduction entry						3,068			(3,068)	-		-
Reversal of reserve for reduction entry						(9,481)			9,481	-		-
Provision of reserve for special account for reduction entry							4,254		(4,254)	-		-
Reversal of reserve for special account for reduction entry							(2,413)		2,413	-		-
Provision of general reserve								39,000	(39,000)	-		-
Dividends from surplus									(53,648)	(53,648)		(53,648)
Net income									107,361	107,361		107,361
Disposal of treasury stock			6	6						-	3	9
Net changes of items other than shareholders' equity												
Total changes of items during the period	-	-	6	6	-	(6,413)	1,841	39,000	19,285	53,713	3	53,723
Balance as of March 31, 2010	100,000	736,400	6	736,406	18,776	38,320	4,254	955,300	112,612	1,129,263	(74,575)	1,891,095

(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, 2009	7,627	79	7,706	364	1,845,443
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					(53,648)
Net income					107,361
Disposal of treasury stock					9
Net changes of items other than shareholders' equity	2,472	(79)	2,392	200	2,593
Total changes of items during the period	2,472	(79)	2,392	200	56,316
Balance as of March 31, 2010	10,099	-	10,099	564	1,901,759

1. Notes to significant accounting policies

(1) Valuation standard and method for securities

Stocks of subsidiaries and affiliates:

Stated at cost determined by the moving-average method.

Available-for-sale securities:

Securities with a fair value:

Stated at fair value based on market prices, 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:

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 cost method.

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

(4) Depreciation methods for depreciable assets

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

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

The main useful lives are as follows.

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

ii) Intangible assets (excluding lease assets)

Straight-line method

The main useful lives are as follows.

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.

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

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

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

Transactions under foreign currency forward contracts are translated into Japanese yen 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

i) In the previous fiscal year, “Short-term loans receivable from subsidiaries and affiliates” (¥8,257 million recorded in the previous fiscal year) was included in “Other” in “Current assets” of the non-consolidated balance sheet; however, it is now presented separately due to its increased materiality.

ii) In the previous fiscal year, “Foreign exchange losses” (¥1,168 million recorded in this fiscal year) was presented separately in non-consolidated statements of income; however, in this fiscal year, it is included in “Other” of “Non-operating income” due to its decreased materiality.

iii) In the previous fiscal year, “Business restructuring costs” (¥1,860 million recorded in the previous fiscal year) was included in “Other” in “Extraordinary loss” of non-consolidated statements of income; however, it is now presented separately due to its increased materiality.

Business restructuring costs are associated with measures for enhancement of the business structure and its main component consists of additional retirement benefits related to early retirement.

2. Notes to non-consolidated balance sheet

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

Short-term receivables:	¥35,238 million
Short-term payables:	¥27,438 million
Long-term payables:	¥12,435 million

(2) Accumulated depreciation of property, plant and equipment: ¥633,876 million

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

Amount of liabilities relating to collateral: Yen straight bonds ¥249,996 million

(4) Guarantee Obligations

Guaranteed party	Guarantee amount (Millions of yen)	Type of guarantee obligation	
JTI (UK) Finance PLC	204,118	Bond guarantee, guarantee denominated in foreign currencies	¥204,118 million (EUR 1,352 million) (GBP 252 million)
JT International Holding B.V.	98,272	Loan guarantee, guarantee denominated in foreign currencies	¥98,272 million (GBP 700 million)
JT International Germany GmbH	14,968	Loan Guarantee, guarantee denominated in foreign currencies	¥14,968 million (EUR 119 million)
JT International S.A.	13,564	Loan Guarantee, guarantee denominated in foreign currencies	¥13,564 million (CHF 64 million) (EUR 44 million) (USD 25 million)
JT International Company Netherlands B.V.	10,041	Loan Guarantee, guarantee denominated in foreign currencies	¥10,041 million (EUR 80 million) (USD 0 million)
Others (40 companies)	69,990	Loan Guarantee	
Total	410,955		

(5) Payables to Directors and Auditors

Long-term payables ¥89 million

(6) “Deposits in cash management system” are funds entrusted in the cash management system for domestic Group companies.
From the fiscal year, the management company for the cash management system has been changed from JT Finance Service Co., Ltd. (a consolidated subsidiary) to JT.

3. Notes to non-consolidated statement of income

(1) Amount of transactions with subsidiaries and affiliates

Net sales:	¥119,156 million
Purchase of goods:	¥100,152 million
Selling, general and administrative expenses:	¥61,584 million
Amount of non-operating transactions:	¥27,792 million

(2) Total research and development expenses are ¥41,655 million, all of which were 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, 2009	Increase in this fiscal year ended March 31, 2010	Decrease in this fiscal year ended March 31 2010	Number of shares as of March 31, 2010
Treasury stock				
Common stock	419	-	0	419
Total	419	-	0	419

5. Tax effect accounting

Breakdown of deferred tax assets and deferred tax liabilities by major cause

Deferred tax assets	
Provision for retirement benefits	¥27,623 million
Obligations pertaining to mutual assistance pension benefits	¥44,195 million
Impairment loss on noncurrent assets	¥1,173 million
Provision for bonuses	¥4,654 million
Other	¥20,235 million
Subtotal	¥97,880 million
Less: valuation allowance	(¥2,960) million
Total	¥94,920 million
Deferred tax liabilities	
Reserve for reduction entry	(¥25,921) million
Other	(¥15,305) million
Total	(¥41,227) million
Net deferred tax assets	¥53,692 million

6. 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
					Lending of funds	Receipt of repayment of funds		
					million yen	million yen		million yen
Subsidiary	JT International Holding B.V.	Indirect ownership 100%	Lending of funds, etc.	Lending of funds (Note 1)	653,418	487,787	Short-term loans receivable	165,630
	TableMark Co., Ltd.	Direct ownership 100%	Lending of funds, etc.	Lending of funds (Note 1)	37,900	9,100	Long-term loans receivable	30,360
							Short-term loans receivable	6,440

Type	Name	Ownership ratio of voting rights	Relation with related parties	Description of transaction	Transaction amount	Item	End-of-period balance
					million yen		million yen
Subsidiary	TS Network Co., Ltd.	Direct ownership 74.5%	Deposits received for cash management system	Receipt of surplus funds (Notes 2, 3)	-	Deposits for cash management system	105,730
	Torii Pharmaceutical Co., Ltd.	Direct ownership 54.5%	Deposits received for cash management system	Receipt of surplus funds (Notes 2, 3)	-	Deposits for cash management system	30,735
	JT (UK) Finance PLC	Indirect ownership 100%	Guarantee obligations	Guarantee obligations (Note 4))	204,118	-	-
	JT International Holding B.V.	Indirect ownership 100%	Guarantee obligations	Guarantee obligations (Note 4)	98,272	-	-

Transaction conditions and policy on determination of transaction conditions

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

2. Interest rates on receipt of surplus funds are reasonably determined taking into account interest rates on the market.

3. For lending/borrowing from the cash management system, transaction amounts are omitted from the table above because of their frequent occurrence.

4. Guarantee obligations are made for bonds and bank loans and guarantee fees are calculated based on the guarantee amount, etc.

7. Per share information

(1) Net assets per share: ¥198,452.58

(2) Net income per share: ¥11,206.74

(3) Diluted net income per share: ¥11,204.58

8. Retirement benefits

(1) Retirement benefits

i) Overview of the adopted retirement benefit pension plans

JT has defined payment plans, including an unfunded severance indemnity plan and a cash balance pension plan. It also has 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	(¥140,288) million
b.	Fair value of plan assets	¥81,367 million
c.	Funded status (a+b)	(¥58,921) million
d.	Unrecognized actuarial gains	¥3,216 million
e.	Unrecognized prior service cost	¥4,877 million
f.	Net amount recognized (c+d+e)	(¥50,826) million
g.	Prepaid pension cost	¥17,632 million
h.	Provision for retirement benefits (f-g) (Note)	(¥68,459) million

(Note) As described in "1. Notes to significant accounting policies, (5) Policy for reserve allowances, iii) Provision for retirement benefits," the reserve for mutual assistance pension benefits is calculated separately from "h." Provision for retirement benefits" above and included in "Provision for retirement benefits." The amount thereof is ¥109,529 million.

iii) Net periodic retirement benefit cost

a.	Service cost	¥4,655 million
b.	Interest cost	¥3,951 million
c.	Expected return on plan assets	(¥2,138) million
d.	Recognized actuarial (gain)loss	¥1,480 million
e.	Amortization of prior service cost	¥1,251 million
f.	Net periodic retirement benefit cost (a+b+c+d+e)	¥9,200 million

(Notes) 1. Additional retirement benefits amount to ¥4,252 million and are recorded in "Extraordinary loss."

2. In addition to the above, a total of ¥1,801 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:	straight-line method
b.	Discount rate:	2.5%
c.	Expected rate of return on plan assets:	2.5%
d.	Period over which prior service cost is amortized:	10 years
e.	Period over which actuarial gains or losses are amortized:	10 years

(2) Mutual assistance pension benefits

The following are details relating to the calculation of obligations relating to mutual assistance pension benefit as described in "1. Notes to significant accounting policies, (5) Policy for reserve allowances, iii) Provision for retirement benefits."

i) Obligations relating to mutual assistance pension benefits

a.	Benefit obligations (Note 1):	(¥106,345) million
b.	Unrecognized actuarial (gain)loss (Note 2):	(¥3,183) million
c.	Liabilities recognized (a+b) (Note 3):	(¥109,529) 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 assumptions used to compute liabilities concerning benefit obligations under the Public Official Mutual Assistance Association Law and actual figure.

3. Included in provision for retirement benefits in the balance sheet.

ii) Net periodic costs for obligations relating to mutual assistance pension benefits

a.	Interest cost:	¥1,753 million
b.	Recognized actuarial (gain)loss (Note 1):	(¥28) million
c.	Net periodic costs (a+b):	¥1,724 million

(Note) Actuarial gains or losses are amortized using the straight-line method from the following year in which they occurred.

iii) Assumptions used for obligations relating to mutual assistance pension benefits

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

9. 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 and "the accompanying supplemental schedules" referred to in this report are not included in the attached financial documents.]

INDEPENDENT AUDITORS' REPORT

April 30, 2010

To the Board of Directors of
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Tatsuo Igarashi
Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Shuichi Momoki
Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Satoshi Iizuka

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, 2010 of Japan Tobacco Inc. (the “Company”), and the related statements of income and changes in net assets for the 25 th fiscal year from April 1, 2009 to March 31, 2010, 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, 2010, 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.]

INDEPENDENT AUDITORS' REPORT

April 30, 2010

To the Board of Directors of
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Tatsuo Igarashi

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Shuichi Momoki

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

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, 2010 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, 2009 to March 31, 2010. 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, 2010, and the results of their 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 25th business year from April 1, 2009 to March 31, 2010, the Board of Auditors hereby submits its audit report, which has been prepared through discussions based on the audit report prepared by each Auditor.

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

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

Each Auditor complied with the auditing standards of Auditors established by the Board of Auditors, followed the auditing policies, allocation of duties, and other relevant matters, communicated with the Directors, and any other relevant personnel, and made efforts to optimize the environment for information collection and audit, and participated in the Board of Directors' Meetings and other important meetings, received reports from the Directors, and other relevant personnel regarding performance of their duties, sought explanations as necessary, examined important documents, and studied the operations and financial positions at the head office and principal offices. We monitored and verified the details of the resolution of the Board of Directors related to the provision of a system described in paragraphs 1 and 3 of Article 100 of the 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 Independent Auditors maintained their independence and implemented appropriate audits, and we received reports from the Independent Auditors regarding the performance of their duties and sought explanations as necessary. In addition, we received notice from the Independent Auditors that "the system for ensuring that duties are performed properly" (matters set forth in each Item of Article 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 Relevant 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 find that the internal controls system itself and its operation are suitable.

(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 Accounting Auditors, Deloitte Touche Tohmatsu LLC, are fair and reasonable.

(3) Results of Audit of Consolidated Financial Statements

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

May 6, 2010

Board of Auditors, Japan Tobacco Inc.

Standing Auditor	Hisao Tateishi	(seal)
Auditor	Gisuke Shiozawa	(seal)
Auditor	Takanobu Fujita	(seal)
Auditor	Koichi Ueda	(seal)

(Note) Auditors Hisao Tateishi, Takanobu Fujita and Koichi Ueda 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:

Year-end dividends

The year-end dividends on shares of Common Stock for the 25th Business Term are proposed to be paid on the following terms that is ¥3000 per share, made up of ¥2,800 ordinary dividend and ¥200 commemorative dividend to celebrate the 25th anniversary of JT's foundation, 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:

¥3,000 per share of Common Stock of JT   Aggregate amount: ¥28,740,291,000

Together with the interim dividends of ¥2,800 per share paid in December 2009, the annual dividends for the 25th Business Term will be ¥5,800 per share.

(3) Effective date for distribution of surplus:

June 25, 2010

Item 2: Election of Nine (9) Directors

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

The candidates for the office of Director are as follows:

Candidate Number	Name (Date of Birth)	Brief Profile, and Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company	Number of the Company's Shares Held
1	Yoji Wakui (February 5, 1942)	Apr. 1964 Joined Ministry of Finance May 1995 Deputy Vice Minister Jul. 1997 Director-General of the Budget Bureau Jul. 1999 Vice Chairman of the General Insurance Association of Japan Jun. 2004 Representative Director and Chairman of the Board, the Company Jun. 2006 Chairman of the Board (Current Position) (Significant Concurrent Position) Outside Director of NIPPONKOA Insurance Co., Ltd.	64 shares
2	Hiroshi Kimura (April 23, 1953)	Apr. 1976 Joined the Company (Japan Tobacco and Salt Public Corporation) Jan. 1999 Vice President of Corporate Planning Division May 1999 Senior Manager in Tobacco Business Planning Division, Tobacco Business Headquarters; Executive Vice President, JT International S.A Jun. 1999 Member of the Board Jun. 2001 Retired from Member of the Board Jun. 2005 Member of the Board Jun. 2006 President, Chief Executive Officer and Representative Director (Current Position)	96 shares
3	Munetaka Takeda (August 22, 1949)	Apr. 1972 Joined Ministry of Finance Jul. 1999 Director-General of Kanto Local Finance Bureau, Ministry of Finance Jan. 2001 Deputy Assistant Vice Minister, Cabinet Office Jul. 2001 Director-General of Okinawa Promotion Bureau, Cabinet Office Jul. 2003 Director-General for Policy Planning, Cabinet Office Sep. 2005 Assistant Vice Minister, Cabinet Office Feb. 2007 Corporate Advisor of the Company Apr. 2007 Senior Executive Vice President, and Chief Financial Officer Jun. 2007 Representative Director, Executive Deputy President, Chief Financial Officer, and Assistant to CEO in Compliance and Food Business Jun. 2008 Representative Director, Executive Deputy President, Assistant to CEO in Compliance, Finance and Food Business (Current Position)	34 shares

Candidate Number	Name (Date of Birth)	Brief Profile, and Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company	Number of the Company's Shares Held
4	Masaaki Sumikawa (October 11, 1950)	Apr. 1974 Joined the Company (Japan Tobacco and Salt Public Corporation) Jul. 1997 Vice President of Food Business Division Jun. 1998 Vice President of General Administration Division Jul. 2000 Vice President of Human Resources Division Jun. 2003 Senior Vice President, and Assistant to CEO in Real Estate Management, Agriculture, Printing and Vending Machinery Businesses Jan. 2004 Senior Vice President, and Assistant to CEO in Real Estate Management, Printing and Vending Machinery Businesses Jun. 2004 Standing Auditor Jun. 2008 Representative Director, Executive Deputy President, and Assistant to CEO in CSR, Strategy, Human Resources and Operational Review and Business Assurance Jun. 2009 Representative Director, Executive Deputy President, and Assistant to CEO in Strategy, Human Resources, Legal and Operational Review and Business Assurance (Current Position)	81 shares
5	Mitsuomi Koizumi (April 15, 1957)	Apr. 1981 Joined the Company (Japan Tobacco and Salt Public Corporation) Jun. 2001 Vice President of Corporate Planning Division Jun. 2003 Senior Vice President, and Head of Human Resources and Labor Relations Group Jun. 2004 Senior Vice President, and Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters Jun. 2006 Executive Vice President, and Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters Jun. 2007 Member of the Board, Executive Vice President, and Head of Marketing & Sales General Division, Tobacco Business Headquarters Jul. 2007 Member of the Board, Executive Vice President, and Chief Marketing & Sales Officer, Tobacco Business Headquarters Jun. 2009 Representative Director, Executive Deputy President, and President, Tobacco Business (Current Position) (Significant Concurrent Position) Chairman, JT International Holding B.V.	80 shares

Candidate Number	Name (Date of Birth)	Brief Profile, and Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company	Number of the Company's Shares Held
6	Masakazu Shimizu (April 22, 1953)	Apr. 1977 Joined the Company (Japan Tobacco and Salt Public Corporation) Apr. 1998 Vice President of Domestic Leaf Tobacco Division, Tobacco Business Headquarters Sep. 1999 Vice President of Finance Division Jul. 2001 Vice President of Temporary Systems Task Force Jul. 2004 Vice President of General Administration Division Jun. 2005 Senior Vice President, and Chief Communications Officer Jun. 2007 Executive Vice President, and Chief Communications Officer Jun. 2009 Representative Director, Executive Deputy President, Chief Communications Officer, and Assistant to CEO in CSR and General Administration (Current Position)	61 shares
7	Noriaki Okubo (May 22, 1959)	Apr. 1983 Joined the Company (Japan Tobacco and Salt Public Corporation) Apr. 2000 Vice President of Business Development Dept., Pharmaceutical Division Jun. 2002 Vice President of Business Planning Dept., Pharmaceutical Division Jun. 2004 Member of the Board, Senior Vice President, and President, Pharmaceutical Business Jun. 2006 Member of the Board, Executive Vice President, and President, Pharmaceutical Business Jun. 2009 Member of the Board, Senior Executive Vice President, and President, Pharmaceutical Business (Current Position)	36 shares
8	Mutsuo Iwai (October 29, 1960)	Apr. 1983 Joined the Company (Japan Tobacco and Salt Public Corporation) Jun. 2003 Vice President of Corporate Planning Division Jul. 2004 Vice President of Corporate Strategy Division Jun. 2005 Senior Vice President, and Vice President of Food Business Division, Food Business Jun. 2006 Member of the Board, Executive Vice President, and President, Food Business Jun. 2008 Executive Vice President, and Chief Strategy Officer (Current Position)	68 shares
9	Yasushi Shingai (January 11, 1956)	Apr. 1980 Joined the Company (Japan Tobacco and Salt Public Corporation) Jul. 2001 Vice President of Financial Planning Division Jun. 2004 Senior Vice President, Head of Finance Group Jul. 2004 Senior Vice President, and Chief Financial Officer Jun. 2005 Member of the Board, Senior Vice President, and Chief Financial Officer Jun. 2006 Member of the Board (Current Position) Executive Vice President, JT International S.A. (Current Position) (Significant Concurrent Position) Executive Vice President, JT International S.A.	59 shares

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

Direction for Exercise of the Voting Rights via the Internet:

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

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

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

1. Web-site for Exercise of Voting Rights

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

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

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

(3) The exercise of voting rights via the Internet is only available until 6 p.m. on Wednesday, June 23, 2010. We ask that you please exercise your voting rights at your earliest convenience.

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

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

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

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

3. In the event voting rights are exercised more than once

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

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

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

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

System Inquiries (Help Desk)

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