[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.]

[Cover]

Document to be filed:	Annual Securities Report
Provisions to base upon:	Article 24, paragraph (1) of the Financial Instruments and Exchange Act
Filing to:	Director-General of the Kanto Local Finance Bureau
Date of filing:	June 24, 2010
Business year:	25th term (from April 1, 2009 to March 31, 2010)
Company name (Japanese):	日本たばこ産業株式会社 (*Nihon Tabako Sangyo Kabushiki-Kaisha*)
Company name (English):	JAPAN TOBACCO INC.
Title and name of representative:	Hiroshi Kimura, President, Chief Executive Officer and Representative Director
Location of head office:	2-1, Toranomon 2-chome, Minato-ku, Tokyo, Japan
Telephone number:	+81-3-3582-3111 (Main)
Contact person:	Yasuyuki Tanaka, Senior Vice President and Chief Communications Officer
Place of contact:	2-1, Toranomon 2-chome, Minato-ku, Tokyo, Japan
Telephone number:	+81-3-3582-3111 (Main)
Contact person:	Yasuyuki Tanaka, Senior Vice President and Chief Communications Officer
Places where the document to be filed is available for public inspection:	Japan Tobacco Inc. Saitama Sales Office (55-1, Shimocho 1-chome, Omiya-ku, Saitama-shi, Saitama)
	Japan Tobacco Inc. Yokohama Sales Office (143, Hanasakicho 6-chome, Nishi-ku, Yokohama-shi, Kanagawa)
	Japan Tobacco Inc. Nagoya Sales Office (12-1, Iseyama 2-chome, Naka-ku, Nagoya-shi, Aichi)
	Japan Tobacco Inc. Osaka Sales Office (5-10, Oyodo-minami 1-chome, Kita-ku, Osaka-shi, Osaka)
	Japan Tobacco Inc. Kobe Sales Office (7-23, Nakayamate-dori 3-chome, Chuo-ku, Kobe-shi, Hyogo)
	Tokyo Stock Exchange, Inc. (2-1, Nihonbashi-kabutocho, Chuo-ku, Tokyo)
	Osaka Securities Exchange Co., Ltd. (8-16, Kitahama 1-chome, Chuo-ku, Osaka-shi, Osaka)
	Nagoya Stock Exchange, Inc. (8-20, Sakae 3-chome, Naka-ku, Nagoya-shi, Aichi)
	Fukuoka Stock Exchange (14-2, Tenjin 2-chome, Chuo-ku, Fukuoka-shi, Fukuoka)
	Sapporo Securities Exchange (14-1, Minamiichijo-nishi 5-chome, Chuo-ku, Sapporo-shi, Hokkaido)

A. Company Information

I. Overview of the JT Group

1. Trends in principal management benchmarks

(1) Management benchmarks (consolidated)

Term	21st term	22nd term	23rd term	24th term	25th term
Accounting period	From April 1, 2005 to March 31, 2006	From April 1, 2006 to March 31, 2007	From April 1, 2007 to March 31, 2008	From April 1, 2008 to March 31, 2009	From April 1, 2009 to March 31, 2010
Net sales (Millions of yen)	4,637,657	4,769,387	6,409,726	6,832,307	6,134,695
Ordinary income (Millions of yen)	297,842	312,044	362,681	307,586	255,377
Net income (Millions of yen)	201,542	210,772	238,702	123,400	138,448
Net assets (Millions of yen)	1,762,511	2,024,615	2,154,629	1,624,288	1,723,278
Total assets (Millions of yen)	3,037,378	3,364,663	5,087,214	3,879,803	3,872,595
Net assets per share (Yen)	919,780.33	204,617.68	216,707.27	162,087.74	172,139.61
Net income per share (Yen)	105,084.78	22,001.10	24,916.51	12,880.90	14,451.67
Diluted net income per share (Yen)	–	–	24,916.26	12,879.77	14,448.89
Equity ratio (%)	58.03	58.26	40.81	40.02	42.58
Return on equity (ROE) (%)	12.36	11.32	11.83	6.80	8.65
Price earnings ratio (PER) (Times)	19.70	26.32	20.03	20.33	24.08
Net cash provided by (used in) operating activities (Millions of yen)	150,342	435,958	145,030	275,271	320,024
Net cash provided by (used in) investing activities (Millions of yen)	(26,357)	(149,692)	(1,668,634)	(65,008)	(84,057)
Net cash provided by (used in) financing activities (Millions of yen)	(48,134)	(32,634)	519,000	(217,470)	(250,398)
Cash and cash equivalents at end of period (Millions of yen)	920,141	1,179,522	215,008	167,257	154,368
Number of employees [Separately, average number of temporary employees] (Person)	31,476 [12,187]	33,428 [10,353]	47,459 [14,986]	47,977 [11,736]	49,665 [11,870]

Notes: 1. Net sales do not include consumption taxes.

2. 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.

3. Diluted net income per share for the 21st and 22nd terms is not presented because there were no potential shares.

4. As the stock split of 5-for-1 was conducted as of April 1, 2006, the share price as of March 31, 2006 was that of ex rights. Accordingly, price earnings ratio for the 21st term was calculated using the share price obtained by multiplying the ex rights share price by the stock split ratio in order to be compatible with net assets per share or the like.

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

Term	21st term	22nd term	23rd term	24th term	25th term
Accounting period	From April 1, 2005 to March 31, 2006	From April 1, 2006 to March 31, 2007	From April 1, 2007 to March 31, 2008	From April 1, 2008 to March 31, 2009	From April 1, 2009 to March 31, 2010
Net sales (Millions of yen)	2,370,645	2,330,453	2,302,704	2,173,552	2,052,654
Ordinary income (Millions of yen)	192,830	189,730	177,757	160,200	161,606
Net income (Millions of yen)	126,268	132,456	131,145	89,637	107,361
Capital stock (Millions of yen)	100,000	100,000	100,000	100,000	100,000
Total number of shares issued (Thousands of shares)	2,000	10,000	10,000	10,000	10,000
Net assets (Millions of yen)	1,643,098	1,753,067	1,816,727	1,845,443	1,901,759
Total assets (Millions of yen)	2,410,096	2,561,865	2,902,509	2,857,330	3,027,503
Net assets per share (Yen)	857,497.63	182,990.92	189,616.56	192,595.36	198,452.58
Cash dividends per share (Yen) [Interim dividends per share] (Yen)	16,000 [7,000]	4,000 [1,800]	4,800 [2,200]	5,400 [2,600]	5,800 [2,800]
Net income per share (Yen)	65,839.28	13,826.19	13,689.35	9,356.60	11,206.74
Diluted net income per share (Yen)	–	–	13,689.21	9,355.78	11,204.58
Equity ratio (%)	68.2	68.4	62.6	64.6	62.8
Return on equity (ROE) (%)	7.96	7.80	7.35	4.90	5.73
Price earnings ratio (PER) (Times)	31.44	41.88	36.45	27.99	31.05
Dividend payout ratio (%)	24.3	28.9	35.1	57.7	51.8
Number of employees [Separately, average number of temporary employees] (Person)	8,855 [1,285]	8,930 [1,195]	8,999 [1,209]	8,908 [1,164]	8,961 [1,349]

Notes: 1. Net sales do not include consumption taxes.
2. 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.
3. Diluted net income per share for the 21st and 22nd terms is not presented because there were no potential shares.
4. As the stock split of 5-for-1 was conducted as of April 1, 2006, the share price as of March 31, 2006 was that of ex rights. Accordingly, price earnings ratio for the 21st term was calculated using the share price obtained by multiplying the ex rights share price by the stock split ratio in order to be compatible with net assets per share or the like.
5. Cash dividend per share for the 25th term of ¥5,800 includes the 25th anniversary commemorative dividend of ¥200.

2. History

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

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

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

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

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

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

The major events and incidents prior to the incorporation of JT are as follows:

Date	Major events and incidents
June 1949	Japan Tobacco and Salt Public Corporation established.
July 1957	First filter cigarettes manufactured in Japan, "Hope (10)," launched.
February 1963	Tokyo Tobacco Haiso Co., Ltd. established to distribute cigarettes to retailers.
	In the period thereafter to March 1972, Kansai Tobacco Haiso Co., Ltd., Chubu Tobacco Haiso Co., Ltd., Kyushu Tobacco Haiso Co., Ltd., and Hokkaido Tobacco Haiso Co., Ltd. established to create a nationwide distribution system.
January 1973	Research and development section relocated from Tokyo to newly-established Tobacco Science Research Center in Yokohama to enhance and strengthen research and development structures.
March 1977	Utsunomiya and Motegi Factories closed and Kita-Kanto Factory built to modernize and rationalize tobacco production.
September 1979	Iwata Factory closed and Tokai Factory built to modernize and rationalize tobacco production.
July 1982	Ad Hoc Commission on Administrative Reform released third report, advising reforms to the monopoly system.
September 1982	Kyoto, Ibaraki and Takatsuki Factories closed and Kansai Factory built to modernize and rationalize tobacco production.
April 1984	Japan Tobacco International S.A. established to export Japanese cigarettes abroad.
August 1984	Diet passed Government Monopoly Reform Act (promulgated on August 10).

(2) Status of JT after its incorporation

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

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

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

Date	Details of change
March 2010	In order to restructure the Japanese domestic tobacco business in ways to make it more competitive, Morioka and Yonago Factories were closed down.

3. Business description

The main business activities operated by Japan Tobacco Inc. (hereinafter, “JT”), its 258 consolidated subsidiaries and 17 affiliates accounted for by the equity method, and the relationship of each company to the Group’s business activities are stated below.

The following five segments are the same as the segmentation in “Business segment information” of “Notes to consolidated financial statements” in (1) Consolidated financial statements, 1. Consolidated financial statements, etc., V. Accounting.

Japanese domestic tobacco business

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

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

Major subsidiaries and affiliates

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

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

International tobacco business

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

Major subsidiaries and affiliates

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

Besides the companies named above, there are 170 consolidated subsidiaries and 6 affiliates accounted for by the equity method.

Pharmaceutical business

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

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

Major subsidiaries and affiliates

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

Besides the companies named above, there is 1 consolidated subsidiary.

Food business

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

In the beverages business, JT develops products while JT Beverage Inc., Japan Beverage Inc. and certain other subsidiaries sell them. In the processed food business and seasonings business, TableMark Co., Ltd. (Note) is engaged in manufacturing, selling and other activities.

Major subsidiaries and affiliates

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

Besides the companies named above, there are 46 consolidated subsidiaries and 6 affiliates accounted for by the equity method.

Note: TableMark Co., Ltd. has changed its company name from Katokichi Co., Ltd. in January 2010.

Other business

The business in the real estate category consists of rental and management of real estate properties. In addition, there are subsidiaries and affiliates that manufacture and sell a variety of products and provide services to the Group.

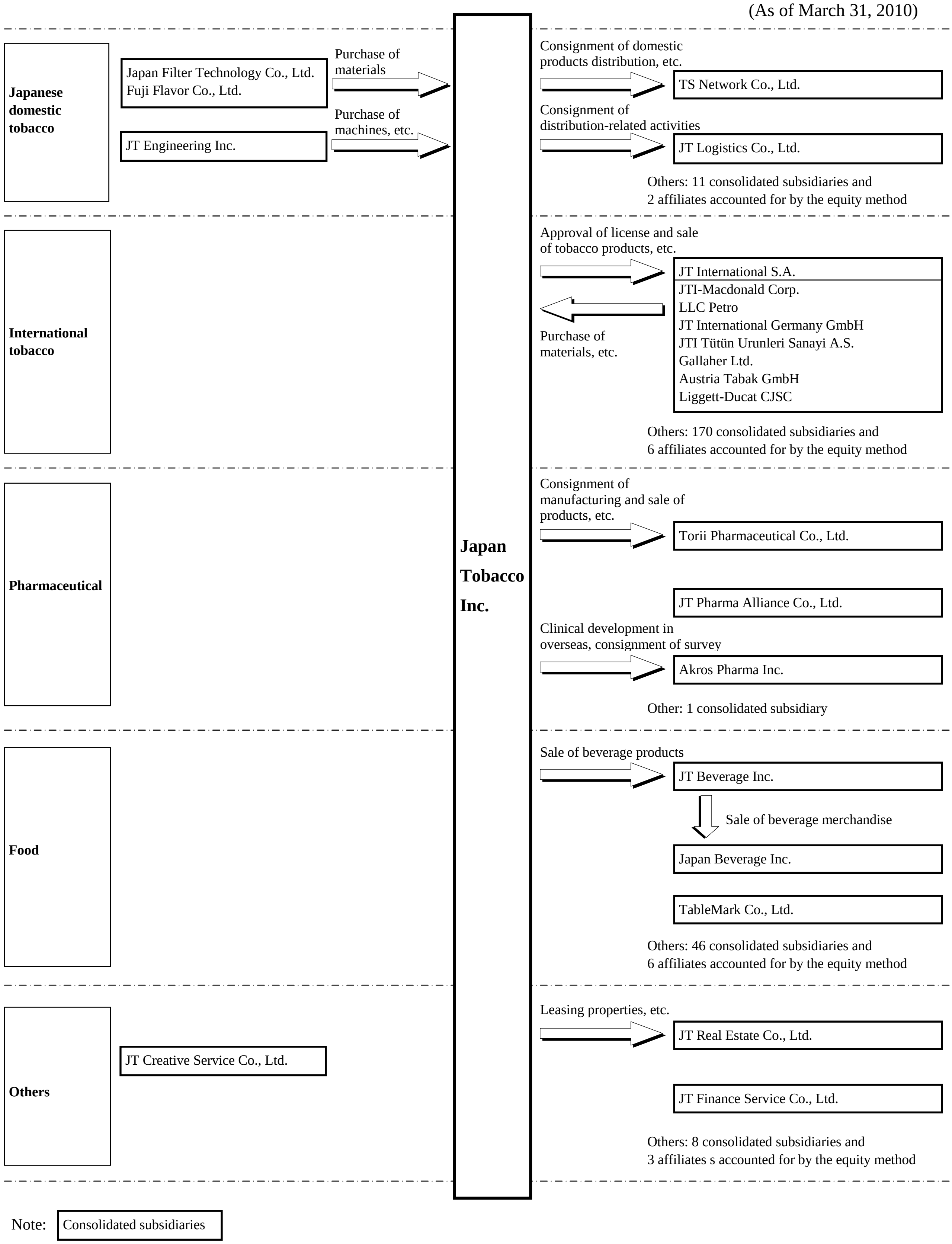
Major subsidiaries and affiliates

JT Real Estate Co., Ltd., JT Finance Service Co., Ltd., JT Creative Service Co., Ltd.

Besides the companies named above, there are 8 consolidated subsidiaries and 3 affiliates accounted for by the equity method.

The following business activities diagram show the matters described above.

(As of March 31, 2010)



4. Status of subsidiaries and affiliates

Name	Location	Capital (Millions of yen)	Principal business	Holding rate of voting rights (%)	Relationship				
					Interlocking etc. of officers		Financial assistance	Business relationship	Facility leasing
					Officer of JT	Employee of JT			
(Consolidated subsidiaries) 258 companies									
TS Network Co., Ltd. *1	Taito-ku, Tokyo	460	Japanese domestic tobacco	74.5	No	Yes	No	Consignment of tobacco products distribution, etc.	Yes
JT Logistics Co., Ltd.	Shibuya-ku, Tokyo	207	Japanese domestic tobacco	100.0	No	Yes	No	Consignment of tobacco products and raw materials distribution	Yes
Japan Filter Technology Co., Ltd. *2	Shibuya-ku, Tokyo	461	Japanese domestic tobacco	87.1	No	Yes	No	Purchase of filter for tobacco products	Yes
Fuji Flavor Co., Ltd.	Hamura-shi, Tokyo	196	Japanese domestic tobacco	100.0	No	Yes	Yes	Purchase of flavors for tobacco products	Yes
JT Engineering Inc.	Sumida-ku, Tokyo	200	Japanese domestic tobacco	100.0	No	Yes	No	Purchase of machines, etc.	Yes
JT International S.A. *2	Swiss	Thousands of CHF 1,215,425	International tobacco	100.0 (100.0)	Yes	No	No	Approval of license and sale of tobacco products, etc.	No
JTI-Macdonald Corp. *2	Canada	Thousands of CAD 124,996	International tobacco	100.0 (100.0)	No	No	No	No	No
LLC Petro	Russia	Thousands of RUB 328,439	International tobacco	100.0 (100.0)	No	No	No	No	No
JT International Germany GmbH	Germany	Thousands of EUR 37,393	International tobacco	100.0 (100.0)	No	No	No	No	No
JTI Tütün Urunleri Sanayi A.S. *2	Turkey	Thousands of TRY 148,824	International tobacco	100.0 (100.0)	No	No	No	No	No
JT International Holding B.V. *2	Netherlands	Thousands of EUR 1,380,018	International tobacco	100.0 (100.0)	Yes	Yes	Yes	No	No
Gallaher Group Ltd. *2	U.K.	Thousands of GBP 65,858	International tobacco	100.0 (100.0)	No	No	No	No	No
Gallaher Ltd. *1, *2	U.K.	Thousands of GBP 170,696	International tobacco	100.0 (100.0)	No	No	No	No	No
Austria Tabak GmbH *2	Austria	Thousands of EUR 175,934	International tobacco	100.0 (100.0)	No	No	No	No	No
Liggett-Ducat CJSC	Russia	Thousands of RUB 260,365	International tobacco	100.0 (100.0)	No	No	No	No	No
Torii Pharmaceutical Co., Ltd. *3	Chuo-ku, Tokyo	5,190	Pharmaceutical	54.5	No	Yes	No	Consignment of manufacturing and sale of products, etc.	Yes
JT Pharma Alliance Co., Ltd.	Minato-ku, Tokyo	360	Pharmaceutical	100.0	Yes	Yes	No	No	Yes
Akros Pharma Inc.	U.S.A.	Thousand of USD 1	Pharmaceutical	100.0 (100.0)	No	Yes	No	Clinical development in overseas, consignment of survey	No
JT Beverage Inc.	Shinagawa-ku, Tokyo	90	Food	100.0	No	Yes	Yes	Consignment of selling beverages, etc.	Yes
Japan Beverage Inc. *2	Shinjuku-ku, Tokyo	10,471	Food	66.7	No	No	No	Sale of beverages through JT Beverage Inc.	Yes
TableMark Co., Ltd. *2	Kanonji-shi, Kagawa	47,502	Food	100.0	Yes	Yes	Yes	No	Yes
JT Real Estate Co., Ltd.	Shibuya-ku, Tokyo	450	Others	100.0	No	Yes	No	Leasing properties, etc.	Yes

Name	Location	Capital (Millions of yen)	Principal business	Holding rate of voting rights (%)	Relationship				
					Interlocking etc. of officers		Financial assistance	Business relationship	Facility leasing
					Officer of JT	Employee of JT			
JT Finance Service Co., Ltd.	Ota-ku, Tokyo	160	Others	100.0	No	Yes	No	Lease of various equipments	Yes
JT Creative Service Co., Ltd.	Ota-ku, Tokyo	200	Others	100.0	No	Yes	No	Purchase of supplies, etc.	Yes
JT Europe Holding B.V. *2	Netherlands	Thousands of EUR 1,380,018	Others	100.0	No	Yes	No	No	No
Other 233 companies *2, *3									
(Affiliates accounted for by the equity method) 17 companies									

Notes: 1. Descriptions in the "Principal business" column are names of business segments.

2. Figures in parentheses in the "Holding rate of voting rights" column are indirect holding rates included in the figures outside the parentheses.

3. "Interlocking etc. of officers" includes interlocking of officers of associated companies and secondment of officers of JT.

4. With regard to foreign subsidiaries at which the closing dates of the accounting period fall on December 31, the above shows the situation as of December 31, 2009.

5. *1: Net sales of TS Network Co., Ltd. and Gallaher Ltd. (excluding net sales among the consolidated companies) exceed 10% of consolidated net sales.

Name	Major profit/loss information (Millions of yen)				
	Net sales	Ordinary income	Net income	Net assets	Total assets
TS Network Co., Ltd.	1,106,915	7,381	4,297	40,663	158,764

Name	Major profit/loss information (Thousands of GBP)				
	Net sales	Income before income taxes	Net income	Net assets	Total assets
Gallaher Ltd.	4,473,277	751,585	674,878	2,168,144	5,074,385

6. *2: These companies are classified as specified subsidiaries. Companies that fall under the category of specified subsidiaries included in "Other 233 companies" are as follows.

JTI (UK) MANAGEMENT LTD, JT Canada LLC Inc., JT Canada LLC II Inc., Gallaher Capital Ltd., Gallaher Europe Finance, Gallaher AF Luxembourg S.à r.l., Gallaher Luxembourg Overseas Finance S.à r.l.

7. *3: These companies file Annual Securities Reports. Company filing Annual Securities Report among "Other 233 companies" is as follows.

KS FROZEN FOODS CO., LTD.

5. Status of employees

(1) Consolidated companies

(As of March 31, 2010)

Business segment	Number of employees (Person)
Japanese domestic tobacco business	11,282 [4,138]
International tobacco business	24,751 [1,793]
Pharmaceutical business	1,634 [110]
Food business	11,143 [5,747]
Other business	352 [82]
Common company-wide services within the filing company	503 [0]
Total	49,665 [11,870]

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

2. The number of employees in foreign subsidiaries in which the closing dates of the accounting period fall on December 31 is calculated using the number of employees as of December 31, 2009.

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

(2) Filing company (JT)

(As of March 31, 2010)

Number of employees (Person)	Average age (Year old)	Average years of service (Year)	Average annual salary (Yen)
8,961 [1,349]	42.8	21.6	8,776,711

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

2. The number of employees includes contract employees (96), employees on leave (75) and employees transferred to JT (70), but excludes employees transferred from JT and employees on long-term leave prior to retirement (Total 1,084).

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

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

(3) Status of labor union

In the JT Group, All Japan Tobacco Labor Union is formed as a principle labor union. The Union belongs to the Federation of Japan Foods and Tobacco Workers Union (Food-Rengo), which is a member of the Japanese Trade Union Confederation (JTUC-RENGO) and the International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers’ Associations (IUF).

The labor-management relations are amiable and there are no matters that should be reported.

II. Review of operations

1. Overview of operating results

(1) Operating results

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 JT Group is effecting measures under our medium-term management plan “JT-11” established in April 2009 towards making of sustainable growth possible for the future by effecting future-oriented investments and constant operational improvements.

Concerning results of this fiscal year, net sales decreased by ¥697.6 billion, or 10.2%, from the previous fiscal year to ¥6.1346 trillion. Operating income fell by ¥67.3 billion, or 18.5%, from the previous fiscal year to ¥296.5 billion. Ordinary income fell by ¥52.2 billion, or 17.0%, from the previous fiscal year to ¥255.3 billion. Net income increased by ¥15.0 billion, or 12.2%, from the previous fiscal year to ¥138.4 billion.

Please note that the closing date of the consolidated subsidiaries classified in the international tobacco business 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.

Operating results by business segment are as follows.

Japanese domestic tobacco business

The Japanese domestic tobacco business is positioned as the core source of profits for the JT Group. The Japanese 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, and Winston Lights 6 Box, Winston Extra 3 Box and Winston Ultra One 100’s Box in June, which will be followed by the nationwide release in July of Mild Seven Aqua Squash Menthol 7 Box.

Moreover, JT strengthened and enhanced the Pianissimo family, Mild Seven family and 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 released 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 Japanese 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 Japanese 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 amortization expenses related to vending machines despite a decline in net sales.

The volume of cigarettes manufactured in Japan during this fiscal year decreased by 3.0 billion cigarettes or 1.7%, from the previous fiscal year to 179.5 billion cigarettes.

Note: In addition to the figure stated above, during the fiscal year ended March 31, 2010, the Japanese domestic tobacco business also sold 3.6 billion cigarettes at duty-free shops in Japan, as well as at markets in China, Hong Kong and Macao, markets that are under the control of the 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 (Note 1) 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 2).

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.

The volume of cigarettes manufactured overseas during this fiscal year decreased by 13.8 billion cigarettes, or 3.5%, from the previous fiscal year to 385.3 billion cigarettes (Note 3).

(Note 1) 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).

(Note 2) 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.

(Note 3) From the current fiscal year, the volume of cigarettes manufactured overseas includes the volume of cigars, pipes and snus manufactured. For the fiscal year ended March 31, 2010, the volume of cigars, pipes and snus manufactured was 0.5 billion. Also, the volume of private label products manufactured, mainly for the German market and previously included in the volume of cigarettes manufactured overseas, was excluded from the current fiscal year. The volume of private label products manufactured was 3.0 billion during the fiscal year ended March 31, 2010.

* The foreign exchange rate in this fiscal year 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, Torii began, in March 2009, 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 previous fiscal year, despite the increase in sales from Torii.

Food business

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.

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 food 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 food 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.

Other business

Net sales for our other businesses 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.

Operating results by geographic segment are as follows.

Japan

Net sales in Japan for the current fiscal year declined by ¥189.4 billion, or 5.2%, from the previous fiscal year to ¥3.4825 trillion due to a decrease in the sales volume in the Japanese domestic tobacco business, however, despite this, operating income fell only by ¥1.8 billion, or 1.0%, compared to the previous fiscal year to ¥184.5 billion due to factors such as a decrease in amortization expenses following the completion of the amortization of some trademark rights in the Japanese domestic tobacco business.

Western Europe

Net sales in Western Europe for the current fiscal year decreased by ¥360.2 billion, or 17.7%, from the previous fiscal year to ¥1.6777 trillion as a result of factors including the devaluation of the currencies of major markets such as the U.K. leading to negative foreign exchange effects in our international tobacco business. An operating loss of ¥40.2 billion, compared with an operating loss of ¥24.1 billion, was recorded due to amortization expenses of goodwill, among others.

Others

Net sales in other regions for the current fiscal year decreased by ¥147.8 billion, or 13.2%, from the previous fiscal year to ¥974.3 billion as a result of factors including the devaluation of the currencies of major markets such as Russia leading to negative foreign exchange effects in our international tobacco business. Operating income decreased by ¥49.1 billion, or 24.6%, from the previous fiscal year to ¥150.4 billion.

(2) Cash flows

Cash and cash equivalents at the end of the current fiscal year stood at ¥154.3 billion, representing a ¥12.8 billion decrease from the end of the previous fiscal year. (Cash and cash equivalents at the end of the previous fiscal year was ¥167.2 billion.)

Cash flows from operating activities

Net Cash provided by operating activities during the current fiscal year was ¥320.0 billion, compared with ¥275.2 billion provided in the previous fiscal year, due to the generation of a stable cash inflow from the tobacco business, among others, despite an increase in inventories resulting from higher leaf tobacco prices and purchase volume of leaf tobacco in the international tobacco business.

Cash flows from investing activities

Net cash used in investing activities during the current fiscal year was ¥84.0 billion, compared with ¥65.0 billion used in the previous fiscal year, due to the purchase of property, plant and equipment.

Cash flows from financing activities

Net cash used in financing activities during the current fiscal year was ¥250.3 billion, compared with ¥217.4 billion used in the previous fiscal year. The main factors were cash used for the redemption of bonds, repayment of long-term loans payable and the payment of cash dividends, despite the proceeds from issuance of commercial papers and bonds.

2. Status of production, orders received and sales

The JT Group conducts production and sales of broad and various products in the Japanese domestic tobacco business, international tobacco business, pharmaceutical business, food business and other businesses. Moreover, the types, formats, content volumes, packages of their products, etc. are broad, and major products are not based on a made-to-order basis. For this reason, size of production and orders received are not presented in the amount of money nor in volume by business segment.

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

3. 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 Japanese 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 food 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. Internal reserves will be prepared not only for present and future business investments and to acquire external resources but also for the purchase of own shares effected to increase managerial options, to pay down interest-bearing debts and other objectives.

4. Business and other risks

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

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

a. Dependence on the Japanese domestic tobacco business

Presently, the main business segment of the JT Group is the Japanese domestic tobacco business, which greatly contributes to our net sales and operating income. Net sales of the Japanese domestic tobacco business during this fiscal year by JT (representing the total of the amount manufactured and sold in Japan by JT (including that which was based on licenses), the amount sold wholesale in Japan by JT Group companies (including low margin products from competitors) and the amount sold by JT in the China, Hong Kong and Macao markets) covered 49.6% of net sales and 68.6% of operating income of the JT Group. Any adverse influence on the Japanese domestic tobacco business of the JT Group may negatively impact the result of the JT Group as a whole (for details, see (2) below).

b. Business expansion

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

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

Also, as a result of the recording in the consolidated balance sheets of a substantial amount of goodwill generated following acquisitions, the amount of goodwill for the international tobacco business accounts for 34.7% of the consolidated total assets as of the end of the fiscal year. The JT Group believes that the abovementioned goodwill appropriately reflects the future profitability that will result from the unleashing of synergy effects of each business value and integration, however, in the event this expected outcome does not materialize as a result of factors such as changes in the business environment or competitive forces, the JT Group may incur an impairment loss that negatively impacts our performance.

In addition, when doing business overseas, the JT Group faces the possibility of risks associated with foreign exchange fluctuations, changes in laws and regulations, political unrest, uncertainties over economic developments, local labor-management relations, tax and tariff revisions, differences in business practices, etc.

c. Effects of foreign exchange fluctuations

JT drafts its consolidated financial statements indicating all figures in yen, however, overseas Group companies draft their financial statements in currencies other than yen. Accordingly, the results, assets and liabilities of overseas Group companies are converted into yen as of the date on which the consolidated financial statements of JT are drafted and indicated in yen therein. As a result, those figures are affected by fluctuations in the exchange rate of the foreign currency used by overseas Group companies in their accounts settlement with respect to the yen. Especially, foreign exchange fluctuation may greatly impact consolidated financial statements with respect to the amount contributed by the expansion of the international tobacco business. Although JT International Holding B.V. (JT's consolidated subsidiary in the Netherlands, "JTIH") uses the U.S. dollar for its consolidated results, this company is managed through its consolidated subsidiaries and affiliates located all over the world, some of which using currencies other than the U.S. dollar. As a result, this foreign exchange risk includes not only fluctuations between the yen and the U.S. dollar used by JTIH in its consolidated results but also between the U.S. dollar and the other currencies used in the results of its consolidated subsidiaries and affiliates.

In addition, any liquidation, sale or significant drop in the value of an foreign Group company whose foreign currency denominated stock, etc. was acquired by JT will result in the recording of an investment loss with respect to said company in the consolidated financial statements of JT and this loss will be affected by the exchange rate fluctuation between the yen and the foreign currency that was used to acquire said stock, etc.

Most international transactions by JT Group companies are effected in currencies other than the yen and there exists a foreign exchange risk. Although the JT Group hedges a portion of the foreign exchange risk generated by its transactions, it is impossible to completely avoid this risk for the entire group by such hedges and there is always the possibility that foreign exchange fluctuations will negatively affect the Group's earnings.

d. Outline of the 2010 Tax Reform Proposals

In the Outline of the 2010 Tax Reform Proposals determined by the Cabinet of Japan on December 22, 2009, it is mentioned that a future tax rate increase for the tobacco excise tax is necessary with the aim of formulating a new framework for the tobacco business that would include the amendment or abolition of the existing Tobacco Business Act. This may affect the JT Group's operating results.

(2) Risks relating to the JT Group's Japanese domestic and international tobacco businesses

a. Decreasing tobacco demand

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

Should demand decrease domestically or internationally, net sales of the JT Group's Japanese domestic tobacco business and international tobacco business may drop negatively affecting our business performance.

b. Competition with rival companies

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

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

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

Our domestic and overseas tobacco market share fluctuates under multiple factors including competition, pricing strategies, changing smoker preferences, brand strengths and economic conditions occurring in different markets not to mention short-term fluctuations caused by temporary factors such as the introduction of new products by the JT Group and other companies and the special promotional activities effected for them. A lower market share due to these factors or measures undertaken to counter a decreasing market share (including an increase in expenses) may negatively affect the JT Group’s business performance.

c. Foreign leaf tobacco price fluctuations

Of all the raw materials JT uses for its tobacco products manufactured in Japan, some 60% consist of foreign-grown leaf tobacco and all of the raw materials the JT Group uses for manufacturing tobacco products overseas presently consists of foreign leaf tobacco. Fluctuations in foreign leaf tobacco prices directly affect the operating income of both the JT Group and rival companies (see (4) b. below for details of domestically-grown leaf tobacco purchasing).

d. Taxes levied on tobacco

Tobacco products manufactured or sold in Japan are subject to a national tobacco excise tax, a local tobacco excise tax and a national tobacco special excise tax based on cigarette count as well as a price-based consumption tax. Also, the government revises its taxation policies annually when deliberating its budget (for details, see (4) c. (iii) below). Even overseas, tobacco products are subject to taxes whose object, basis and standards, etc. vary by region.

JT can predict neither increases nor changes in taxes or tax rates imposed on tobacco products in Japan or overseas.

Increases in tobacco taxes in Japan or overseas may, if accompanied by a hike in retail prices, push down demand or move consumers toward lower priced items. If no retail price hike occurs, such tax increases may deteriorate the earnings structure of the Japanese domestic or international tobacco businesses negatively affecting the JT Group’s business performance.

In the Outline of the 2010 Tax Reform Proposals determined by the Cabinet of Japan on December 22, 2009, it is mentioned that, in order to hold down tobacco consumption from the perspective of national health, a future tax rate increase for the tobacco excise tax is necessary.

e. Regulations on tobacco products in Japan and overseas

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

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

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

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

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

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

Measures vary among signatory countries including prohibiting the use of target words or expressions such as “mild” or “light” specifically enumerated or illustrated, or the use of words that would create a false impression without specifying target words or expressions. In the future, measures over descriptive labeling, etc. such as “mild” and “light” , which would include the measures to comply with the requirements under FCTC, may prohibit the use of the word “mild” in the brand name “Mild Seven,” thus rendering impossible the sale of “Mild Seven” brand products in those countries where such measures are established. If such a case arises, the JT Group may have to spend enormous amounts of money and time on building a new brand that is comparable or commeasurable to “Mild Seven” with no guarantee that this new creation will have the same value and appeal, thus bearing the risk of negatively affecting the Group’s business performance.

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

g. Litigation

(i) Litigation in Japan and overseas related to health problems associated with smoking

The JT Group is the defendant in smoking and health related litigation both in Japan and overseas. As of the end of this fiscal year, JT is the defendant of two pending lawsuits in Japan (at the Tokyo District Court and Tokyo High Court, respectively).

Such litigation overseas includes health care costs recovery suits filed by governments and damage suits filed by individuals or classes of individuals. As of the end of this fiscal year, there were a total of 26 such lawsuits pending in which the JT Group is named as a defendant or for which JT may owe certain indemnity obligations pursuant to the relevant contracts, including the agreement for JT's acquisition of RJR Nabisco's non-US tobacco operations.

These lawsuits include a health care cost recovery action by the Canadian Province of British Columbia and two class actions in Quebec brought against tobacco manufacturers including the JT Group. The British Columbia action has been brought under a provincial statute entitled the "Tobacco Damages and Health Care Costs Recovery Act," which was determined as constitutional by the Supreme Court of Canada. The Province of New Brunswick filed a similar action in March 2008 and the Province of Ontario in September 2009, however, these remain in pre-trial proceedings with no decision made yet as to the liability of the JT Group. In Quebec, a first-instance court authorized the two class actions, however, they also remain in pre-trial proceedings with no decision made yet as to the liability of the JT Group. The JT Group will also give them its timely and appropriate response.

JT believes that it is possible that other similar smoking and health-related lawsuits can be filed in the future.

JT is unable to predict the outcome of currently pending or future lawsuits. However, if these actions result in a decision unfavorable to the JT Group, its business could be materially affected by, for example, the payment of monetary compensation. Moreover, regardless of the results of these lawsuits, critical media coverage may reduce social tolerance of smoking, increase interest in the relationship between smoking and health, strengthen public regulations concerning smoking and prompt the filing of a number of similar lawsuits against the JT Group, forcing it to bear litigation costs and materially affecting its business performance.

(ii) Others

Various kinds of smuggling and counterfeiting of tobacco products have posed a major challenge to the tobacco industry as a whole.

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. CCAA application has also been terminated as of April 17, 2010.

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 RJRI 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. Please note that said civil settlement will be recorded as extraordinary loss in the consolidated results for the fiscal year ending March 31, 2011.

The JT Group has not been involved in any smuggling or other improper dealings and will continue to challenge these claims in the future.

Moreover, although not related to smuggling, a JT subsidiary has filed a suit seeking to invalidate an assessment it received from tax authorities in Russia.

Also, in April 2008, the Office of Fair Trading (OFT), the UK competition authority, issued a Statement of Objections to Gallaher Group Ltd. (former Gallaher Group Plc) and Gallaher Ltd. (together, hereinafter, "Gallaher"), our subsidiaries in the United Kingdom, for violations to the U.K. Competition Law relating to the retail pricing of tobacco products in the UK market during the period prior to JT's acquisition of Gallaher and, in July of that year, Gallaher reached an agreement for an early resolution with the OFT wherein it agreed to pay a fine. Subsequently, JT has confirmed the fact that Gallaher received a decision in April 2010 from the OFT concluding that a fine of approximately ₤50 million was levied to Gallaher.

The amount of fine decided by the OFT is sufficiently covered in the amount that was booked, based on JT's assumptions about the fine, as liabilities in the purchase price allocation related to JT's acquisition of Gallaher Group Plc. The ₤114 million (¥16.7 billion) difference between the liabilities of ₤164 million already posted and the amount of the decision to be paid is recorded as extraordinary income in the consolidated results for the current fiscal year.

As mentioned above, in addition to the smoking health-related litigation, the JT Group is party, and may be party in the future, to cases which may negatively affect the performance or manufacture, sale, import and export, etc. of tobacco products by the JT Group should their outcomes prove unfavorable.

(3) Risks relating to non-tobacco businesses

a. Risks relating to pharmaceutical business

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

- The JT Group may fail to develop and launch commercially valuable pharmaceutical products. To this date, JT has never brought a pharmaceutical product to market that it has developed on its own.
- The JT Group may have to invest an enormous amount of time and funds in research and development before it successfully develops pharmaceutical products.
- The JT Group may be forced to abandon the clinical development of a pharmaceutical product that involves another company as a co-developer or a licensee on the basis of its or its partner company's judgment or due to some internal or external factors.
- Even if the JT Group succeeds in developing and launching a commercially valuable pharmaceutical product, research and development cost may exceed the revenue generated from it.
- The JT Group may become dependent on a certain pharmaceutical product.
- The JT Group may fail to achieve efficient mass-production of pharmaceutical products.
- Even if a pharmaceutical product developed by the JT Group proves to be commercially successful, the success may be offset by competition with rival products developed by other companies in Japan or overseas, a government-mandated price reduction and other factors.
- The JT Group may become dependent on the license of pharmaceutical products developed by other companies and on revenues from such products.
- The JT Group may become dependent on a certain outside source for the supply of part of critical raw materials.
- If any problem arises regarding the quality of a pharmaceutical product of the JT Group or regarding information provided by the group about such product, the group may become the target of claims seeking product liability, etc., or may be forced to suspend sales of such product.

- JT's business performance may be affected by lawsuits concerning patents and other intellectual property rights.
- Regulation may be applied broadly, covering a full range of activities from the research and development stage to the post-launch stage of a new drug.
- The JT Group may become dependent on a certain business partner in research and development or sales of a pharmaceutical product.
- In relation to the JT Group's use and management of radioactive or other hazardous substances, social or legal problems may arise, such as damage to the environment caused by such substances.

b. Risks relating to food business

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

- Food products developed by the JT Group may fail to meet consumer preferences and their product lives may prove to be short.
- The JT Group's profit and loss may fluctuate due to fluctuations in the prices of raw materials for food products (including those due to changes in the exchange rate).
- The sales of JT's food products may be affected by weather conditions.
- The regulation of the procurement, manufacture and sale of food products in Japan or overseas may be strengthened, including the possibility that additional costs may arise due to compliance with such regulation.
- The JT Group may be usable to compete with major companies with larger distribution networks, stronger development capabilities and more experience.
- The JT Group may be unable to engage in efficient marketing activities.
- The JT Group may be unable to produce, or outsource the production of, food products in an efficient, stable and effective manner.
- The JT Group may outsource the production of most beverage products to other domestic manufacturers, thus becoming dependant on outside sources.
- If any problem arises regarding the quality of the JT Group's food products, the group may become the target of claims seeking product liability, etc., or the reputation of the group and its products may be undermined.

(4) Other factors which may materially affect investment decisions

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

The Japan Tobacco Inc. Act (the "JT Act") obligates the government to hold at least one-half of all JT shares that it acquired by voluntary conveyance upon JT's incorporation, and the government must continue to hold more than one-third of all JT shares issued. As of the end of the fiscal year ended in March 2010, the government held 50.01% of all JT shares issued.

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

b. Purchasing of leaf tobacco

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

c. Legal matters relating to the business of filing company

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

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

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

Notes:

1. The so-called list price system is maintained for the time being as a means to prevent confusion in the distribution order, a well-established constant that materialized after the list price system was adopted in 1904. Tobacco is a luxury item different from the so-called commodities and services and, in a distribution market completely liberalized after the opening of import markets and other factors, JT and Specified Distributors stipulate prices on application (POA) to the Minister of Finance based on their respective, independent management decisions.

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

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

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

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

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

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

	Description
1. Purpose	Japan Tobacco Inc. (“JT”) is a stock company whose purpose is to engage in business related to the manufacture, sale, and importation of tobacco products in order to attain the objectives set forth in Article 1 of the Tobacco Business Act. (Article 1)
2. Stock	The Japanese government shall continue to hold at least one-half of the total number of JT shares that it acquired by voluntary conveyance upon JT’s incorporation. (Article 2, paragraph (1)) In the event of a stock split or consolidation of shares occurring with respect to the shares stipulated in the preceding paragraph, the number of shares is calculated by multiplying by the ratio of said stock split or consolidation (in the event of a stock split or consolidation of two tiers or more, the ratio equivalent to the product of all tiers). (Article 2, paragraph (2)) As per the stipulations in preceding two paragraphs, the government shall continue to hold more than one-third of the total number of the shares issued of JT. (Article 2, paragraph (3)) Whenever JT intends to solicit subscribers for an issuance of shares or subscription rights to shares of JT, or deliver shares (excluding own shares), subscription rights to shares (excluding subscription rights to treasury shares), or issuance of bonds with subscription rights to shares (excluding bonds with subscription rights to treasury shares) at the time of share exchange, the approval of the Minister of Finance is required. (Article 2, paragraph (4)) The disposal of JT shares held by the government shall be effectuated within the maximum range stipulated by resolution of the Diet based on the budget of the corresponding year. (Article 3)
3. Scope of business	JT shall engage in the following businesses in order to attain the objectives stated in 1 above. (1) business of manufacture, sale and importation of tobacco products (2) business incidental or relating to the business in the preceding item (3) other business required for attaining the object of JT JT shall obtain authorization from the Minister of Finance before engaging in any business corresponding to (3) above. (Article 5)
4. Monitoring	(1) The appointment or dismissal of directors, executive officers *(sikkoyaku at a company with committees)*, and auditors require authorization from the Minister of Finance. (Article 7) (2) Amendments to JT’s articles of incorporation, appropriations of surplus (except disposal of losses), and any merger, corporate split, or dissolution of JT require authorization from the Minister of Finance. (Article 8) (3) JT shall formulate a business plan prior to each business year and obtain authorization from the Minister of Finance. Any change thereof also requires authorization from same. (Article 9) (4) Within three months after the closing of each business year, JT shall issue its balance sheet, statement of income, and business report to the Minister of Finance. (Article 10) (5) Transfers of manufacturing facilities or similar material assets require authorization from the Minister of Finance. (Article 11) (6) The Minister of Finance shall monitor JT in accordance with this Act as well as the Tobacco Business Act and may implement necessary measures in the execution of same. (Articles 12 and 13)

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

	Description			
	National Tobacco Excise Tax	National Tobacco Special Excise Tax	Local Tobacco Excise Tax	
1. Tax item (Note 1)	Tobacco Excise Tax	Tobacco Special Excise Tax	Prefectural Tobacco Excise Tax (also applies to Tokyo)	Municipal Tobacco Excise Tax (also applies to special wards)
2. Taxpayers (Note 2)	Manufacturers of tobacco products or those who removes tobacco products from bonded areas		Manufacturers of tobacco products, specified distributors or wholesalers selling to retailers	
3. Tax base (Note 3)	Number of cigarettes removed from the manufacturing site or bonded area (for tobacco products other than cigarettes, prescribed cigarette count conversion)		Number of cigarettes relating to sales to retailers (for tobacco products other than cigarettes, prescribed cigarette count conversion)	
4. Tax rate (Note 4)	¥3,552 per 1000 cigarettes	¥820 per 1000 cigarettes	¥1,074 per 1000 cigarettes	¥3,298 per 1000 cigarettes
Former third-class products (Note 5)	¥1,686 per 1000 cigarettes	¥389 per 1000 cigarettes	¥511 per 1000 cigarettes	¥1,564 per 1000 cigarettes
5. Declaration and payment (Note 6)	Tobacco product manufacturers are to declare and pay taxes for each month's shipment by the end of the following month. Parties removing tobacco products from bonded areas are to declare and pay taxes by the time of extraction		For sales of tobacco products relating to sales locations of retailers located within a given prefecture, a declaration and payment of taxes is to be made to that prefecture for each month's transfer by the end of the following month	For sales of tobacco products relating to sales locations of retailers located within a given municipality, a declaration and payment of taxes is to be made to that municipality for each month's transfer by the end of the following month

Notes:
1. Article 3 of the Tobacco Excise Tax Act, Article 4 of the Act Concerning Special Measures for Financing Debt Transferred to the General Accounts, and Article 1, paragraph (2) and Articles 4 and 5 of the Local Tax Act
2. Article 4 of the Tobacco Excise Tax Act, Article 5 of the Act Concerning Special Measures for Financing Debt Transferred to the General Accounts, and Article 74-2, paragraph (1) and Article 465, paragraph (1) of the Local Tax Act
3. Article 10 of the Tobacco Excise Tax Act, Article 7 of the Act Concerning Special Measures for Financing Debt Transferred to the General Accounts, and Articles 74-4 and 467 of the Local Tax Act
4. Article 11, paragraph (1) of the Tobacco Excise Tax Act, Article 8, paragraph (1) of the Act Concerning Special Measures for Financing Debt Transferred to the General Accounts, and Articles 74-5 and 468 of the Local Tax Act
5. Article 2 of the Supplemental Provisions of the Tobacco Excise Tax Act, Article 8, paragraph (2) of the Act Concerning Special Measures for Financing Debt Transferred to the General Accounts, and Articles 12-2 and 30-2 of the Supplemental Provisions of the Local Tax Act
6. Articles 17 to 20 of the Tobacco Excise Tax Act, Article 12 of the Act Concerning Special Measures for Financing Debt Transferred to the General Accounts, and Articles 74-10 and 473 of the Local Tax Act
7. Concerning "4. Tax rate"
   (i) The term "Former third-class products" refers to tobacco products stipulated as third-class cigarettes in the Tobacco Product Price Act, repealed on April 1, 1985. These are same products as those at the time of abolishment, and, for the time being, the aforementioned tax rates are applied.
   (ii) The 2010 Tax Reform resulted in the application of the following tax rates from October 1, 2010. Please note that there is no change to the national tobacco special excise tax.

	National Tobacco Excise Tax	National Tobacco Special Excise Tax	Prefectural Tobacco Excise Tax	Municipal Tobacco Excise Tax
New tax rate	¥5,302 per 1000 cigarettes	¥820 per 1000 cigarettes	¥1,504 per 1000 cigarettes	¥4,618 per 1000 cigarettes
Former third-class products	¥2,517 per 1000 cigarettes	¥389 per 1000 cigarettes	¥716 per 1000 cigarettes	¥2,190 per 1000 cigarettes

8. (i) In the event the tax system relating to tobacco subject to high excise taxes is examined, on a general basis, as part of a revision of the tax system made in the course of reorganizing government budgets each year and the tax system is revised, a decision is made upon the deliberation and resolution of the legislature subsequent to the determination of government policy through deliberation by the Tax System Council and other bodies. When determining government policy, with respect to the National Tobacco Excise Tax, a bill is presented upon cabinet approval of a summary of the tax reform initially reported to the cabinet as a broad outline. For the Local Tobacco Excise Tax, a bill is presented upon determination of policy in the course of establishing local financing measures during budget reorganization.
   (ii) See the following page for revisions to the tax system relating to tobacco after the April 1985 transfer from the monopoly profit system to the tobacco consumption tax system.

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

Month/Year	Item	Description	JT's response
May 1986	1986 Tax Reform	Tax increase equivalent to ¥900 per 1000 cigarettes	Fixed price revised by amount equivalent to tax increase
April 1989	1989 Tax Reform	Following the introduction of the consumption tax, "tobacco consumption tax" changed to "tobacco excise tax" and taxation formula unified to a unit tax	Basically, fixed price revision unnecessary
April 1997	1997 Tax Reform	[Revision of Local Tax Act] Local Tobacco Excise Tax revenue transferred from the Prefectural Tobacco Excise Tax to the Municipal Tobacco Excise Tax	Fixed price revision unnecessary
		[Revision of Consumption Tax Act] Consumption tax rate revised from 3% to 5%	Prices raised by ¥10 per pack for some brands in an effort to revise fixed prices overall by the amount equivalent to the consumption tax rate revision
December 1998	1998 Tax Reform	Act Concerning Special Measures for Financing Debt Transferred to the General Accounts established and ¥820 per 1000 cigarettes of Tobacco Special Excise Tax introduced	Basically, price per cigarette raised by ¥1
May 1999	1999 Tax Reform	[Revision of Special Taxation Measures Act and Local Tax Act] Tax revenue transferred from Tobacco Excise Tax to Prefectural Tobacco Excise Tax and Municipal Tobacco Excise Tax	Fixed price revision unnecessary
July 2003	2003 Tax Reform	Acts revising a portion of the Income Tax Act, Local Tax Act, among others, established and tax increase by ¥820 per 1000 cigarettes	Price per cigarette raised by approx. ¥1
July 2006	2006 Tax Reform	Acts revising a portion of the Income Tax Act, Local Tax Act, among others, established and tax increase by ¥852 per 1000 cigarettes	Amount equivalent to tax increase shifted to fixed price of all brands with some prices increased higher than said amount
October 2010	2010 Tax Reform	Acts revising a portion of the Income Tax Act, Local Tax Act, among others, established and tax increase of ¥3,500 per 1000 cigarettes decided	With exception of some brands, price increase higher than the amount equivalent to tax increase is scheduled.

5. Important operational contracts, etc.

No items to report

6. Research and development activities

Research and development activities are mainly undertaken at JT’s Tobacco Science Research Center and Central Pharmaceutical Research Institute, which have approximately 760 staffers.

Research and development cost for the entire JT Group over the fiscal year amounts to ¥49.6 billion and the research objectives and research and development cost by business segment are as follows.

Please note that the aforementioned research and development cost includes ¥0.6 billion relating to basic research not affiliated to any segment (plant biotechnology related research, etc.) and conducted by JT corporate division.

(1) Japanese domestic and international tobacco business

From the prospective of optimizing the JT Group’s research and development functions, JT mainly undertakes JT Group’s widely ranging technological developments, from leaf tobacco cultivation to raw material processing, fragrance, other materials and manufacturing processes, as well as product value enhancements and cost reductions along with active new product development in step with the needs of customers. Activities are centered at JT’s Tobacco Science Research Center and Leaf Tobacco Research Laboratory.

Research and development cost relating to the Japanese domestic tobacco business amounts to ¥18.9 billion with that of the international tobacco business amounting to ¥6.1 billion.

(2) Pharmaceutical business

Aiming to build a distinctive, global business centered on research and development, JT engages in the research and development of pharmaceuticals mainly for carbohydrate and fat metabolism, viruses, immunity and inflammation and bones, with activities centered at its Central Pharmaceutical Research Institute.

Currently under development by JT are 10 drugs now in the clinical trial stage.

Research and development cost for this business is ¥23.1 billion.

(3) Food business

With activities centered at its Food R&D Center, development is undertaken for beverages, processed foods and seasonings in step with customer needs and their various eating and drinking situation.

Research and development cost for this business is ¥0.7 billion.

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

(1) Important accounting policies and estimates

The financial statements of the JT Group are prepared in accordance with Japanese Generally Accepted Accounting Principles (“Japanese GAAP”). For details, please refer to “Significant preparation policy of consolidated financial statements” in (1) Consolidated financial statements, 1. Consolidated financial statements, etc., V. Accounting.

In the preparation of consolidated financial statements, estimates and judgments are made concerning items that affect assets and liabilities at the end of the fiscal year and earnings and expense figures of the fiscal year based on various factors considered reasonable in light of historical results and conditions and evaluations are made on a continuous basis. Actual results may vary due to uncertainties in the estimates.

(2) Analysis of business results for the fiscal year

a. Net sales

Net sales declined by ¥697.6 billion, or 10.2%, from the previous fiscal year to ¥6.1346 trillion. Major factors were a decline in the sales volume as a result of a fall in aggregate demand on the Japanese domestic tobacco business and a negative impact from currency exchange in the international tobacco business.

b. Cost of sales

Cost of sales was ¥5.0226 trillion, down 9.6% from the previous fiscal year, mainly due to a decrease in the sales volume in the Japanese domestic tobacco business and currency exchange effects in the international tobacco business, in spite of an increase in manufacturing costs in the wake of an increase in the price of leaf tobacco in the international tobacco business.

c. Selling, general and administrative expenses

Selling, general and administrative expenses was ¥815.5 billion, down 10.8% from the previous fiscal year, due to factors such as a decrease in amortization expenses following the completion of the amortization of some trademark rights in the Japanese domestic tobacco business.

d. Operating income

Operating income fell by ¥67.3 billion, or 18.5%, from the previous fiscal year to ¥296.5 billion. This was due to effects on profit from the non-recurrence of lump-sum revenue from licensing in the pharmaceutical business recorded in the previous fiscal year, among other factors, although the decrease in operating income as a result of decrease in net sales was partially offset by lower amortization expenses following the completion of the amortization of some trademark rights in the Japanese domestic tobacco business.

e. Ordinary income

Net non-operating income/expenses improved because of the decrease in interest expenses due to the lower interest rates, redemption of bonds and repayment of loans payable as well as the decrease in foreign exchange losses. However, ordinary income, affected by a decline in operating income, fell ¥52.2 billion, or 17.0％, from the previous fiscal year to ¥255.3 billion.

f. Net income

Gain on sales of noncurrent assets dropped, however, net extraordinary income/loss improved because of the absence of the cost accompanying the change in the business scheme in the Philippines, losses related to the cost of demolition of company-owned residences for employees and introduction costs for vending machines with adult identification functions recorded for the previous fiscal year, as well as a gain from reversal of liability on fine levied under UK competition law. As a result, net income increased by ¥15.0 billion, or 12.2%, from the previous fiscal year to ¥138.4 billion.

(3) Analysis of capital resources and liquidity of funds

a. Funding requirements

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

b. Resources of funds

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

c. Cash flows

Net cash provided by operating activities in the fiscal year ended March 31, 2010 came to ¥320.0 billion, while net cash used in investing activities and financing activities was ¥84.0 billion and ¥250.3 billion, respectively. Cash and cash equivalents on a consolidated basis at March 31, 2010 after adjusting for translation differences decreased by ¥12.8 billion from the previous fiscal year to ¥154.3 billion (end of previous fiscal year balance of ¥167.2 billion).

d. Liquidity

To ensure liquidity, not only does the JT Group keep cash on hand, it also has alternate sources of funds by establishing commitment lines and others.

III. Facilities

1. Outline of capital expenditures

In this fiscal year, we made capital expenditures totaling ¥137.1 billion.

In the Japanese 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 construction and research facilities. In the food business, we invested ¥23.4 billion, mainly for enhancing production and sales facilities. In our other businesses, we made capital expenditures of ¥0.3 billion.

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

2. Main facilities

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

(1) Filing company (JT)

(As of March 31, 2010)

Office and factory name (Location)	Business segment	Description	Book value (Millions of yen)						Number of employees (Person)
			Land		Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total	
			Size (thousand m^2)	Amount					
Kita-kanto Factory (Utsunomiya-shi, Tochigi) *2	Japanese domestic tobacco	Tobacco manufacturing facilities	149	2,062	4,221	12,564	207	19,056	357
Tokai Factory (Iwata-shi, Shizuoka) *2	Japanese domestic tobacco	Tobacco manufacturing facilities	223	2,308	4,775	8,084	218	15,387	315
Kansai Factory (Fushimi-ku, Kyoto-shi)	Japanese domestic tobacco	Tobacco manufacturing facilities	116	5,831	5,950	13,710	342	25,834	470
Kyushu Factory (Chikushino-shi, Fukuoka)	Japanese domestic tobacco	Tobacco manufacturing facilities	165	4,041	2,533	3,752	247	10,575	235
Other factories (9) (Municipality) *2	Japanese domestic tobacco	Mainly tobacco manufacturing facilities	826	4,380	12,507	12,535	576	30,000	990
Tobacco Science Research Center (Aoba-ku, Yokohama-shi) *2	Japanese domestic tobacco	Research and development facilities	34	641	2,889	21	1,034	4,586	123
Central Pharmaceutical Research Institute (Takatsuki-shi, Osaka)	Pharmaceutical	Research and development facilities	94	2,729	11,710	28	1,203	15,672	553
Head Office (Minato-ku, Tokyo)	General administration	Other	7	21,486	20,095	82	2,157	43,822	1,508
Domestic Sales Offices (25) (Municipality)	Japanese domestic tobacco (includes administration)	Other, etc.	76	4,677	4,640	1,366	3,934	14,620	997

(2) Domestic subsidiaries

(As of March 31, 2010)

Office and factory name (Location)	Business segment	Description	Book value (Millions of yen): Land: Size (thousand m^2)	Land: Amount	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total	Number of employees (Person)
TS Network Co., Ltd. Head Office and other 32 distribution bases, etc. (Head Office: Taito-ku, Tokyo) *2	Japanese domestic tobacco	Distribution facilities	4	457	3,553	1,382	525	5,919	1,330
Japan Filter Technology Co., Ltd. Head Office and other 4 factories, etc. (Head Office: Shibuya-ku, Tokyo) *2	Japanese domestic tobacco	Material manufacturing facilities	164	2,236	4,303	6,897	288	13,726	509
Torii Pharmaceutical Co., Ltd. Head Office and other 14 branch offices, etc. (Head Office: Chuo-ku, Tokyo) *1	Pharmaceutical	Other	5	366	1,678	11	199	2,255	797
Torii Pharmaceutical Co., Ltd. Sakura Plant (Sakura-shi, Chiba)	Pharmaceutical	Pharmaceuticals manufacturing facility	53	336	1,847	1,723	137	4,044	93
Japan Beverage Inc. Head Office and other 67 branch offices, etc. (Head Office: Shinjuku-ku, Tokyo) *1, *2	Food	Sales and distribution facilities	57	3,385	1,746	2,507	13,547	21,186	3,791
TableMark Co., Ltd. Head Office and other 7 factories, etc. (Head Office: Kanonji-shi, Kagawa) *1, *2	Food	Frozen food production facilities	235	6,184	7,258	4,587	415	18,446	1,208
JT Real Estate Co., Ltd. Head Office and other 1 office (Head Office: Shibuya-ku, Tokyo) *1	Others	Real estate business facilities	10	419	4,133	12	180	4,746	19

(3) Foreign subsidiaries

(As of December 31, 2009)

Office and factory name (Location)	Business segment	Description	Book value (Millions of yen): Land: Size (thousand m^2)	Land: Amount	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total	Number of employees (Person)
JT International Germany GmbH (Germany)	International tobacco	Tobacco manufacturing facilities	345	310	9,489	18,507	1,766	30,073	1,852
LLC Petro (Russia) *1	International tobacco	Tobacco manufacturing facilities	187	16	8,419	18,392	1,444	28,272	1,959
JTI Tütün Urunleri Sanayi A.S. (Turkey)	International tobacco	Tobacco manufacturing facilities	179	213	2,144	5,235	56	7,649	441
JTI-Macdonald Corp. (Canada)	International tobacco	Tobacco manufacturing facilities	46	18	1,183	1,681	226	3,109	497
Gallaher Ltd. (U.K.)	International tobacco	Tobacco manufacturing facilities	572	4,530	9,857	7,788	1,653	23,830	1,620
Austria Tabak GmbH (Austria) *2	International tobacco	Tobacco manufacturing facilities	135	1,973	5,586	5,184	475	13,220	643
Liggett-Ducat CJSC (Russia) *1	International tobacco	Tobacco manufacturing facilities	35	–	80	4,730	389	5,199	1,179

Notes: 1. Companies marked with *1 have land leased from entities other than the Group companies.
2. Companies marked with *2 have land leased to entities other than the Group companies.
3. Book values include lease assets.
4. Among the other 9 factories shown in (1) Filing company (JT), the Morioka Factory and the Yonago Factory closed at the end of March 2010.

3. Plans for new installation and retirement of facilities

Our capital expenditure plan (new installations, expansions) for a period of one year after this fiscal year involves ¥172.0 billion, a breakdown of which per business segment is as follows.

Please note that because the plan for installing or retiring of each facility depends on the method of disclosing numerical figures for each business segment because of the broad range of individual projects undertaken by JT and its consolidated subsidiaries.

Business segment	Projected amount at the end of March 2010 (Billions of yen)	Main contents and objectives of facilities, etc.	Capital resources
Japanese domestic tobacco	62.0	Improve productivity and reduce costs	Own capital
International tobacco	68.0	Expand production capacity	Same as above
Pharmaceutical	2.5	Build and strengthen the research and development structure	Same as above
Food	35.0	Build and strengthen production and sales facilities	Same as above
Others / Elimination and corporate	4.5	Maintenance and renewals relating to company-wide information systems and auxiliary equipment to leased real estate	Same as above

Notes: 1. Consumption taxes are not included.
2. There were no sales or disposals of important facilities except for the regular renewal of facilities.
3. Following the application of the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (ASBJ Statement No. 17) for fiscal years starting on or after April 1, 2010, the allocation of capital expenditures to each segment has been partially revised.

IV. Filing company

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

(1) Total number of shares authorized, etc.

a. Total number of shares authorized

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

b. Number of shares issued

Class	Number of shares issued (Share; as of March 31, 2010)	Number of shares issued (Share; as of the date of filing: June 24, 2010)	Name of financial instruments exchange where the stock of JT is traded or the name of authorized financial instruments firms association where JT is registered	Details
Common stock	10,000,000	10,000,000	Tokyo Stock Exchange (First Section) Osaka Securities Exchange (First Section) Nagoya Stock Exchange (First Section) Fukuoka Stock Exchange Sapporo Securities Exchange	(Note 2)
Total	10,000,000	10,000,000	–	–

Notes: 1. The provisions of Article 2 of the Japan Tobacco Inc. Act prescribes that the Japanese government must continue to hold at least one-half of all JT shares that the government acquired by voluntary conveyance upon JT's establishment, as adjusted for any subsequent stock split or consolidation of shares, and that the government must continue to hold more than one-third of all JT shares issued.

2. Standard class of shares with no rights limitations. No unit share system is adopted.

(2) Status of subscription rights to shares

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

a. Resolutions of the Annual General Meeting of Shareholders on June 22, 2007 and a meeting of the Board of Directors on December 21, 2007

	As of March 31, 2010	As of May 31, 2010
Number of subscription rights to shares	409 units	409 units
Of which, the number of treasury subscription rights to shares	–	–
Class of shares to be issued upon exercise of subscription rights to shares	Common stock (Standard class of shares with no rights limitations. No unit share system is adopted.)	Same as left
Number of shares to be issued upon exercise of subscription rights to shares	409 shares (Note 1)	409 shares (Note 1)
Paying due upon exercise of subscription rights to shares	¥1 per share	Same as left
Exercise period of subscription rights to shares	From January 9, 2008 to January 8, 2038	Same as left
Issue price of shares in cases where shares will be issued as a result of exercise of subscription rights to shares	¥581,269 per unit	Same as left
Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares	a. Capital amount that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be a half of the maximum capital increase amount obtained by the calculation pursuant to Article 17, paragraph (1) of the Corporate Accounting Rules. If the obtained figure has a fraction less than one yen, the figure is rounded up to the nearest yen above. b. Capital reserves that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be the amount obtained by subtracting the capital amount to be increased as specified in a. above from the maximum capital increase amount described in a. above.	Same as left
Conditions for exercising subscription rights to shares	a. The person who is a holder of subscription rights to shares and is recorded in the registry of subscription rights to shares (hereinafter, “Subscription rights to shares Holder”) may exercise his/her subscription rights to shares only if he/she forfeit his/her all position as director(including *sikkoyaku* at a company with committees), auditor and executive officer (*sikkoyakuin*). b. In cases where Subscription rights to shares Holders waive their subscription rights to shares, they cannot exercise those subscription rights to shares.	Same as left
Assignment of subscription rights to shares	The approval of the Board of Directors is required for the assignment of subscription rights to shares.	Same as left
Matters regarding surrogate payments	–	–
Provisions for acquiring subscription rights to shares	(Note 2)	Same as left
Matters regarding deliver of subscription rights to shares accompanied by reorganization	(Note 3)	Same as left

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

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

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

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

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

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

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

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

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

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

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

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

a. Number of subscription rights to shares to be delivered of the Company Subject to Reorganization
Subscription rights to shares whose number is identical to the number of the Remaining Subscription rights to shares held by Subscription rights to shares Holder
b. Class of shares of the Company Subject to Reorganization to which subscription rights to shares apply
Common stock of the Company Subject to Reorganization
c. Number of shares of the Company Subject to Reorganization to which subscription rights to shares apply
To be determined in the same manner as Note 1 above, taking into consideration terms and other conditions of the Reorganization.
d. Value of property to be contributed when subscription rights to shares are exercised

The value of the property to be contributed when each stock acquisition right to be delivered is exercised shall be the amount obtained by multiplying the paid-in amount after Reorganization as specified below by the number of shares of the Company Subject to Reorganization to which each stock acquisition right applies, which is decided pursuant to c. above. The paid-in amount after Reorganization shall be ¥1 per share of the shares of the Company Subject to Reorganization that would be delivered by exercising the delivered subscription rights to shares.

e. Period during which subscription rights to shares can be exercised
From the effective date of the Reorganization to the expiration date of the period during which such subscription rights to shares can be exercised as specified in the "Exercise period of subscription rights to shares" mentioned above

f. Matters regarding capital and capital reserves that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares
To be determined in the same manner as the "Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares" mentioned above.

g. Restrictions on transferring of subscription rights to shares
Transferring the subscription rights to shares is subject to approval of the Board of Directors of the Company Subject to Reorganization.

h. Provision for acquisition of subscription rights to shares
To be determined in the same manner as Note 2 above.

i. Other conditions for exercising subscription rights to shares
To be determined in the same manner as "Conditions for exercising subscription rights to shares" mentioned above.

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

	As of March 31, 2010	As of May 31, 2010
Number of subscription rights to shares	547 units	547 units
Of which, the number of treasury subscription rights to shares	–	–
Class of shares to be issued upon exercise of subscription rights to shares apply	Common stock (Standard class of shares with no rights limitations. No unit share system is adopted.)	Same as left
Number of shares to be issued upon exercise of subscription rights to shares	547 shares (Note 1)	547 shares (Note 1)
Paying due upon exercise of subscription rights to shares	¥1 per share	Same as left
Exercise period of subscription rights to shares	From October 7, 2008 to October 6, 2038	Same as left
Issue price of shares in cases where shares will be issued as a result of exercise of subscription rights to shares	¥285,904 per unit	Same as left
Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares	a. Capital amount that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be a half of the maximum capital increase amount obtained by the calculation pursuant to Article 17, paragraph (1) of the Corporate Accounting Rules. If the obtained figure has a fraction less than one yen, the figure is rounded up to the nearest yen above. b. Capital reserves that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be the amount obtained by subtracting the capital amount to be increased as specified in a. above from the maximum capital increase amount described in a. above.	Same as left
Conditions for exercising subscription rights to shares	a. The person who is a holder of subscription rights to shares and is recorded in the registry of subscription rights to shares (hereinafter, "Subscription rights to shares Holder") may exercise his/her subscription rights to shares only if he/she forfeit his/her all position as director(including *sikkoyaku* at a company with committees), auditor and executive officer (*sikkoyakuin*). b. In cases where Subscription rights to shares Holders waive their subscription rights to shares, they cannot exercise those subscription rights to shares.	Same as left
Assignment of subscription rights to shares	The approval of the Board of Directors is required for the assignment of subscription rights to shares.	Same as left
Matters regarding surrogate payments	–	–
Provisions for acquiring subscription rights to shares	(Note 2)	Same as left
Matters regarding deliver of subscription rights to shares accompanied by reorganization	(Note 3)	Same as left

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

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

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

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

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

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

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

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

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

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

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

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

   a. Number of subscription rights to shares to be delivered of the Company Subject to Reorganization
      Subscription rights to shares whose number is identical to the number of the Remaining Subscription rights to shares held by Subscription rights to shares Holder
   b. Class of shares of the Company Subject to Reorganization to which subscription rights to shares apply
      Common stock of the Company Subject to Reorganization
   c. Number of shares of the Company Subject to Reorganization to which subscription rights to shares apply
      To be determined in the same manner as Note 1 above, taking into consideration terms and other conditions of the Reorganization.
   d. Value of property to be contributed when subscription rights to shares are exercised
      The value of the property to be contributed when each stock acquisition right to be delivered is exercised shall be the amount obtained by multiplying the paid-in amount after Reorganization as specified below by the number of shares of the Company Subject to Reorganization to which each stock acquisition right applies, which is decided pursuant to c. above. The paid-in amount after Reorganization shall be ¥1 per share of the shares of the Company Subject to Reorganization that would be delivered by exercising the delivered subscription rights to shares.
   e. Period during which subscription rights to shares can be exercised
      From the effective date of the Reorganization to the expiration date of the period during which such subscription rights to shares can be exercised as specified in the “Exercise period of subscription rights to shares” mentioned

above.

f. Matters regarding capital and capital reserves that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares
To be determined in the same manner as the "Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares" mentioned above.

g. Restrictions on transferring of subscription rights to shares
Transferring the subscription rights to shares is subject to approval of the Board of Directors of the Company Subject to Reorganization.

h. Provision for acquisition of subscription rights to shares
To be determined in the same manner as Note 2 above.

i. Other conditions for exercising subscription rights to shares
To be determined in the same manner as "Conditions for exercising subscription rights to shares" mentioned above.

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

	As of March 31, 2010	As of May 31, 2010
Number of subscription rights to shares	1,153 units	1,153 units
Of which, the number of treasury subscription rights to shares	–	–
Class of shares to be issued upon exercise of subscription rights to shares	Common stock (Standard class of shares with no rights limitations. No unit share system is adopted.)	Same as left
Number of shares to be issued upon exercise of subscription rights to shares	1,153 shares (Note 1)	1,153 shares (Note 1)
Paying due upon exercise of subscription rights to shares	¥1 per share	Same as left
Exercise period of subscription rights to shares	From October 14, 2009 to October 13, 2039	Same as left
Issue price of shares in cases where shares will be issued as a result of exercise of subscription rights to shares	¥197,517 per unit	Same as left
Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares	a. Capital amount that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be a half of the maximum capital increase amount obtained by the calculation pursuant to Article 17, paragraph (1) of the Corporate Accounting Rules. If the obtained figure has a fraction less than one yen, the figure is rounded up to the nearest yen above. b. Capital reserves that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be the amount obtained by subtracting the capital amount to be increased as specified in a. above from the maximum capital increase amount described in a. above.	Same as left
Conditions for exercising subscription rights to shares	a. The person who is a holder of subscription rights to shares and is recorded in the registry of subscription rights to shares (hereinafter, "Subscription rights to shares Holder") may exercise his/her subscription rights to shares only if he/she forfeit his/her all position as director(including *sikkoyaku* at a company with committees), auditor and executive officer (*sikkoyakuin*). b. In cases where Subscription rights to shares Holders waive their subscription rights to shares, they cannot exercise those subscription rights to shares.	Same as left
Assignment of subscription rights to shares	The approval of the Board of Directors is required for the assignment of subscription rights to shares.	Same as left
Matters regarding surrogate payments	–	–
Provisions for acquiring subscription rights to shares	(Note 2)	Same as left
Matters regarding deliver of subscription rights to shares accompanied by reorganization	(Note 3)	Same as left

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

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

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

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

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

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

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

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

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

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

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

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

   a. Number of subscription rights to shares to be delivered of the Company Subject to Reorganization
      Subscription rights to shares whose number is identical to the number of the Remaining Subscription rights to shares held by Subscription rights to shares Holder
   b. Class of shares of the Company Subject to Reorganization to which subscription rights to shares apply
      Common stock of the Company Subject to Reorganization
   c. Number of shares of the Company Subject to Reorganization to which subscription rights to shares apply
      To be determined in the same manner as Note 1 above, taking into consideration terms and other conditions of the Reorganization.
   d. Value of property to be contributed when subscription rights to shares are exercised
      The value of the property to be contributed when each stock acquisition right to be delivered is exercised shall be the amount obtained by multiplying the paid-in amount after Reorganization as specified below by the number of shares of the Company Subject to Reorganization to which each stock acquisition right applies, which is decided pursuant to c. above. The paid-in amount after Reorganization shall be ¥1 per share of the shares of the Company Subject to Reorganization that would be delivered by exercising the delivered subscription rights to shares.
   e. Period during which subscription rights to shares can be exercised
      From the effective date of the Reorganization to the expiration date of the period during which such subscription rights to shares can be exercised as specified in the “Exercise period of subscription rights to shares” mentioned

above.

f. Matters regarding capital and capital reserves that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares
To be determined in the same manner as the “Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares” mentioned above.

g. Restrictions on transferring of subscription rights to shares
Transferring the subscription rights to shares is subject to approval of the Board of Directors of the Company Subject to Reorganization.

h. Provision for acquisition of subscription rights to shares
To be determined in the same manner as Note 2 above.

i. Other conditions for exercising subscription rights to shares
To be determined in the same manner as “Conditions for exercising subscription rights to shares” mentioned above.

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

No items to report

(4) Details of rights plan

No items to report

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

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

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

(6) Shareholder composition

(As of March 31, 2010)

Category	Shareholder composition								Shares less than one unit (Share)
	Public sector	Financial institutions	Financial instruments business operators	Other corporations	Foreign investors		Individuals, etc.	Total	
					Companies, etc.	Individuals			
Number of shareholders (Person)	1	128	33	390	704	13	56,120	57,389	–
Number of shares held (Share)	5,001,359	1,503,143	60,239	72,395	2,645,491	44	717,329	10,000,000	–
Holding rate of shares (%)	50.01	15.03	0.60	0.72	26.45	0.00	7.17	100.00	–

Notes: 1. 419,903 treasury shares are included in “Individuals, etc.”

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

(7) Status of major shareholders

(As of March 31, 2010)

Name of shareholders	Address	Number of shares held (Share)	Percentage of number of shares held in the total number of shares issued (%)
The Minister of Finance	1-1, Kasumigaseki 3-chome, Chiyoda-ku, Tokyo, Japan	5,001,359	50.01
Japan Trustee Services Bank, Ltd. (Trust Account)	8-11, Harumi 1-chome, Chuo-ku, Tokyo, Japan	280,288	2.80
The Master Trust Bank of Japan, Ltd. (Trust Account)	11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo, Japan	219,754	2.20
State Street Bank and Trust Company 505223 (Standing proxy: Mizuho Corporate Bank, Ltd., Settlement Sales Department)	P.O.BOX 351 BOSTON, MASSACHUSETTS 02101 U.S.A. (16-13, Tsukishima 4-chome, Chuo-ku, Tokyo, Japan)	188,236	1.88
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	Harumi Island Triton Square Office Tower Z, 8-12, Harumi 1-chome, Chuo-ku, Tokyo, Japan	169,000	1.69
State Street Bank and Trust Company (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	P.O.BOX 351 BOSTON, MASSACHUSETTS 02101 U.S.A. (11-1, Nihonbashi 3-chome, Chuo-ku, Tokyo, Japan)	111,112	1.11
Mellon Bank, N.A. as Agent for its Client Melon Omnibus US Pension (Standing proxy: Mizuho Corporate Bank, Ltd., Settlement Sales Department)	ONE BOSTON PLACE BOSTON, MA 02108 (16-13, Tsukishima 4-chome, Chuo-ku, Tokyo, Japan)	86,891	0.87
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo, Japan	71,455	0.71
Morgan Stanley & Company Inc. (Standing proxy: Morgan Stanley Japan Securities Co., Ltd.)	1585 BROADWAY NEW YORK, NEW YORK 10036, U.S.A. (Yebisu Garden Place Tower, 20-3, Ebisu 4-chome, Shibuya-ku, Tokyo, Japan)	64,447	0.64
HSBC BANK PLC A/C THE CHILDRENS INVESTMENT MASTER FUND (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	8 CANADA SQUARE, LONDON E145HQ (11-1, Nihonbashi 3-chome, Chuo-ku, Tokyo, Japan)	62,765	0.63
Total	–	6,255,307	62.55

Note: In addition to the above, JT held 419,903 shares of common stock as treasury stock.

(8) Status of voting rights

a. Shares issued

(As of March 31, 2010)

Classification	Number of shares (Share)	Number of voting rights	Details
Shares without voting rights	–	–	–
Shares with restricted voting rights (Treasury stock, etc.)	–	–	–
Shares with restricted voting rights (Other)	–	–	–
Shares with full voting rights (Treasury stock, etc.)	Common stock 419,903	–	(Note 2)
Shares with full voting rights (Other)	Common stock 9,580,097	9,580,097	(Note 2)
Odd shares	–	–	–
Total number of shares issued	10,000,000	–	–
Total number of voting rights	–	9,580,097	–

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

2. Standard class of shares with no rights limitations. No unit share system is adopted.

b. Treasury stock, etc.

(As of March 31, 2010)

Name of shareholders	Address	Number of shares held under own name (Share)	Number of shares held under the name of others (Share)	Total number of shares held (Share)	Percentage of number of shares held in the total number of shares issued (%)
Japan Tobacco Inc.	2-1, Toranomon 2-chome, Minato-ku, Tokyo, Japan	419,903	–	419,903	4.20
Total	–	419,903	–	419,903	4.20

(9) Stock options

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

Details are as follows.

(By resolutions of the Annual General Meeting of Shareholders held on June 22, 2007, and the Board of Directors at a meeting held on December 21, 2007)

The 22nd Annual General Meeting of Shareholders held on June 22, 2007, and the Board of Directors at a meeting held on December 21, 2007, resolved to issue subscription rights to shares as share remuneration type stock options to JT Directors and Executive Officers (*sikkoyakuin*) in accordance with the Companies Act.

Resolution date	June 22, 2007, December 21, 2007
Positions and number of persons granted	Directors 11 persons Executive Officers (*sikkoyakuin*) (excluding persons serving as Director) 16 persons
Class of shares to be issued upon exercise of subscription rights to shares	See "(2) Status of subscription rights to shares"
Number of shares	233 shares to Directors, 193 shares to Executive Officers *(sikkoyakuin)*, total 426 shares (1 share per stock acquisition right) (Note)
Paying due upon exercise of subscription rights to shares	See "(2) Status of subscription rights to shares"
Exercise period of subscription rights to shares	Same as above
Conditions for exercising subscription rights to shares	Same as above
Assignment of subscription rights to shares	Same as above
Matters regarding surrogate payments	–
Matters regarding deliver of subscription rights to shares accompanied by reorganization	See "(2) Status of subscription rights to shares"

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Acquisition of treasury stock

[Class of shares] No items to report

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

No items to report

(2) Acquisition by resolution of the Board of Directors

No items to report

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

No items to report

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

Category	Fiscal year ended March 31, 2010		From April 1, 2010 until the filing date of this Annual Securities Report	
	Number of shares (Share)	Total disposal value (Millions of yen)	Number of shares (Share)	Total disposal value (Millions of yen)
Acquired treasury stock offered for subscription	–	–	–	–
Acquired treasury stock that were disposed	–	–	–	–
Acquired treasury stock transferred for merger, share exchange and company split	–	–	–	–
Other (exercise of subscription rights to shares)	17	3	–	–
Treasury stock held	419,903	–	419,903	–

Note: The number of shares and total disposal value in the “From April 1, 2010 until the filling date of this Annual Securities Report” column does not include transfers by the exercise of subscription rights to shares from June 1, 2010 until the filing date of this Annual Securities Report.

3. Dividend policy

JT believes the growth of our corporate value in the medium to long term by realizing sustainable profit growth fueled by proactive business investment is the key to increasing shareholder benefits.

Regarding dividends, JT 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.

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

The year-end dividend for the fiscal year was ¥3,000 per share, which includes the ¥2,800 ordinary dividend and the 25th anniversary commemorative dividend of ¥200. Therefore, the total annual dividend, including the interim dividend of ¥2,800, is ¥5,800 per share.

Also, internal reserves will be prepared not only for present and future business investments and to acquire external resources but also for the purchase of own shares effected to increase managerial options, to pay down interest-bearing debts and other objectives.

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

The dividend for the 25th term is as follows.

Resolution date	Total amount of dividends (Millions of yen)	Cash dividends per share (Yen)
Meeting of the Board of Directors held on October 29, 2009	26,824	2,800.00
Annual General Meeting of Shareholders held on June 24, 2010	28,740	3,000.00

4. Trends in share price

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

Term	21st term	22nd term	23rd term	24th term	25th term
Accounting period	From April 1, 2005 to March 31, 2006	From April 1, 2006 to March 31, 2007	From April 1, 2007 to March 31, 2008	From April 1, 2008 to March 31, 2009	From April 1, 2009 to March 31, 2010
Highest (Yen)	2,150,000 *435,000	604,000	708,000	555,000	358,000
Lowest (Yen)	1,190,000 *406,000	362,000	492,000	216,000	227,000

Notes: 1. The yearly highest and lowest share prices were those recorded on the first section of the Tokyo Stock Exchange.
2. The figures with * marks show the highest and lowest ex right share prices after the stock splits.

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

Month	October 2009	November 2009	December 2009	January 2010	February 2010	March 2010
Highest (Yen)	297,400	262,700	333,000	358,000	340,500	351,000
Lowest (Yen)	254,300	240,800	247,700	309,500	310,000	313,500

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

5. Status of officers

Title	Post	Name	Date of birth	Summary of career		Term of office	Number of shares held (Share)
Chairman of the Board		Yoji Wakui	February 5, 1942	April 1964 May 1995 July 1997 July 1999 June 2004 June 2006	Joined Ministry of Finance Deputy Vice Minister Director-General of the Budget Bureau Vice Chairman of the General Insurance Association of Japan Representative Director and Chairman of the Board, the Company Chairman of the Board (Current Position)	2 years since June 2010	64
* President, Chief Executive Officer and Representative Director		Hiroshi Kimura	April 23, 1953	April 1976 January 1999 May 1999 June 1999 June 2001 June 2005 June 2006	Joined the Company (Japan Tobacco and Salt Public Corporation) Vice President of Corporate Planning Division Senior Manager in Tobacco Business Planning Division, Tobacco Business Headquarters; Executive Vice President, JT International S.A. Member of the Board Retired from Member of the Board Member of the Board President, Chief Executive Officer and Representative Director (Current Position)	2 years since June 2010	96
* Representative Director and Executive Deputy President		Munetaka Takeda	August 22, 1949	April 1972 July 1999 January 2001 July 2001 July 2003 September 2005 February 2007 April 2007 June 2007	Joined Ministry of Finance Director-General of Kanto Local Finance Bureau, Ministry of Finance Deputy Assistant Vice Minister, Cabinet Office Director-General of Okinawa Promotion Bureau, Cabinet Office Director-General for Policy Planning, Cabinet Office Assistant Vice Minister, Cabinet Office Corporate Advisor of the Company Senior Executive Vice President, and Chief Financial Officer Representative Director and Executive Deputy President (Current Position)	2 years since June 2010	34

Title	Post	Name	Date of birth	Summary of career		Term of office	Number of shares held (Share)
* Representative Director and Executive Deputy President		Masaaki Sumikawa	October 11, 1950	April 1974	Joined the Company (Japan Tobacco and Salt Public Corporation)	2 years since June 2010	81
				July 1997	Vice President of Food Business Division		
				June 1998	Vice President of General Administration Division		
				July 2000	Vice President of Human Resources Division		
				June 2003	Senior Vice President, and Assistant to CEO in Real Estate Management, Agriculture, Printing and Vending Machinery Businesses		
				January 2004	Senior Vice President, and Assistant to CEO in Real Estate Management, Printing and Vending Machinery Businesses		
				June 2004	Standing Auditor		
				June 2008	Representative Director and Executive Deputy President (Current Position)		
* Representative Director and Executive Deputy President		Mitsuomi Koizumi	April 15, 1957	April 1981	Joined the Company (Japan Tobacco and Salt Public Corporation)	2 years since June 2010	80
				June 2001	Vice President of Corporate Planning Division		
				June 2003	Senior Vice President, and Head of Human Resources and Labor Relations Group		
				June 2004	Senior Vice President, and Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters		
				June 2006	Executive Vice President, and Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters		
				June 2007	Member of the Board, Executive Vice President, and Head of Marketing & Sales General Division, Tobacco Business Headquarters		
				July 2007	Member of the Board, Executive Vice President, and Chief Marketing & Sales Officer, Tobacco Business Headquarters		
				June 2009	Representative Director and Executive Deputy President (Current Position)		

Title	Post	Name	Date of birth	Summary of career		Term of office	Number of shares held (Share)
* Representative Director and Executive Deputy President		Masakazu Shimizu	April 22, 1953	April 1977	Joined the Company (Japan Tobacco and Salt Public Corporation)	2 years since June 2010	61
				April 1998	Vice President of Domestic Leaf Tobacco Division, Tobacco Business Headquarters		
				September 1999	Vice President of Finance Division		
				July 2001	Vice President of Temporary Systems Task Force		
				July 2004	Vice President of General Administration Division		
				June 2005	Senior Vice President, and Chief Communications Officer		
				June 2007	Executive Vice President, and Chief Communications Officer		
				June 2009	Representative Director and Executive Deputy President (Current Position)		
* Member of the Board	Senior Executive Vice President, President of Pharmaceutical Business, Vice President of Business Planning, Pharmaceutical Division	Noriaki Okubo	May 22, 1959	April 1983	Joined the Company (Japan Tobacco and Salt Public Corporation)	2 years since June 2010	36
				April 2000	Vice President of Business Development Dept., Pharmaceutical Division		
				June 2002	Vice President of Business Planning Dept., Pharmaceutical Division		
				June 2004	Member of the Board, Senior Vice President, and President, Pharmaceutical Business		
				June 2006	Member of the Board, Executive Vice President, and President, Pharmaceutical Business		
				June 2009	Member of the Board, Senior Executive Vice President, and President, Pharmaceutical Business		
				May 2010	Member of the Board, Senior Executive Vice President, and President, Pharmaceutical Business, Vice President of Business Planning Dept., Pharmaceutical Division (Current Position)		

Title	Post	Name	Date of birth	Summary of career		Term of office	Number of shares held (Share)
* Member of the Board	Executive Vice President, Chief Strategy Officer	Mutsuo Iwai	October 29, 1960	April 1983	Joined the Company (Japan Tobacco and Salt Public Corporation)	2 years since June 2010	68
				June 2003	Vice President of Corporate Planning Division		
				July 2004	Vice President of Corporate Strategy Division		
				June 2005	Senior Vice President, and Vice President of Food Business Division, Food Business		
				June 2006	Member of the Board, Executive Vice President, and President, Food Business		
				June 2008	Executive Vice President, and Chief Strategy Officer		
				June 2010	Member of the Board, Executive Vice President and Chief Strategy Officer (Current Position)		
Member of the Board		Yasushi Shingai	January 11, 1956	April 1980	Joined the Company (Japan Tobacco and Salt Public Corporation)	2 years since June 2010	59
				July 2001	Vice President of Financial Planning Division		
				June 2004	Senior Vice President, and Head of Finance Group, Vice President of Financial Planning Division		
				July 2004	Senior Vice President, and Chief Financial Officer		
				June 2005	Member of the Board, Senior Vice President, and Chief Financial Officer		
				June 2006	Member of the Board (Current Position), Executive Vice President, JT International S.A. (Current Position)		
Standing Auditor		Hisao Tateishi	December 23, 1946	April 1971	Joined Ministry of Finance	4 years since June 2007	17
				July 1997	Director-General, Kanto-Shinetsu Regional Taxation Bureau, National Tax Agency		
				July 1999	Deputy Director-General, Personnel Bureau, Management and Coordination Agency		
				January 2001	Deputy Director-General, Personnel and Pension Bureau, Ministry of Internal Affairs and Communications		
				July 2001	Standing Director, Japan Foundation for Regional Vitalization		
				July 2003	Standing Director, Federation of National Public Service, Personnel Mutual Aid Associations		
				September 2005	Executive Director, Federation of National Public Service, Personnel Mutual Aid Associations		
				June 2007	Standing Auditor, the Company (Current Position)		

Title	Post	Name	Date of birth	Summary of career		Term of office	Number of shares held (Share)
Standing Auditor		Gisuke Shiozawa	April 18, 1952	April 1976	Joined the Company (Japan Tobacco and Salt Public Corporation)	3 years since June 2008	61
				August 1995	Vice President of Finance Division		
				September 1999	Senior Manager in Business Planning Dept., Food Business Division		
				April 2002	Senior Manager in Beverages Business Dept., Food Business Division		
				June 2003	Senior Vice President, Vice President of Business Planning Dept., Food Business Division		
				June 2005	Senior Vice President, Vice President of Beverages Business Dept., Food Business Division		
				June 2008	Standing Auditor (Current Position)		
Auditor		Takanobu Fujita	January 17, 1938	April 1963	Joined NHK (Japan Broadcasting Corporation)	4 years since June 2007	33
				June 1990	News Commentator		
				January 1995	Retired from NHK		
				April 1999	Professor, School of Policy Studies, Kansei Gakuin University		
				April 2005	Visiting Professor, School of Policy Studies, Kansei Gakuin University (Current Position)		
				June 2005	Auditor, the Company (Current Position)		
Auditor		Koichi Ueda	December 17, 1943	April 1967	Judicial Apprentice	2 years since June 2009	2
				April 1969	Appointed as Public Prosecutor		
				June 2006	Superintending Public Prosecutor, the Tokyo High Public Prosecutors Office		
				December 2006	Took mandatory retirement		
				January 2007	Registered as an attorney at law		
				April 2007	Specially Appointed Professor of Meiji University Law School (Current Position)		
				January 2009	Representative Director, The Resolution and Collection Corporation		
				March 2009	President and Representative Director, The Resolution and Collection Corporation (Current Position)		
				June 2009	Auditor, the Company (Current Position)		
Total							692

Notes: 1. Auditors Hisao Tateishi, Takanobu Fujita and Koichi Ueda are Outside Auditors provided for by Article 2, item (xvi) of the Companies Act.

2. JT has introduced the Executive Officer *(sikkoyakuin)* System since June 2001 in order to realize swift and high-quality decision making and operating execution.

Persons with the title marked with * concurrently serve as Executive Officer *(sikkoyakuin)*.

Except for them, there are 14 Executive Officers *(sikkoyakuin)*: Kenji Iijima (Head of Manufacturing General Division, Tobacco Business Headquarters), Ryuichi Shimomura (Chief Legal Officer), Yoshihisa Fujisaki (Chief Marketing & Sales Officer, Tobacco Business Headquarters), Tadashi Iwanami (Chief R&D Officer, Tobacco Business Headquarters), Akira Saeki (Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters), Hideki Miyazaki (Chief Financial Officer and Vice President of Treasury Division), Shinichi Murakami (Head of Domestic Leaf Tobacco General Division, Tobacco Business Headquarters), Atsuhiro Kawamata (Vice President of

China Division, Tobacco Business Headquarters), Kazuhito Yamashita (Chief Corporate, Scientific and Regulatory Affairs Officer, Tobacco Business Headquarters) Junichi Haruta (Head of Central Pharmaceutical Research Institute, Pharmaceutical Division), Ryoko Nagata (Vice President of Beverages Business Dept.), Satoshi Matsumoto (Chief Human Resources Officer), Ryoji Chijiiwa (Chief General Affairs Officer) and Yasuyuki Tanaka (Chief Communications Officer).

Executive Vice President and Chief Strategy Officer Mutsuo Iwai will concurrently serve as Assistant to CEO in Food Business as of July 1, 2010.

6. Status of corporate governance, etc.

(1) Status of corporate governance

a. Basic concept on the corporate governance

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

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

i. Corporate governance system

(a) Organization of JT

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

In order to maintain a high quality of business execution, JT has adopted the Executive Officer *(sikkoyakuin)* System, under which Executive Officers *(sikkoyakuin)* appointed by the Board of Directors execute business in their respective areas of responsibility, in accordance with a company-wide business strategy decided by the Board, by exercising the authority delegated to them. In addition, the Chairman of the Board has been positioned as a non-executive director in order to concentrate on the function of supervising management.

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

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

JT has adopted the Audit Board System, under which Auditors, in their capacity as independent agents with a mandate from shareholders, examine the performance of duties by Directors and Executive Officers *(sikkoyakuin)* in order to ensure sound and sustainable growth, and maintain and enhance public trust in the company. Moreover, the auditor of JT, Mr. Gisuke Shiozawa, has considerable knowledge of finance and accounting because he has held the office of the Head of Finance Processing Division, Japan Tobacco, Inc.

(b) Internal control system and risk management system

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

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

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

With regard to the compliance system, JT has established the Guidelines for Conduct based on internal rules concerning compliance in order to ensure that directors, executive officers *(sikkoyakuin)* and employees comply with laws, regulations, JT's articles of incorporation, the social norms, etc., and set up the Compliance Committee as an organization responsible for ensuring thorough compliance. This committee, headed by JT's Chairman, includes outside experts among its members and reports directly to the Board of Directors. Meanwhile, the Compliance Office is charged with overseeing efforts to improve the company-wide compliance system, identify compliance problems and enhance the effectiveness of the compliance system by enlightening Directors, Executive Officers *(sikkoyakuin)* and employees about compliance through various compliance education programs.

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

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

The internal audit system is overseen by the Operational Review and Business Assurance Division (staffed with 29 members as of the end of this fiscal year), which examines and evaluates systems for supervising and managing the overall operations of JT and the status of business execution from the viewpoints of legality and rationality, in order to protect JT's assets and improve management efficiency.

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

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

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

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

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

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

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

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

<System to ensure that directors perform their duties efficiently>

The Board of Directors meets once a month in principle and on more occasions as necessary, in order to make a decision with regard to the matters specified by laws and regulations and other important matters and to supervise business execution. Meanwhile, the Executive Committee, comprising JT's President and other members appointed by the President, discusses important management issues, particularly management policy and basic plans regarding overall business operations of JT, in addition to matters to be referred to the Board of Directors.

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

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

<System to ensure the appropriateness of business operations within the JT Group>

The JT Group promises to deliver "irreplaceable delight" to ask all stakeholders, and it has adopted the JT Group Mission "the JT Branding Declaration" as a shared aim within the group. We have specified the functions and rules necessary for group management based on a group management policy, in order to optimize the operations of the JT Group as a whole.

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

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

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

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

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

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

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

<Audits by Auditors and Independent Accountant>

- JT has an Audit Board System under which Auditors, in their capacity as independent agents with a mandate from shareholders, examine the performance of duties by Directors and Executive Officers *(sikkoyakuin)* in order to ensure sound and sustainable growth, and maintain and enhance public trust in JT.
- JT employs three Outside Auditors appointed considering their abundant experience and broad insight in various industries. All Auditors of JT, including Outside Auditors fulfill their management monitoring function from an objective and neutral perspective by conducting independent and fair audits.
- Among JT's Outside Auditors, Mr. Koichi Ueda is Representative Director and President of the The Resolution and Collection Corporation, however, said corporation has no dealings with JT and the Outside Auditor himself has no direct interests in JT. The other two Outside Auditors also have no interests in JT.
- JT has employed Deloitte Touche Tohmatsu LLC as its Independent Accountant and Deloitte Touche Tohmatsu LLC has conducted audits based on the Companies Act and the Financial Instruments and Exchange Act. The certified public accountants who audited JT's financial statements for fiscal year ended March 31, 2010 and the persons who assisted the auditing work are as follows.

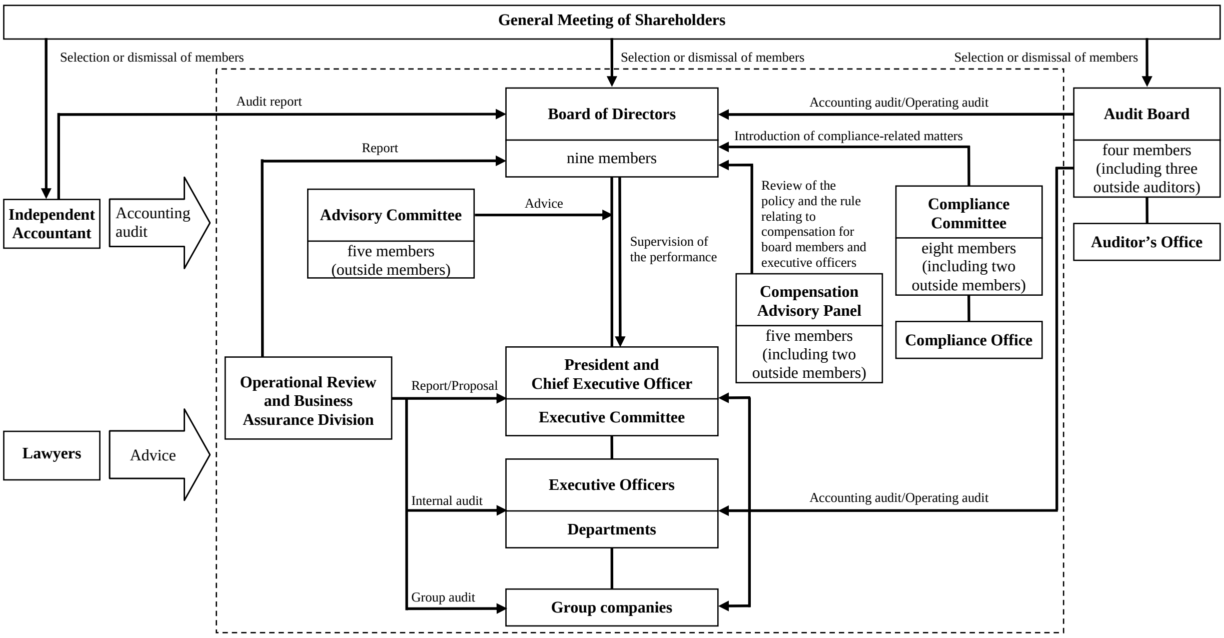
(Certified public accountants)
Tatsuo Igarashi (5 years), Shuichi Momoki (5 years), Satoshi Iizuka (3 years)
Note: Figures in parentheses represent the number of years in which the certified public accountants have engaged in the accounting audit of JT.

(Assistants for the audit work)
Certified public accountants: 11 persons, Junior accountants: 12 persons, Others: 9 persons

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

While there is no sitting outside director, JT selects persons suitable for the post of director in light of the candidates' personality, insight and the experience. As an effort to secure the function of advice from an external viewpoint, a function expected to outside directors, JT has established the Advisory Committee, which comprises five outside experts and advises the management team from a broad perspective with regard to how the company should operate in the medium to long term, and other issues of similar importance. In addition, JT has established a system to monitor the management with securing objectivity and neutrality by carrying out audits by Auditors (a majority of them are outside Auditors and all three those auditors are independent officers) from their independent and fair standpoint. There are also the Compensation Advisory Panel and the Compliance Committee, both of which include outside members, too. Therefore, JT believes that the current organizational system is adequately functioning. Although JT does not have any specific plan to appoint an outside director at the moment, it will continually consider the usefulness of an outside director and the qualifications of a candidate.

The status of the development of JT's corporate governance system is represented as the following schematic depiction.



ii. Remuneration for Directors and Auditors

Remuneration for Directors and Auditors for the fiscal year ended March 31, 2010 are as follows.

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

Category	Total amount of remuneration and other payments (Millions of yen)	Total amount of remuneration and other payments by type (Millions of yen)			Number to be paid (Person)
		Basic remuneration	Directors' bonus	Stock option grants	
Directors	559	383	52	123	12
Auditors (excluding Outside Auditors)	33	33	–	–	1
Outside Directors and Outside Auditors	54	54	–	–	4
Total	647	471	52	123	17

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

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

Name	Category	Company	Amount of consolidated remuneration and other payments by type (Millions of yen)				Total amount of consolidated remuneration and other payments (Millions of yen)
			Basic remuneration	Directors' bonus	Stock option grants	Other	
Yasushi Shingai	Director	Filing company	6	–	1	–	142
	Executive Vice President	JT International S.A.	59	37	–	37	

Notes: 1. A portion of the remuneration for Directors and Auditors of Mr. Yasushi Shingai as Executive Vice President of JT International S.A. is paid in Swiss francs. (1 franc = ¥86.33)
2. The other items represent the amounts of life insurance, housing and company-owned vehicles, which JT pays for, and the parts JT pays for medical insurance and corporate pension.

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

The following is JT's basic concept on remuneration for Directors and Auditors.

- Set a level of remuneration necessary to secure outstanding individuals
- Have in place a remuneration system linked to performance that engenders motivation towards the achievement of results
- Set remuneration linked to mid- to long-term corporate value
- Ensure transparency through discussions by the Compensation Advisory Panel that includes external experts, introduction of quantitative schemes (annual compensation range, upper limit for stock options) and continuous monitoring based on objective data

Based on the above, remuneration for Directors and Auditors is made up of three components, namely the monthly basic remuneration, annual bonus reflecting the company's business performance for the relevant year and share remuneration type stock options, the value of which is linked to mid- to long-term corporate value of JT.

Regarding the remuneration system, because Directors serving concurrently as Executive Officers (*shikkoyakuin*) are expected to achieve results by executing their duties on a daily basis, their compensation comprises of a basic remuneration, an annual bonus and stock options. For Directors not serving concurrently as Executive Officers (*shikkoyakuin*), because they are requested to determine company-wide business strategy for increasing corporate value and to fulfill their monitoring function, their compensation comprises of a basic remuneration and stock options. Auditors receive a single basic remuneration in light of their role mainly as auditors conducting audits according to law.

Amounts of remunerations are determined by the Board of Directors as to those for the Directros and among the Auditors as to those for the Auditors, respectively, upon deliberation by the Compensation Advisory Panel that includes external experts and within the limit approved by the General Meeting of Shareholders. Annual bonuses for the Directors are determined by the Board of Directors considering performance results recorded during the relevant fiscal year.

iii. Share ownership

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

65 issues, ¥38,100 million

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

Issue	Number of shares (Share)	Balance sheet amount (Millions of yen)	Purpose of holding
KT&G Corporation	2,864,904	14,759	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
UNIMAT LIFE CORPORATION (Note)	3,739,500	5,029	Held for policy-based investment under business alliance with JT
Mitsubishi UFJ Financial Group, Inc.	5,015,750	2,457	Policy-based investment whose purpose is stable bank transactions and strengthened relations over the long term
Mizuho Financial Group, Inc.	12,750,700	2,358	Policy-based investment whose purpose is stable bank transactions and strengthened relations over the long term
Seven & i Holdings Co., Ltd.	852,000	1,924	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
DOUTOR-NICHIRES Holdings Co., Ltd.	1,320,000	1,635	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term

Issue	Number of shares (Share)	Balance sheet amount (Millions of yen)	Purpose of holding
Sumitomo Mitsui Financial Group, Inc.	340,901	1,053	Policy-based investment whose purpose is stable bank transactions and strengthened relations over the long term
OKAMURA CORPORATION	1,206,000	719	Held for policy-based investment under business alliance with JT for joint venture, etc.
Central Japan Railway Company	1,000	712	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term
NIPPON EXPRESS CO., LTD.	1,730,400	695	Policy-based investment whose purpose is to maintain and strengthen business transactions and cooperative relations stably and over the long term

Note: JT subscribed to the tender offer of UNIMAT LIFE CORPORATION shares by Unimat Rainbow Corporation and sold all its held shares on May 19, 2010.

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

No items to report

iv. Number of Directors

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

v. Appointment of Directors

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

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

Acquisition of treasury stock

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

Interim dividend

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

vii. Requirements for special resolutions at General Meeting of Shareholders

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

(2) Audit fees

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

(Millions of yen)

Classification	Fiscal year ended March 31, 2009		Fiscal year ended March 31, 2010	
	Fees for audit attestation services	Fees for non-audit services	Fees for audit attestation services	Fees for non-audit services
Filing company	262	16	252	21
Consolidated subsidiaries	89	1	217	4
Total	351	17	469	26

Note: Fees paid to Deloitte Touche Tohmatsu LLC

b. Other important fees

Fiscal year ended March 31, 2009

The foreign subsidiaries of JT are audited mainly by member firms of Deloitte Touche Tohmatsu to which Deloitte Touche Tohmatsu LLC belongs, and especially significant is the fees for audit and non-audit services related to the attestation of the financial documents of JT International Holding B.V. and its subsidiaries in the amount of approximately ¥1.5 billion.

Fiscal year ended March 31, 2010

The foreign subsidiaries of JT are audited mainly by member firms of Deloitte Touche Tohmatsu LLC, and especially significant is the fees for audit and non-audit services related to the attestation of the financial documents of JT International Holding B.V. and its subsidiaries in the amount of approximately ¥1.1 billion.

c. Non-audit services to filing company

Fiscal year ended March 31, 2009

Non-audit services for which fees are paid by JT to certified public accountants, etc. include advisory services pertaining to internal control, etc. over financial reporting as well as the review of English versions of financial statements, etc.

Fiscal year ended March 31, 2010

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

d. Policy for determining audit fees

Audit fees paid by JT to certified public accountants, etc. are determined upon considerable consultation therewith where necessary based on the audit plan and fee estimates presented thereby.

Specifically, audit fees are determined after confirming whether the scope of the audit and review procedures of important audit items indicated in the audit plan and the status of the corporate group, including and movements of target consolidated subsidiaries, etc. is properly reflected in the amount of time required for the audit. A comparison of the amount of time required for the previous audit with the corresponding plan is also generally taken into consideration along with the above.

The approval of the Board of Auditors is obtained when determining audit fees in order to preserve the independence of certified public accountants, etc.

V. Accounting

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

(1) JT prepares consolidated financial statements in accordance with the Regulation for Terminology, Forms and Preparation of Consolidated Financial Statements (Ministry of Finance Ordinance No. 28 of 1976, hereinafter, the “Regulation for Consolidated Financial Statements”).

The consolidated financial statements for the fiscal year ended March 31, 2009 were prepared in accordance with the pre-revised Regulation for Consolidated Financial Statements while those for the fiscal year ended March 31, 2010 were prepared in accordance with the revised Regulation for Consolidated Financial Statements.

(2) JT prepares non-consolidated financial statements in accordance with the Regulation for Terminology, Forms and Preparation of Financial Statements (Ministry of Finance Ordinance No. 59 of 1963, hereinafter, the “Regulation for Financial Statements”).

The non-consolidated financial statements for the fiscal year ended March 31, 2009 were prepared in accordance with the pre-revised Regulation for Financial Statements while those for the fiscal year ended March 31, 2010 were prepared in accordance with the revised Regulation for Financial Statements.

2. Audit attestation

The consolidated financial statements and the non-consolidated financial statements for the fiscal year ended March 31, 2009 were audited by Deloitte Touche Tohmatsu, and the consolidated financial statements and the non-consolidated financial statements for the fiscal year ended March 31, 2010 were audited by Deloitte Touche Tohmatsu LLC pursuant to paragraph (1) of Article 193-2 of the Financial Instruments and Exchange Act.

Deloitte Touche Tohmatsu changed auditing firm category and changed its name to Deloitte Touche Tohmatsu LLC on July 1, 2009.

3. Special efforts made to ensure the fairness of consolidated financial statements, etc.

JT participates in the Financial Accounting Standards Foundation, among others, and has in place a system that enables precise responses to changes, etc. in accounting standards in order to ensure the fairness of consolidated financial statements, etc.

1. Consolidated financial statements, etc.

(1) Consolidated financial statements

a. Consolidated balance sheets

(Millions of yen)

		As of March 31, 2009		As of March 31, 2010
Assets				
Current assets				
Cash and deposits		164,957		155,444
Notes and accounts receivable—trade		290,068		296,884
Short-term investment securities		4,910		11,950
Merchandise and finished goods		122,970		151,062
Semi-finished goods		119,290		109,621
Work in process		6,561		5,522
Raw materials and supplies		215,334	*3	288,893
Deferred tax assets		29,675		26,615
Other		145,076		153,470
Allowance for doubtful accounts		(3,162)		(3,622)
Total current assets		1,095,682		1,195,843
Noncurrent assets				
Property, plant and equipment				
Buildings and structures	*3	621,469	*3	611,509
Accumulated depreciation		(386,615)		(380,469)
Buildings and structures, net		234,853		231,039
Machinery, equipment and vehicles	*3	642,148	*3	668,608
Accumulated depreciation		(453,155)		(455,737)
Machinery, equipment and vehicles, net		188,993		212,870
Tools, furniture and fixtures	*3	165,434	*3	170,906
Accumulated depreciation		(103,012)		(115,863)
Tools, furniture and fixtures, net		62,422		55,042
Land	*3	147,219	*3	138,702
Construction in progress		35,253		41,905
Total property, plant and equipment		668,742		679,561
Intangible assets				
Goodwill		1,453,961		1,387,397
Right of trademark		347,372		350,900
Other		30,509		30,766
Total intangible assets		1,831,843		1,769,064
Investments and other assets				
Investment securities	*1	90,230	*1, *3	83,760
Long-term loans receivable		9,190		–
Deferred tax assets		128,786		85,375
Other	*1, *3	97,022	*1, *3	93,685
Allowance for doubtful accounts		(41,695)		(34,695)
Total investments and other assets		283,534		228,127
Total noncurrent assets		2,784,121		2,676,752
Total assets		3,879,803		3,872,595

(Millions of yen)

		As of March 31, 2009		As of March 31, 2010
Liabilities				
Current liabilities				
Notes and accounts payable-trade		158,544		149,462
Short-term loans payable	*3	113,231	*3	109,263
Commercial paper		–		119,000
Current portion of bonds	*3	190,363	*3	50,395
Current portion of long-term loans payable	*3	26,380	*3	23,024
Lease obligations		5,512		4,936
Accounts payable—other		62,824		73,738
National tobacco excise taxes payable		172,986		212,066
National tobacco special excise taxes payable		10,470		10,490
Local tobacco excise taxes payable		85,541		85,238
Income taxes payable		51,777		54,057
Consumption taxes payable		43,847		60,105
Deferred tax liabilities		2,915		2,357
Provision	*2	39,172	*2	39,610
Other		129,835		107,789
Total current liabilities		1,093,403		1,101,535
Noncurrent liabilities				
Bonds payable	*3	349,794	*3	409,014
Long-term loans payable	*3	299,563	*3	149,569
Lease obligations		11,234		9,126
Deferred tax liabilities		110,389		94,577
Provision for retirement benefits		259,145		251,902
Provision for directors' retirement benefits		623		763
Provision for loss on guarantees		695		–
Other		130,665		132,827
Total noncurrent liabilities		1,162,111		1,047,782
Total liabilities		2,255,514		2,149,317
Net assets				
Shareholders' equity				
Capital stock		100,000		100,000
Capital surplus		736,400		736,406
Retained earnings		1,224,989		1,310,669
Treasury stock		(74,578)		(74,575)
Total shareholders' equity		1,986,810		2,072,501
Valuation and translation adjustments				
Valuation difference on available-for-sale securities		8,437		12,043
Deferred gains or losses on hedges		92		–
Pension liability adjustment of foreign consolidated subsidiaries		(18,965)		(26,269)
Foreign currency translation adjustment		(423,561)		(409,160)
Total valuation and translation adjustments		(433,997)		(423,387)
Subscription rights to shares		364		564
Minority interests		71,109		73,599
Total net assets		1,624,288		1,723,278
Total liabilities and net assets		3,879,803		3,872,595

b. Consolidated statements of income

(Millions of yen)

		Fiscal year ended March 31, 2009		Fiscal year ended March 31, 2010
Net sales		6,832,307		6,134,695
Cost of sales		5,554,398		5,022,637
Gross profit		1,277,908		1,112,057
Selling, general and administrative expenses	*1, *4	914,102	*1, *4	815,552
Operating income		363,806		296,504
Non-operating income				
Interest income		10,104		4,473
Dividends income		2,172		2,509
Equity in earnings of affiliates		–		2,401
Other		18,059		6,224
Total non-operating income		30,335		15,608
Non-operating expenses				
Interest expenses		51,356		26,111
Foreign exchange losses		21,801		20,228
Financial support for domestic leaf tobacco growers		768		522
Periodic mutual assistance association cost		2,024		1,724
Other		10,604		8,150
Total non-operating expenses		86,555		56,736
Ordinary income		307,586		255,377
Extraordinary income				
Gain on sales of noncurrent assets	*2	46,461	*2	32,341
Gain from reversal of liability on fine levied under UK competition law		–	*8	16,710
Other		1,915		9,464
Total extraordinary income		48,377		58,516
Extraordinary loss				
Loss on sales of noncurrent assets		2,169		4,237
Loss on retirement of noncurrent assets	*3	11,505	*3	6,334
Impairment loss	*5	16,364		6,042
Business restructuring costs	*6	24,363	*6	9,900
Introduction costs for vending machines with adult identification functions	*7	13,468		–
Expense for disposal of PCB-containing wastes		–		4,055
Other		25,947		7,268
Total extraordinary losses		93,819		37,838
Income before income taxes and minority interests		262,143		276,054
Income taxes—current		126,732		114,145
Income taxes—deferred		8,240		17,158
Total income taxes		134,972		131,303
Minority interests in income		3,771		6,302
Net income		123,400		138,448

c. Consolidated statements of changes in net assets

(Millions of yen)

	Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
Shareholders' equity		
Capital stock		
Balance at the end of previous period	100,000	100,000
Balance at the end of current period	100,000	100,000
Capital surplus		
Balance at the end of previous period	736,400	736,400
Changes of items during the period		
Disposal of treasury stock	–	6
Total changes of items during the period	–	6
Balance at the end of current period	736,400	736,406
Retained earnings		
Balance at the end of previous period	1,344,490	1,224,989
Effect of changes in accounting policies applied to foreign subsidiaries	(193,658)	–
Changes of items during the period		
Dividends from surplus	(49,816)	(53,648)
Net income	123,400	138,448
Change of scope of consolidation	47	–
Change of scope of equity method	525	880
Total changes of items during the period	74,157	85,680
Balance at the end of current period	1,224,989	1,310,669
Treasury stock		
Balance at the end of previous period	(74,578)	(74,578)
Changes of items during the period		
Disposal of treasury stock	–	3
Total changes of items during the period	–	3
Balance at the end of current period	(74,578)	(74,575)
Total shareholders' equity		
Balance at the end of previous period	2,106,311	1,986,810
Effect of changes in accounting policies applied to foreign subsidiaries	(193,658)	–
Changes of items during the period		
Dividends from surplus	(49,816)	(53,648)
Net income	123,400	138,448
Change of scope of consolidation	47	–
Change of scope of equity method	525	880
Disposal of treasury stock	–	9
Total changes of items during the period	74,157	85,690
Balance at the end of current period	1,986,810	2,072,501

(Millions of yen)

	Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
Valuation and translation adjustments		
Valuation difference on available-for-sale securities		
Balance at the end of previous period	21,338	8,437
Changes of items during the period		
Net changes of items other than shareholders' equity	(12,901)	3,606
Balance at the end of current period	8,437	12,043
Deferred gains or losses on hedges		
Balance at the end of previous period	219	92
Changes of items during the period		
Net changes of items other than shareholders' equity	(127)	(92)
Balance at the end of current period	92	—
Pension liability adjustment of foreign consolidated subsidiaries		
Balance at the end of previous period	(10,711)	(18,965)
Changes of items during the period		
Net changes of items other than shareholders' equity	(8,254)	(7,304)
Balance at the end of current period	(18,965)	(26,269)
Foreign currency translation adjustment		
Balance at the end of previous period	(41,085)	(423,561)
Changes of items during the period		
Net changes of items other than shareholders' equity	(382,475)	14,400
Balance at the end of current period	(423,561)	(409,160)
Total valuation and translation adjustments		
Balance at the end of previous period	(30,238)	(433,997)
Changes of items during the period		
Net changes of items other than shareholders' equity	(403,758)	10,610
Balance at the end of current period	(433,997)	(423,387)
Subscription rights to shares		
Balance at the end of previous period	185	364
Changes of items during the period		
Net changes of items other than shareholders' equity	179	200
Balance at the end of current period	364	564
Minority interests		
Balance at the end of previous period	78,370	71,109
Changes of items during the period		
Net changes of items other than shareholders' equity	(7,260)	2,489
Balance at the end of current period	71,109	73,599

(Millions of yen)

	Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
Total net assets		
Balance at the end of previous period	2,154,629	1,624,288
Effect of changes in accounting policies applied to foreign subsidiaries	(193,658)	–
Changes of items during the period		
Dividends from surplus	(49,816)	(53,648)
Net income	123,400	138,448
Change of scope of consolidation	47	–
Change of scope of equity method	525	880
Disposal of treasury stock	–	9
Net changes of items other than shareholders' equity	(410,839)	13,299
Total changes of items during the period	(336,682)	98,990
Balance at the end of current period	1,624,288	1,723,278

Marginal notes for consolidated statements of changes in net assets

Note: “Pension liability adjustment of foreign consolidated subsidiaries” in valuation and translation adjustments is the unfunded liabilities obligation recognized by foreign consolidated subsidiaries applying U.S. GAAP.

d. Consolidated statements of cash flows

(Millions of yen)

	Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	262,143	276,054
Depreciation and amortization	176,899	132,770
Impairment loss	16,364	6,042
Loss (gain) on sales and retirement of noncurrent assets	(41,499)	(24,236)
Amortization of goodwill	105,470	97,394
Loss (gain) on valuation of investment securities	7,062	1,436
Increase (decrease) in provision for retirement benefits	(13,159)	(8,034)
Interest and dividends income	(12,276)	(6,982)
Interest expenses	51,356	26,111
Decrease (increase) in notes and accounts receivable-trade	(43,141)	5,702
Decrease (increase) in inventories	(47,632)	(79,456)
Increase (decrease) in notes and accounts payable-trade	2,698	(12,820)
Increase (decrease) in accounts payable-other	(7,939)	14,905
Increase (decrease) in tobacco excise taxes payable	28,981	30,842
Other, net	(55,237)	(497)
Subtotal	430,091	459,229
Interest and dividends income received	15,551	7,090
Interest expenses paid	(55,957)	(29,956)
Income taxes paid	(114,414)	(116,338)
Net cash provided by (used in) operating activities	275,271	320,024
Net cash provided by (used in) investing activities		
Purchase of short-term investment securities	(1,360)	(3,999)
Proceeds from sales and redemption of securities	1,861	2,470
Purchase of property, plant and equipment	(112,408)	(121,459)
Proceeds from sales of property, plant and equipment	55,255	44,057
Purchase of intangible assets	(6,948)	(6,639)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(3,060)	(9,975)
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	450	–
Other, net	1,202	11,487
Net cash provided by (used in) investing activities	(65,008)	(84,057)

(Millions of yen)

		Fiscal year ended March 31, 2009		Fiscal year ended March 31, 2010
Net cash provided by (used in) financing activities				
Net increase (decrease) in short-term bank loans and commercial paper		(125,182)		93,443
Proceeds from long-term loans payable		94,130		1,712
Repayment of long-term loans payable		(54,662)		(191,041)
Proceeds from issuance of bonds		–		100,304
Redemption of bonds		(70,810)		(191,928)
Cash dividends paid		(49,752)		(53,642)
Proceeds from issuance of common stock to minority shareholders		–		190
Cash dividends paid to minority shareholders		(3,539)		(3,680)
Repayments of finance lease obligations		(6,606)		(5,755)
Other, net		(1,046)		0
Net cash provided by (used in) financing activities		(217,470)		(250,398)
Effect of exchange rate change on cash and cash equivalents		(39,590)		1,542
Net increase (decrease) in cash and cash equivalents		(46,797)		(12,888)
Cash and cash equivalents at the beginning of period		215,008		167,257
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation		(953)		–
Cash and cash equivalents at the end of period	*1	167,257	*1	154,368

Significant preparation policy of consolidated financial statements

Item	Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
1. Scope of consolidation	- Number of consolidated subsidiaries 274 Details of major consolidated subsidiaries are described in "4. Status of subsidiaries and affiliates of I. Overview of the JT Group." A total of 17 companies, including JT Beverage Inc. and Fuji Foods Corporation, were included in the scope of consolidation from this fiscal year. A total of 38 companies, including JT Dining Service Inc., were excluded from the scope of consolidation due to mergers with other consolidated subsidiaries or other reasons. A total of 3 companies, including Hans Continental Smallgoods Pty. Ltd., were excluded from the scope of consolidation as JT lost its controlling interests in those companies with commencements of procedures for business liquidation, etc. with a view to dissolutions. Former subsidiary Advance Support Co., Ltd. was accounted for by the equity method due to the decrease of JT's voting rights as a result of sales of investments. Non-consolidated subsidiaries are all small-scale and respective amounts in aggregate of total assets, net sales, net income (amount corresponding to JT's equity portion) and retained earnings (amount corresponding to JT's interest) of non-consolidated subsidiaries would not have a material impact on the consolidated financial statements. For this reason, these companies are excluded from the scope of consolidation.	- Number of consolidated subsidiaries 258 Details of major consolidated subsidiaries are described in "4. Status of subsidiaries and affiliates of I. Overview of the JT Group." 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 their liquidation or other reasons. Non-consolidated subsidiaries are all small-scale and respective amounts in aggregate of total assets, net sales, net income (amount corresponding to JT's equity portion) and retained earnings (amount corresponding to JT's interest) of non-consolidated subsidiaries would not have a material impact on the consolidated financial statements. For this reason, these companies are excluded from the scope of consolidation.
2. Scope of equity method	(1) Affiliates accounted for by the equity method 22 companies, including HUB CO., LTD. A total of 4 companies, including SHINWA-OX CORPORATION and R. J. Reynolds–Gallaher International Sà rl, were excluded from the scope of the equity method as JT's equity interests in those companies have been reduced or for other reasons.	(1) Affiliates accounted for by the equity method 17 companies, including NTT DATA WAVE CORPORATION. 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 affiliates, including HUB CO., LTD. and DAIREI CO., LTD., were excluded from the scope of the equity method as JT's equity interests in those companies have been reduced or for other reasons.

Item	Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
	(2) Non-consolidated subsidiaries and affiliates which are not subjected to the equity method are excluded from the scope of companies subjected to the equity method because their effects on the consolidated net income and consolidated retained earnings are immaterial, respectively, and they are unimportant overall. (3) Of the companies accounted for by the equity method, some companies' closing dates are different from the consolidated closing date of the accounting period. In that case, the financial statements relating to this fiscal year of each company are used for the consolidation.	(2) Same as left (3) Same as left
3. Fiscal year of consolidated subsidiaries	Of the consolidated subsidiaries, most of the foreign consolidated subsidiaries have a closing date of December 31. The consolidated financial statements are prepared using their financial statements on the closing date, and any necessary adjustments for significant transactions occurring in the period between their closing date and the consolidated year-end are made for consolidation purposes.	Same as left
4. Accounting policies	(1) Valuation standard and method for significant assets 1) Short-term investment securities Held-to-maturity debt securities --- Stated at amortized costs (straight-line method) Available-for-sale 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 by applying the moving-average method.) Without a fair value --- Mainly stated at cost determined by the moving-average method.	(1) Valuation standard and method for significant assets 1) Short-term investment securities Held-to-maturity debt securities --- Same as left Available-for-sale securities With a fair value --- Same as left Without a fair value --- Same as left

Item	Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
	2) Derivatives --- Stated based on the fair value method. 3) Inventories --- Mainly stated at cost determined by the gross average method. (Balance sheet amounts are measured at the lower of cost or net selling value.) (2) Depreciation methods for significant depreciable assets 1) 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 useful lives of major items are as follows: Buildings and structures 38 to 50 years Machinery, equipment and vehicles 10 years (Additional information) The useful lives of property, plant and equipment with respect to JT and JT's domestic consolidated subsidiaries were changed as a result of the review of these assets' usage in conjunction with the revision of the Corporate Tax Act in 2008. As an example, the useful life of tobacco manufacturing facilities, which are JT's main machinery and equipment, was changed from 8 years to 10 years. The impact of this change on operating income, ordinary income and income before income taxes and minority interests is immaterial. 2) Intangible assets (excluding lease assets) --- The straight-line method is applied. The useful life of the major item is as follows: Right of trademark 10 years	2) Derivatives --- Same as left 3) Inventories --- Same as left (2) Depreciation methods for significant depreciable assets 1) 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 useful lives of major items are as follows: Buildings and structures 38 to 50 years Machinery, equipment and vehicles 10 years 2) Intangible assets (excluding lease assets) --- Same as left

Item	Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
	3) Lease assets --- For finance leases that do not transfer ownership of the leased property to the lessee, depreciation expense is mostly computed based on the straight-line method over the lease period as the useful life and assuming no residual value.	3) Lease assets --- Same as left
	(3) Policy for significant reserve allowances	(3) Policy for significant reserve allowances
	1) 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.	1) Allowance for doubtful accounts Same as left
	2) Provision for bonuses Provided based on the estimated bonus amount payable to employees and directors.	2) Provision for bonuses Same as left
	3) Provision for retirement benefits Provided in preparation for the payment of retirement benefits to employees based on the estimated retirement benefits obligation and fair value of plan assets as of the end of this fiscal year. Prior service cost is amortized using the straight-line method over the average remaining years of service of the employees (mostly 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 (mostly 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.).	3) Provision for retirement benefits Same as left

Item	Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
	4) Provision for directors’ retirement benefits Provided for directors’ retirement benefits to be paid at the end of the fiscal year in accordance with internal rules.	4) Provision for directors’ retirement benefits Same as left
	5) Provision for loss on guarantees Provided for possible losses on guarantees taking into consideration the outlook of the financial position, among others, of guaranteed parties.	
	(4) Policy for translation of significant foreign currency-denominated assets and liabilities into Japanese yen Receivables and payables denominated in foreign currencies are translated into Japanese yen at the rates prevailing at the closing date of the accounting period with translation differences treated as gains or losses occurring in the corresponding fiscal year. All assets and liabilities of foreign consolidated subsidiaries are translated into Japanese yen at the exchange rates prevailing at each subsidiary’s respective fiscal year end. All revenue and expense accounts are translated at average exchange rates during each subsidiary’s respective fiscal year. Differences arising from such translation are shown as foreign currency translation adjustment and minority interests in net assets.	(4) Policy for translation of significant foreign currency-denominated assets and liabilities into Japanese yen Same as left
	(5) Significant hedge accounting method	(5) Significant hedge accounting method
	1) Hedge accounting method Deferral hedge accounting is applied. Assets and liabilities denominated in foreign currencies are translated at foreign exchange rate stipulated in foreign currency forward contracts where requirements are met. Interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at fair value, but the differential to be paid or received under the swap agreements are accrued or recorded and included in interest expenses or income.	1) Hedge accounting method Same as left

Item	Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
	2) Hedging instruments and hedged items a. Hedging instruments --- Foreign currency forward contracts Hedged items --- Forecasted foreign currency transactions b. Hedging instruments --- Interest rate swaps Hedged items --- Loans payable	2) Hedging instruments and hedged items Same as left
	3) Hedging policy Derivative transactions are mainly used in line with the Risk Management Policy, the internal policy for derivative transactions, or rules based on it for the purpose of avoiding or reducing foreign currency exchange risks associated with future foreign currency transactions and for the purpose of avoiding interest rate risks associated with interest receipts on debt securities and interest payments on loans.	3) Hedging policy Derivative transactions are mainly used in line with the Group Basic Policy on Financial Operations, the internal policy for derivative transactions, or rules based on it for the purpose of avoiding or reducing foreign currency exchange risks associated with future foreign currency transactions and for the purpose of avoiding interest rate risks associated with interest receipts on debt securities and interest payments on loans.
	4) Assessment of hedge effectiveness As a general rule, the effectiveness of hedging instruments is determined by comparing the accumulated amount of changes in hedging instruments with the accumulated amount of changes in hedged items. Assessment of effectiveness is omitted for foreign currency forward contracts that are not remeasured at fair value but used for translation of foreign currency-denominated assets and liabilities and for interest rate swaps that are not remeasured at fair value, but whose differential to be paid or received under the swap agreements are accrued or recorded and included in interest expenses or income.	4) Assessment of hedge effectiveness Same as left
	(6) Accounting treatment policies of foreign consolidated subsidiaries JT International S.A. and other foreign consolidated subsidiaries principally maintain their accounting records in conformity with U.S. GAAP. The significant accounting policies, which are different from JT's, are as follows:	(6) Accounting treatment policies of foreign consolidated subsidiaries Same as left

Item	Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
	1) 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.	1) Valuation standard and method of inventories Same as left
	2) Depreciation of significant depreciable assets i. Property, plant and equipment --- Generally depreciated applying the straight-line method over the estimated useful lives of the respective assets. ii. 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.	2) Depreciation of significant depreciable assets i. Property, plant and equipment --- Same as left ii. Intangible assets --- Same as left
	3) Retirement benefit pension plans The difference between the retirement benefits obligation and the fair value of pension plan assets is recognized on the consolidated balance sheets as assets or liabilities. Unrecognized net actuarial gains or losses and prior service cost, net of tax effect, are recorded as pension liability adjustment of foreign consolidated subsidiaries in valuation and translation adjustments of net assets.	3) Retirement benefit pension plans Same as left
	4) Derivatives treatment Derivatives related to foreign currency and interest rate are entered into for hedging. Fair values for all derivatives are recognized at fair value on the balance sheets as assets or liabilities and their fluctuations are recognized as income or loss.	4) Derivatives treatment Same as left
	(7) Other significant accounting policies Consumption tax National consumption tax and local consumption tax are excluded from the consolidated statement of income.	(7) Other significant accounting policies Consumption tax Same as left

Item	Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
5. Valuation of assets and liabilities of consolidated subsidiaries	The assets and liabilities of consolidated subsidiaries are originally measured using the fair value at the time when JT acquired control of the respective subsidiaries.	Same as left
6. Amortization of goodwill	Goodwill is amortized over the years estimated individually between 5 and 20 years. However, immaterial amounts of goodwill are fully charged to income when incurred.	Same as left
7. Cash and cash equivalents in consolidated statements of cash flows	Cash and cash equivalents presented in the consolidated statements of cash flows are cash on hand, deposits which are withdrawable at anytime without notice, and short-term investments with an investment period within three months, which are readily convertible to cash and represent less value fluctuation risk.	Same as left

Changes in significant matters in preparing consolidated financial statements

Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
(Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements) Effective from April 1, 2008, JT applied the “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (ASBJ PITF No. 18, May 17, 2006), and adjusted necessary items in the consolidation process. As a result of this change, operating income, ordinary income and income before income taxes and minority interests for this fiscal year decreased by ¥94,235 million respectively, and as of April 1, 2008, retained earnings decreased by ¥193,658 million as JT amortized goodwill posted at consolidated foreign subsidiaries. Also, income before income taxes and minority interests for this fiscal year decreased by ¥911 million, as JT posted the retrospective adjustment in the consolidated statements of income. The adjustment was caused by an accounting policy change in foreign subsidiaries as a result of a change of U.S. GAAP. The effects on segment information are described at the relevant note. (Accounting Standard for Lease Transactions) The accounting treatment for finance lease transactions that do not transfer ownership followed the same method as the one for operating lease transactions. However, effective from April 1, 2008, JT applied the “Accounting Standard for Lease Transactions” (ASBJ Statement No. 13 [Business Accounting Council Committee No. 1, June 17, 1993; revised March 30, 2007]) and the “Guidance on Accounting Standard for Lease Transactions” (ASBJ Guidance No. 16 [The Japanese Institute of Certified Public Accountants (JICPA) Accounting Standard Committee, January 18, 1994; revised March 30, 2007]), and such transactions are accounted for in a similar manner with ordinary sale and purchase transactions. With respect to finance lease transactions that do not transfer ownership commenced prior to the first year of implementation of this accounting standard, the balance of future minimum lease payments as of the end of the previous fiscal year (after deduction of the interest element) is regarded as the acquisition cost, at which lease assets are recognized as if acquired at the beginning of the year. The impact of this change on operating income, ordinary income and income before income taxes and minority interests is immaterial.	―――――

Changes in methods of presentation

Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
(Consolidated balance sheets) 1. As the Cabinet Office Ordinance Partially Revising Regulation for Financial Statements, etc. (Cabinet Office Ordinance No. 50 of August 7, 2008) was applied, JT reviewed the method of presentation, and “Inventories” for the fiscal year ended March 31, 2008 is now separately presented as “Merchandise and finished goods” (¥138,870 million recorded in the previous fiscal year), “Semi-finished goods” (¥120,527 million recorded in the previous fiscal year), “Work in process” (¥7,938 million recorded in the previous fiscal year), “Raw materials and supplies” (¥226,735 million recorded in the previous fiscal year) and “Other” (¥64,777 million recorded in the previous fiscal year and ¥69,245 million in this fiscal year) for the fiscal year ended March 31, 2009. 2. In the previous fiscal year, “Lease obligations” were included in “Other” in “Current liabilities” (¥1,340 million recorded in the previous fiscal year), and “Lease obligations” were included in “Other” in “Noncurrent liabilities” (¥1,111 million recorded in the previous fiscal year). They are now presented separately due to their increased materiality.	(Consolidated balance sheets) 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,” however, in this fiscal year, it is included in “Other” in “Investments and other assets” due to its immateriality.
(Consolidated statements of income) In the previous fiscal year, “Loss on valuation of investment securities” (¥7,062 million recorded in this fiscal year) was presented separately in “Extraordinary loss,” however, in this fiscal year, it is included in “Other” in “Extraordinary loss” due to its immateriality.	(Consolidated statements of income) 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,” however, it is now presented separately due to its increased materiality.
(Consolidated statements of cash flows) In the previous fiscal year, “Purchase of investment securities” (-¥404 million recorded in this fiscal year) was presented separately in “Net cash provided by (used in) investing activities,” however, in this fiscal year, it is included in “Other” due to its immateriality.	

Notes to consolidated financial statements

(Notes to consolidated balance sheets)

As of March 31, 2009	As of March 31, 2010
*1. The amount invested in non-consolidated subsidiaries and affiliates is as follows: (Millions of yen) Investment securities 23,735 Other (Investments in capital) 583	*1. The amount invested in non-consolidated subsidiaries and affiliates is as follows: (Millions of yen) Investment securities 23,582 Other (Investments in capital) 349
*2. "Provision" under current liabilities consists of provision for bonuses and provision for sales rebates.	*2. Same as left
*3. (1) Pursuant to Article 6 of the Japan Tobacco Inc. Act, JT's assets are pledged as general collateral for its corporate bonds.	*3. (1) Same as left
(2) Assets pledged as collateral with respect to some consolidated subsidiaries are as follows: (Millions of yen) Buildings and structures 5,331 Land 4,315 Other 1,820 Total 11,467 Liabilities corresponding to the above are as follows: (Millions of yen) Long-term loans payable 3,388 Short-term loans payable 2,590 Current portion of long-term loans payable 2,694 Other 680 Total 9,353	(2) Assets pledged as collateral with respect to some consolidated subsidiaries are as follows: (Millions of yen) Buildings and structures 5,821 Land 4,315 Other 6,939 Total 17,076 Liabilities corresponding to the above are as follows: (Millions of yen) Long-term loans payable 5,281 Short-term loans payable 10,861 Current portion of long-term loans payable 1,755 Other 420 Total 18,319
4. Notes receivable discounted Notes receivable discounted amounted to ¥106 million.	―――――――
5. Contingent obligations Guarantees are provided for bank loans of business partners, subsidiaries and affiliates as follows: (Millions of yen) Mitoyo Cable Television Co., Ltd. 357 Other three companies 351 Total 709 Note: Guarantee obligations denominated in foreign currencies were translated to yen amounts using the exchange rate as of the end of the fiscal year.	―――――――

(Notes to consolidated statements of income)

<table>
<tr><th>Fiscal year ended March 31, 2009</th><th>Fiscal year ended March 31, 2010</th></tr>
<tr><td>

*1. Of selling, general and administrative expenses, major items and their amounts are as follows:

(Millions of yen)

Advertising expenses	25,692
Promotion expenses	162,330
Compensation, salaries and allowances	142,052
Retirement benefit expenses	14,731
Legal welfare expenses	26,398
Employees' bonuses	13,493
Provision for bonuses	34,848
Depreciation and amortization	113,065
Amortization of goodwill	105,511
Research and development expenses	47,296

*2. The main component of "Gain on sales of noncurrent assets" is "Land" valued at ¥45,841 million.

*3. The main component of "Loss on retirement of noncurrent assets" is "Buildings" valued at ¥7,615 million.

*4. Total research and development expenses are ¥47,296 million, all of which recorded as general and administrative expenses.

*5. An impairment loss was posted for the following asset groups.

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

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

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

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

</td><td>

*1. Of selling, general and administrative expenses, major items and their amounts are as follows:

(Millions of yen)

Advertising expenses	21,980
Promotion expenses	143,703
Compensation, salaries and allowances	133,509
Retirement benefit expenses	17,524
Legal welfare expenses	24,102
Employees' bonuses	13,313
Provision for bonuses	27,606
Depreciation and amortization	72,590
Amortization of goodwill	97,427
Research and development expenses	49,644

*2. The main component of "Gain on sales of noncurrent assets" is "Land" valued at ¥30,440 million.

*3. The main component of "Loss on retirement of noncurrent assets" is "Machinery and equipment" valued at ¥2,437 million.

*4. Total research and development expenses are ¥49,644 million, all of which recorded as general and administrative expenses.

</td></tr>
</table>

Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
*6. "Business restructuring costs" are costs associated with the business restructuring measures and its main components consist of costs associated with changes made to the license business structure in the Philippine market for the international tobacco business as well as rationalizing costs for the domestic and international tobacco businesses	*6. Business restructuring costs were incurred in line with the business restructuring measures mainly for rationalization of the domestic and international tobacco businesses.
*7. Introduction costs for vending machines with adult identification functions consist of costs incurred in the development of the "Taspo" IC card adult identification system introduced countrywide in this fiscal year and in the installation of adult identification functions into vending machines owned by consolidated subsidiaries, all in an effort to prevent youth smoking.	―――――――――
―――――――――	*8. On April 16, 2010, Gallaher Group Ltd. (former Gallaher Group Plc) and Gallaher Ltd. (together, hereinafter, "Gallaher"), JT's tobacco business subsidiaries in the United Kingdom, received the decision from the Office of Fair Trading ("OFT"), the UK competition authority, concluding that a fine of approximate 50 million sterling pound 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. Approximate 164 million sterling pound in total, 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 current liabilities and Other non-current liabilities on the Consolidated Balance Sheets. As the amount of fine decided by the OFT was lower than the liabilities which had been originally booked, the liability has been reversed to the amount of fine determined by the OFT, and consequently, the relevant variance of approximate 114 million sterling pound has been recognized and disclosed as "Gain from the reversal of liability on a fine levied under the UK competition law" in extraordinary income.

(Notes to consolidated statements of changes in net assets)

Fiscal year ended March 31, 2009

1. Type and total number of issued shares and type and total number of treasury shares

(Thousands of shares)

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

2. Subscription rights to shares and subscription rights to treasury shares

Category	Details of subscription rights to shares	Type of shares to which subscription rights to shares apply	Number of shares to which subscription rights to shares apply (Share)				Balance as of March 31, 2009 (Millions of yen)
			As of March 31, 2008	Increase in the fiscal year ended March 31, 2009	Decrease in the fiscal year ended March 31, 2009	As of March 31, 2009	
Filing company (parent company)	Subscription rights to shares as stock options	–	–	–	–	–	364
Total		–	–	–	–	–	364

3. Cash dividends

(1) 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 24, 2008	Common stock	24,908	2,600	March 31, 2008	June 25, 2008
Meeting of the Board of Directors held on October 30, 2008	Common stock	24,908	2,600	September 30, 2008	December 1, 2008

(2) Dividends whose record dates are in the fiscal year ended March 31, 2009 but whose effective dates fall in the next fiscal year

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

Fiscal year ended March 31, 2010

1. Type and total number of issued shares and type and total number of treasury shares

(Thousands of shares)

	Number of shares as of March 31, 2009	Increase in the fiscal year ended March 31, 2010	Decrease in the 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 shares				
Common stock (Note)	419	–	0	419
Total	419	–	0	419

Note: The decrease of 17 shares in the number of common shares of treasury stock is due to the exercise of stock options.

2. Subscription rights to shares and subscription rights to treasury shares

Category	Details of subscription rights to shares	Type of shares to which subscription rights to shares apply	Number of shares to which subscription rights to shares apply (Share)				Balance as of March 31, 2010 (Millions of yen)
			As of March 31, 2009	Increase in the fiscal year ended March 31, 2010	Decrease in the fiscal year ended March 31, 2010	As of March 31, 2010	
Filing company (parent company)	Subscription rights to shares as stock options	–	–	–	–	–	564
Total		–	–	–	–	–	564

3. Cash dividends

(1) 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

(2) Dividends whose record dates are in the fiscal year ended March 31, 2010 but whose effective dates fall in the next fiscal year

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

(Notes to consolidated statements of cash flows)

Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
*1. Cash and cash equivalents at the end of the period are reconciled to items on the consolidated balance sheets as follows: (As of March 31, 2009) (Millions of yen) Cash and deposits 164,957 Time deposits with a deposits period of over three months (713) Short-term investments with an investment period within three months, which are readily convertible to cash and represent less value fluctuation risk (Short-term investment securities) 3,013 Cash and cash equivalents 167,257	*1. Cash and cash equivalents at the end of the period are reconciled to items on the consolidated balance sheets as follows: (As of March 31, 2010) (Millions of yen) Cash and deposits 155,444 Time deposits with a deposits period of over three months (7,855) Short-term investments with an investment period within three months, which are readily convertible to cash and represent less value fluctuation risk (Short-term investment securities) 6,780 Cash and cash equivalents 154,368
2. Significant non-cash transactions Assets and obligations related to finance lease transactions that were newly recorded in this fiscal year were both ¥6,175 million.	2. Significant non-cash transactions Assets and obligations related to finance lease transactions that were newly recorded in this fiscal year were both ¥3,416 million.

(Lease transactions)

Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
[As lessee] Operating leases Future minimum lease payments under noncancelable operating leases (Millions of yen) Due within one year 7,497 Due after one year 24,019 Total 31,517	**[As lessee]** Operating leases Future minimum lease payments under noncancelable operating leases (Millions of yen) Due within one year 7,361 Due after one year 21,152 Total 28,514

(Financial instruments)

Fiscal year ended March 31, 2010

1. Status of financial instruments

(1) Policy for financial instruments

JT and major subsidiaries effectively raise necessary funds (for business operations) with mainly bank loans and bonds considering their business environment.

Cash surplus, if any, is invested in low risk and highly liquid financial instruments.

Derivatives are used, not for speculative nor trading purposes, but to manage risk exposure arising from business operations.

(2) Nature and Extent of Risks Arising from Financial Instruments

Receivables such as trade notes and accounts receivable are exposed to customer's credit risk. Receivables in foreign currencies are exposed to the risk of fluctuation in foreign currency exchange rates.

Short-term investments and investment securities mainly consist of bonds held for surplus investment and equities of customers and suppliers of the Group and those are exposed to the issuer's credit risk and market price fluctuation risk.

Payables such as trade notes and accounts payable in foreign currencies are exposed to the risk of fluctuation in foreign currency exchange rates.

Bank loans, commercial paper and bonds issued by the Group are exposed to the liquidity risk that the Group would not be able to prepare funding to repay such debts due to deterioration of financial market.

Bank loans and bonds bearing variable interest rates are exposed to risks of interest rate fluctuation and those in foreign currencies are exposed to the risk of fluctuation in foreign currency exchange rates.

Derivatives mainly include foreign currency forward contracts to manage the risk of fluctuation in foreign currency exchange rate related to future cash flow in foreign currency and interest rate swaps to manage the risk of fluctuation interest rate related to interest payment for bank loans and bonds. These derivatives are exposed to counterparty's credit risk. Please see "(5) Significant hedge accounting method," an item in the aforementioned accounting policies, for details on hedging instruments and hedged items, hedging policy and the assessment of hedge effectiveness relating to hedge accounting.

(3) Risk management for financial instruments

a. Credit risk management (risk relating to nonfulfillment of contracts by business partners)

With respect to receivables, in order to control customer's credit risk, JT and its major subsidiaries set credit limits or payment terms to major customers based on the Credit Management Guideline in principle. In addition, receivable balance of each customer is constantly checked to reduce risk of customer's default. The Treasury Division of JT regularly monitors status of occurrence and collections of bad debts, and reports them to JT's Executive Committee.

To control credit risk related to surplus investment and derivatives, based on the internal guide lines, JT and its major subsidiaries invest cash surplus into bonds and other financial instruments with a certain credit grade and have derivatives with counterparties which has high credit grade. In addition, the Treasury Division of JT regularly monitors such transactions and reports them to its Executive Committee.

b. Foreign exchange risk management

In accordance with the internal guidelines, JT and its major subsidiaries establish foreign exchange hedging strategy based on the environment and the forecast of foreign exchange market in order to reduce the risk of fluctuation in foreign currency exchange rate related to cash flows arising from transactions in a foreign currency to be executed in the future. The foreign exchange hedging strategy is reviewed and approved by the Financial Risk Management Committee of JT and, based on which, the derivative transactions are originated. The Treasury Division of JT regularly reports such derivative transactions to the JT's Executive Committee.

c. Interest rate risk management

In accordance with the internal guidelines, JT and its major subsidiaries, establish interest rate hedging strategy based on the environment and the forecast of market interest rates in order to reduce the risk of interest rate fluctuation related to bank loans and bonds. The interest rate hedging strategy is reviewed and approved by the Financial Risk Management Committee of JT and, based on which, derivative transactions are originated. The Treasury Division of JT regularly reports such derivative transactions to JT's Executive Committee.

d. Risk Management of market price fluctuation

With respect to short-term investments and investment securities, JT and its major subsidiaries regularly monitors prices and issuer's financial status. Except for held-to-maturity bonds, responsible divisions revise investment strategy, if necessary, by taking relationship with issuers into consideration.

e. Liquidity risk management (Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on maturity dates)

In accordance with the internal guidelines, JT and its major subsidiaries establishes finance plan based on the annual business plan. The Treasury Division of JT regularly monitors the balance of liquidity-in-hand and interest-bearing debts and reports them to JT's Executive Committee. In addition, JT and its major subsidiaries keep necessary credit facilities to manage liquidity risk, having commitment lines with several financial institutions.

(4) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted price in active markets. If quoted price is not available, other rational valuation techniques are used instead. The results of valuation may differ among assumptions because the rational valuation techniques include variable factors.

Also, the contract or notional amounts of derivatives which are shown in "Derivative transactions" do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

2. Fair values of financial instruments

Consolidated balance sheet amounts and fair values at March 31, 2010 (the closing date of this 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. (Please refer to (Note 2).)

(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 debt securities	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 paper	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) Accrued consumption taxes	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: 1. 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 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. Please refer to (Short-term investment securities and investment securities) for notes concerning securities by purpose of holding.

Liabilities

(1) Notes and accounts payable—trade, (2) Short-term loans payable, (3) Commercial paper, (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) Accrued consumption taxes

Stated as 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 the total of principal and interest to the present value at a rate considering 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

Please refer to (Derivative transactions).

Note: 2. Financial instruments whose fair values are deemed extremely difficult to determine

Category	Consolidated balance sheet amount (Millions of yen)
Unlisted stock and available-for-sale securities, etc.	28,400

The above are not included in "(3) Short-term investment securities and investment securities" because their market values are not available and whose fair values are deemed extremely difficult to determine.

Note: 3. Redemption schedule for monetary receivables and securities with maturity after the closing date of the accounting period

(Millions of yen)

	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	155,444	–	–	–
Notes and accounts receivable-trade	296,884	–	–	–
Short-term investment securities and investment securities				
Held-to-maturity debt securities	300	–	–	–
Available-for-sale securities with maturities	11,650	2,500	9	–
Total	464,279	2,500	9	–

Note: 4. Repayment schedule for bonds payable, long-term loans payable and other interest-bearing debts after the closing date of the accounting period

(Millions of yen)

	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term loans payable	109,263	–	–	–	–	–
Commercial paper	119,000	–	–	–	–	–
Bonds payable	50,300	146,030	60,150	36,706	166,200	–
Long-term loans payable	23,024	22,203	104,106	20,928	1,800	529
Total	301,588	168,233	164,256	57,634	168,000	529

(Short-term investment securities and investment securities)

Fiscal year ended March 31, 2009

1. Held-to-maturity debt securities with fair value (As of March 31, 2009)

(Millions of yen)

	Type	Consolidated balance sheet amount	Fair value	Difference
Bonds whose fair values exceed their book values	Government bonds and municipal bonds	600	600	0
Total		600	600	0

2. Available-for-sale securities with fair value (As of March 31, 2009)

(Millions of yen)

	Type	Acquisition cost	Consolidated balance sheet amount	Difference
Securities whose book values exceed their acquisition costs	(1) Equity securities	15,326	34,612	19,285
	(2) Bonds	3,785	3,893	107
	(3) Other	–	–	–
	Subtotal	19,111	38,505	19,393
Securities whose book values do not exceed their acquisition costs	(1) Equity securities	20,008	14,902	(5,105)
	(2) Bonds	338	335	(3)
	(3) Other	8,082	7,547	(535)
	Subtotal	28,429	22,785	(5,643)
Total		47,541	61,291	13,749

3. Available-for-sale securities sold in this fiscal year (Fiscal year ended March 31, 2009)

(Millions of yen)

Proceeds from sales	Total gain on sales	Total loss on sales
2,718	220	48

4. Details of short-term investment securities and investment securities that are not measured at fair value and the amount recorded in consolidated balance sheets (As of March 31, 2009)

Available-for-sale securities

(1) Unlisted stock (Millions of yen) 4,702

(2) Unlisted bonds (Millions of yen) 4,020

(3) Other (Millions of yen) 790

5. Redemption schedule for available-for-sale securities with maturities and held-to-maturity debt securities (As of March 31, 2009)

(Millions of yen)

	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
(1) Bonds	4,712	2,907	1	0
Commercial paper	2,993	–	–	–
Other	1,719	2,907	1	0
(2) Certificates of deposits	197	–	–	–
(3) Other	0	4,759	408	–
Total	4,910	7,667	409	0

Note: Recognized impairment loss was as follows:

(Fiscal year ended March 31, 2009) ¥7,062 million

For impairment of securities, their values are “significantly decreased” when their fair values declined by 50% or more compared to the carrying amounts or their fair values declined by 30% to less than 50% compared to the carrying amounts and such declines have significant influence on the consolidated financial statements.

Recoverability is assessed for securities whose fair values are “significantly decreased,” and securities other than those judged clearly recoverable are accounted for as impaired.

Fiscal year ended March 31, 2010

1. Held-to-maturity debt securities (As of March 31, 2010)

(Millions of yen)

	Type	Consolidated balance sheet amount	Fair value	Difference
Bonds whose fair values exceed their book values	Government bonds and municipal bonds	300	300	0
Total		300	300	0

2. Available-for-sale securities (As of March 31, 2010)

(Millions of yen)

	Type	Consolidated balance sheet amount	Acquisition cost or amortized cost	Difference
Securities whose book values 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
Securities whose book values 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

Note: Items whose fair values are deemed extremely difficult to determine are not included.

3. Available-for-sale securities sold in this fiscal year (Fiscal year ended March 31, 2010)

(Millions of yen)

Type	Proceeds from sales	Total gain on sales	Total loss on sales
(1) Equity securities	7,097	1,900	1,936
(2) Bonds	92	18	–
(3) Other	5,772	1,763	2
Total	12,961	3,682	1,938

4. Short-term investment securities and investment securities whose purpose for holding was changed (Fiscal year ended March 31, 2010)

The shares of HUB CO., LTD. previously held as stocks of affiliates were partially sold and excluded from the scope of the equity method. As a result, their classification was changed to available-for-sale securities during this fiscal year. The impact of this change on ordinary income and income before income taxes and minority interests is immaterial.

5. Short-term investment securities and investment securities accounted for as impaired (Fiscal year ended March 31, 2010)

During this fiscal year, ¥1,404 million of short-term investment securities were accounted for as impaired. For impairment of securities, their values are “significantly decreased” when their fair values declined by 50% or more compared to the carrying amounts or their fair values declined by 30% to less than 50% compared to the carrying amounts and such declines have significant influence on the consolidated financial statements.

Recoverability is assessed for securities “significantly decreased,” and securities other than those judged clearly recoverable are accounted for as impaired.

(Derivative transactions)

Fiscal year ended March 31, 2009

1. Details of derivative transactions

(1) Types of transactions

Foreign currency forward contracts, Currency swaps, Currency options, Interest rate swaps, and Interest rate cap options

(2) Policy and purposes regarding transactions

JT and its consolidated subsidiaries use derivative transactions for the following purposes: avoiding or reducing foreign currency exchange risks associated with payables denominated in foreign currencies and future foreign currency transactions, and avoiding interest rate risks associated with interest payments on loans. They do not use derivative transactions, however, for speculative or trading purposes.

Some derivative transactions are used and accounted for under hedge accounting.

a. Hedge accounting method

Deferral hedge accounting is applied. Foreign currency forward contracts are not remeasured at fair value, but used for translation of foreign currency-denominated assets and liabilities where requirements are met. Interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at fair value, but the differential to be paid or received under the swap agreements are accrued or recorded and included in interest expense or income.

b. Hedging instruments and hedged items

Hedging instruments	Hedged items
Foreign currency forward contracts	Forecasted foreign currency transactions
Interest rate swaps	Loans payable

c. Hedging policy

Derivative transactions are mainly used in line with the Risk Management Policy, the internal policy for derivative transactions, or rules based on it for the purpose of avoiding or reducing foreign currency exchange risks associated with future foreign currency transactions and for the purpose of avoiding interest rate risks associated with interest payments on loans.

d. Assessment of hedge effectiveness

As a general rule, the effectiveness of hedging instruments is decided by comparing the accumulated amount of changes in hedging instruments with the accumulated amount of changes in hedged items.

Assessment of effectiveness is omitted for foreign currency forward contracts that are not remeasured at fair value, but used for translation of foreign currency-denominated assets and liabilities and for interest rate swaps that are not remeasured at fair value, but whose differential to be paid or received under the swap agreements are accrued or recorded and included in interest expense or income.

(3) Risks

The primary risks associated with derivatives are market risks and credit risks. Market risk is the risk of decreasing fair values of derivatives by fluctuations in market prices, including interest or foreign exchange rates. Credit risk is the risk of incurring a loss when a counterparty to a contract defaults on obligations.

JT and its consolidated subsidiaries primarily enter into derivative transactions to reduce market risk and to fix foreign currency-denominated bonds and liabilities and forecasted foreign currency-denominated transactions, or future revenues or expenses. In addition, because transactions are made with financial institutions with high credit ratings, credit risk is not expected to be material.

(4) Risk management system

Before commencing a transaction, JT and its major consolidated subsidiaries obtain an approval from the director in charge regarding the purpose of use, range of use and selection of transaction counterparty, in accordance with the Risk Management Policy, the internal policy for derivative transactions, or rules based on it. In addition, transaction details and operation status are confirmed by the general manager in charge with monthly balance statements issued by the financial institutions.

2. Matters regarding fair value of derivative transactions (As of March 31, 2009)

Currency

(Millions of yen)

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

Notes: 1. Calculation of fair value is based on information provided by financial institutions.
2. Items that qualify for hedge accounting are omitted.
3. The amount recorded in "Contract/notional amount," for currency swaps (buying) is the notional amount relating to coupon swaps and it does not represent the level of risk for derivative transactions.

Interest rate

(Millions of yen)

Category	Type	Contract/ notional amount	Contract/ notional amount/ over one year	Fair value	Gain (loss)
Non-market transactions	Interest rate swaps:				
	Receive fixed Pay floating	72,283	32,856	2,811	2,811
	Receive floating Pay fixed	469	384	(5)	(5)
	Interest rate cap:				
	Buying	318,041	278,564	100	(1,503)
Total		–	–	–	1,302

Notes: 1. Calculation of fair value is based on information provided by financial institutions.
2. Items that qualify for hedge accounting are omitted.

Fiscal year ended March 31, 2010

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

The fair value is based on information provided by financial institutions with which the companies do business.

1. Derivatives to which hedge accounting is not applied

(1) Currency

(Millions of yen)

Category	Type	Contract/ notional amount	Contract/ notional amount/ over one year	Fair value	Gain (loss)
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)

(2) Interest rate

(Millions of yen)

Category	Type	Contract/ notional amount	Contract/ notional amount/ over one year	Fair value	Gain (loss)
Non-market transactions	Interest rate swaps:				
	Receive fixed Pay floating	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

2. Derivatives to which hedge accounting is applied

Interest rate derivatives

(Millions of yen)

Category	Type	Main hedged item	Contract/ notional amount	Over one year	Fair value
Exceptional treatment of interest rate swaps	Interest rate swaps:				
	Receive floating Pay fixed	Long-term loans payable	1,136	437	(Note)

Note: Items subjected to the exceptional treatment of interest rate swaps are treated in an integrated form with long-term loans payable used as hedged items; therefore, their fair value includes the fair value of those long-term loans payable.

(Retirement benefits)

1. Overview of the adopted retirement benefit pension plans

JT and its domestic consolidated subsidiaries have unfunded severance indemnity plans, and cash balance pension plans, which are both defined payment plans, as well as defined contribution plans. Foreign consolidated subsidiaries have defined payment plans, while certain foreign consolidated subsidiaries also provide health and life insurance benefits for retired employees.

When employees leave JT Group, 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.

2. Projected benefit obligations

(Millions of yen)

	As of March 31, 2009	As of March 31, 2010
a. Projected benefit obligations	(424,412)	(455,264)
b. Fair value of plan assets	280,513	321,317
c. Funded status (a + b)	(143,899)	(133,946)
d. Unrecognized actuarial difference	44,996	42,196
e. Unrecognized prior service cost	6,203	4,789
f. Net amount recognized (c + d + e)	(92,699)	(86,960)
g. Pension liability adjustment of foreign consolidated subsidiaries (Note 2)	(25,661)	(35,742)
h. Prepaid pension cost	27,642	23,390
i. Other current liabilities (Note 3)	(5,136)	(3,720)
j. Provision for retirement benefits (f + g – h – i) (Note 4)	(140,866)	(142,372)

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

2. As described in an item of accounting policies, "(6) Accounting treatment policies of foreign consolidated subsidiaries," this is the unfunded obligation recognized by foreign consolidated subsidiaries applying U.S. GAAP. In the consolidated balance sheets and the consolidated statements of changes in net assets, this amount is presented as "Pension liability adjustment of foreign consolidated subsidiaries" under "Valuation and translation adjustments."

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

4. As described in an item of accounting policies, "(3) Policy for significant reserve allowances," reserve for mutual assistance association benefit was separately computed from "j. Provision for retirement benefits" above and included in "Provision for retirement benefits." The amounts thereof were as follows:

(As of March 31, 2009) ¥118,278 million (As of March 31, 2010) ¥109,529 million

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

(a) Funded status of the entire plan:

(Millions of yen)

	(As of March 31, 2009)	(As of March 31, 2010)
Fair value of plan assets	415,832	325,177
Benefit obligations	497,473	502,794
Deficit	(81,640)	(177,616)

For the above amounts, the record date for the previous fiscal year is March 31, 2008 and that of this fiscal year is March 31, 2009.

(b) Proportion of the domestic consolidated subsidiaries' contributions to the entire plan:

(As of March 31, 2009) 1.2% (As of March 31, 2010) 1.3%

3. Net periodic retirement benefit cost

(Millions of yen)

	Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
a. Service cost (Note 1)	13,123	11,293
b. Interest cost	21,719	18,090
c. Expected return on plan assets	(20,132)	(12,902)
d. Recognized actuarial net gain (Note 2)	748	3,876
e. Amortization of prior service cost (Note 2)	1,255	1,744
f. Net periodic retirement benefit cost (a + b + c + d + e)	16,713	22,102

Notes: 1. Retirement benefit cost to which the simplified method is applied is included in “a. Service cost.”

2. The following additional retirement benefits are included in extraordinary loss. Additional retirement benefits include a one-time charge for the unrecognized actuarial difference and unrecognized prior service cost attributable to the employees who retired earlier than expected.
(Fiscal year ended March 31, 2009) ¥2,722 million (Fiscal year ended March 31, 2010) ¥8,523 million

3. In addition to the above, the necessary amounts of the JT Group’s contributions to the defined contribution plans are charged to expenses as follows:
(Fiscal year ended March 31, 2009) ¥3,947 million (Fiscal year ended March 31, 2010) ¥5,679 million

4. Assumptions used for computation of projected benefit obligations

Fiscal year ended March 31, 2009

a. Periodic allocation standard for projected benefit obligation:	Principally, standard of fixed-amount for period
b. Discount rate:	Principally, 2.5%
c. Expected rate of return on plan assets:	Principally, 2.5%
d. Period over which prior service cost is amortized:	Principally, 10 years (charged to expenses by the straight-line method over specific years within average remaining service years as occurred)
e. Period over which actuarial gains or losses are amortized:	Principally, 10 years (the amount principally equally allocated by the straight-line method over specific years within average remaining service years as occurred is charged to expenses from the year following the respective years in which it occurred)

Fiscal year ended March 31, 2010

		(Domestic retirement benefit pension plans)	(Overseas retirement benefit pension plans)
a.	Periodic allocation standard for projected benefit obligation:	Principally, standard of fixed-amount for period	Mainly stated based on the benefit calculation method
b.	Discount rate:	Principally, 2.5%	Principally, 3.0% to 5.8%
c.	Expected rate of return on plan assets:	Principally, 2.5%	Principally, 4.5% to 6.2%
d.	Period over which prior service cost is amortized:	Principally, 10 years (charged to expenses by the straight-line method over specific years within average remaining service years as occurred)	Principally, 6 to 10 years (charged to expenses by the straight-line method over specific years within average remaining service years as occurred)
e.	Period over which actuarial gains or losses are amortized:	Principally, 10 years (the amount principally equally allocated by the straight-line method over specific years within average remaining service years as occurred is charged to expenses from the year following the respective years in which it occurred)	Principally, 5 to 19 years (the amount principally equally allocated by the straight-line method over specific years within average remaining service years as occurred is charged to expenses from the year following the respective years in which it occurred)

(Mutual assistance association)

Obligations relating to mutual assistance association as described in an item of the accounting policies, "(3) Policy for significant reserve allowances," are computed as follows:

1. Obligations relating to mutual assistance association

(Millions of yen)

	As of March 31, 2009	As of March 31, 2010
a. Benefit obligations (Note 1)	(116,889)	(106,345)
b. Unrecognized actuarial difference (Note 2)	(1,388)	(3,183)
c. Liabilities recognized (a + b) (Note 3)	(118,278)	(109,529)

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 Mutual Assistance Association of Public Corporation Employees Law and actual figure.

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

2. Net periodic costs for obligations relating to mutual assistance association

(Millions of yen)

	Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
a. Interest cost	1,918	1,753
b. Recognized actuarial loss (gain)	106	(28)
c. Net periodic costs (a + b)	2,024	1,724

3. Assumptions used for obligations relating to mutual assistance association

	Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
a. Discount rate	1.5%	Same as left
b. Period over which actuarial gains or losses are amortized	10 years (the amount equally allocated by the straight-line method is charged to expenses from the year following the respective years in which it occurred)	Same as left

(Stock options)

Fiscal year ended March 31, 2009

1. Amount charged to expense for this fiscal year and its account title

Selling, general and administrative expenses ¥179 million

2. Details, size and activity of stock options

(1) Details of stock options

	Japan Tobacco Inc. 2007 subscription rights to shares	Japan Tobacco Inc. 2008 subscription rights to shares
Positions and number of persons granted	Directors 11 persons Executive Officers *(sikkoyakuin)* (excluding persons serving as Director) 16 persons	Directors 11 persons Executive Officers *(sikkoyakuin)* (excluding persons serving as Director) 14 persons
Number of stock options by class of shares (Note 1)	Common stock 426 shares	Common stock 547 shares
Date of grant	January 8, 2008	October 6, 2008
Vesting conditions	None	None
Requisite service period	From June 22, 2007 to June 24, 2008	From June 24, 2008 to June 23, 2009
Exercise period (Note 2)	From January 9, 2008 to January 8, 2038	From October 7, 2008 to October 6, 2038

Notes: 1. Presented as the number of underlying shares.

2. Terms and conditions of exercise of stock option rights are as follows:

a. The rights become exercisable when a holder no longer holds a position as a director, an auditor or an executive officer *(sikkoyakuin)*.

In the subscription rights to shares allocation contract with holders of such rights, it is provided for that the rights become exercisable from the day following the day on which one year has elapsed after leaving their positions (however, the rights are exercisable even within one year after leaving their positions only in the case where the Board of Directors finds it to be unavoidable).

b. In the case where any holders of subscription rights to shares waive such rights, they cannot exercise said rights.

(2) Size and activity of stock options

The following details are on stock options that existed during the fiscal year ended March 31, 2009. The number of stock options is presented as the number of underlying shares.

a. Number of stock options

(Share)

	Japan Tobacco Inc. 2007 subscription rights to shares	Japan Tobacco Inc. 2008 subscription rights to shares
Non-Vested		
As of March 31, 2008	106	–
Granted	–	547
Canceled	–	–
Vested	106	410
Non-vested	–	137
Vested		
As of March 31, 2008	320	–
Vested	106	410
Exercised	–	–
Canceled	–	–
Unexercised	426	410

b. Unit price

(Yen)

	Japan Tobacco Inc. 2007 subscription rights to shares	Japan Tobacco Inc. 2008 subscription rights to shares
Exercise price	1	1
Average share price at exercise	–	–
Fair value at the date of grant	581,269	285,904

3. Estimations used to measure fair value of stock options

Estimations used to measure fair value of Japan Tobacco Inc. 2008 subscription rights to shares granted during this fiscal year are as follows:

a. Valuation model used Black-Scholes option pricing model

b. Basic assumptions and estimation method

	Japan Tobacco Inc. 2008 subscription rights to shares
Volatility of share price (Note 1)	32.815%
Estimated remaining outstanding period (Note 2)	15 years
Estimated dividend (Note 3)	¥4,800 per share
Interest rate with risk free (Note 4)	1.841%

Notes: 1. Calculated based on share prices for the period on and after listing date (from October 27, 1994 to October 6, 2008).
2. With difficulty in reasonable estimation due to insufficient data, remaining outstanding period is estimated based on the assumption that stock option rights would be exercised at a mid-point of exercise period.
3. Based on interim dividend and annual dividend for the fiscal year ended March 31, 2008.
4. A yield of 15-year government bond, a period of which corresponds to estimated remaining outstanding period.

4. Method to estimate vested number of stock options

As it is difficult, in principle, to reasonably estimate the number of future expirations, the number here reflects only that of actual expirations.

Fiscal year ended March 31, 2010

1. Amount charged to expense for this fiscal year and its account title

Selling, general and administrative expenses ¥209 million

2. Details, size and activity of stock options

(1) Details of stock options

	Japan Tobacco Inc. 2007 subscription rights to shares	Japan Tobacco Inc. 2008 subscription rights to shares	Japan Tobacco Inc. 2009 subscription rights to shares
Positions and number of persons granted	Directors 11 persons Executive Officers *(sikkoyakuin)* (excluding persons serving as Director) 16 persons	Directors 11 persons Executive Officers *(sikkoyakuin)* (excluding persons serving as Director) 14 persons	Directors 9 persons Executive Officers *(sikkoyakuin)* (excluding persons serving as Director) 14 persons
Number of stock options by class of shares (Note 1)	Common stock 426 shares	Common stock 547 shares	Common stock 1,153 shares
Date of grant	January 8, 2008	October 6, 2008	October 13, 2009
Vesting conditions	None	None	None
Requisite service period	From June 22, 2007 to June 24, 2008	From June 24, 2008 to June 23, 2009	From June 23, 2009 to June 24, 2010
Exercise period (Note 2)	From January 9, 2008 to January 8, 2038	From October 7, 2008 to October 6, 2038	From October 14, 2009 to October 13, 2039

Notes: 1. Presented as the number of underlying shares.

2. Terms and conditions of exercise of stock option rights are as follows:

a. The rights become exercisable when a holder no longer holds a position as a director, an auditor or an executive officer *(sikkoyakuin)*.

In the subscription rights to shares allocation contract with holders of such rights, it is provided for that the rights become exercisable from the day following the day on which one year has elapsed after leaving their positions (however, the rights are exercisable even within one year after leaving their positions only in the case where the Board of Directors find it to be unavoidable).

b. In the case where any holders of subscription rights to shares waive such rights, they cannot exercise said rights.

(2) Size and activity of stock options

The following details are on stock options that existed during the fiscal year ended March 31, 2010. The number of stock options is presented as the number of underlying shares.

a. Number of stock options

(Share)

	Japan Tobacco Inc. 2007 subscription rights to shares	Japan Tobacco Inc. 2008 subscription rights to shares	Japan Tobacco Inc. 2009 subscription rights to shares
Non-Vested			
As of March 31, 2009	–	137	–
Granted	–	–	1,153
Canceled	–	–	–
Vested	–	137	865
Non-vested	–	–	288
Vested			
As of March 31, 2009	426	410	–
Vested	–	137	865
Exercised	17	–	–
Canceled	–	–	–
Unexercised	409	547	865

b. Unit price

(Yen)

	Japan Tobacco Inc. 2007 subscription rights to shares	Japan Tobacco Inc. 2008 subscription rights to shares	Japan Tobacco Inc. 2009 subscription rights to shares
Exercise price	1	1	1
Average share price at exercise	272,959	–	–
Fair value at the date of grant	581,269	285,904	197,517

3. Estimations used to measure fair value of stock options

Estimations used to measure fair value of Japan Tobacco Inc. 2009 subscription rights to shares granted during this fiscal year are as follows:

a. Valuation model used Black-Scholes option pricing model

b. Basic assumptions and estimation method

	Japan Tobacco Inc. 2009 subscription rights to shares
Volatility of share price (Note 1)	34.536%
Estimated remaining outstanding period (Note 2)	15 years
Estimated dividend (Note 3)	¥5,400 per share
Interest rate with risk free (Note 4)	1.778%

Notes: 1. Calculated based on share prices for the period on and after listing date (from October 27, 1994 to October 13, 2009).
2. With difficulty in reasonable estimation due to insufficient data, remaining outstanding period is estimated based on the assumption that stock option rights would be exercised at a mid-point of exercise period.
3. Based on interim dividend and annual dividend for the fiscal year ended March 31, 2009.
4. A yield of 15-year government bond, a period of which corresponds to estimated remaining outstanding period.

4. Method to estimate vested number of stock options

As it is difficult, in principle, to reasonably estimate the number of future expirations, the number here reflects only that of actual expirations.

(Tax effect accounting)

As of March 31, 2009		As of March 31, 2010	
1. Breakdown of deferred tax assets and deferred tax liabilities by major cause		1. Breakdown of deferred tax assets and deferred tax liabilities by major cause	
	(Millions of yen)		(Millions of yen)
Deferred tax assets		Deferred tax assets	
Provision for retirement benefits	55,717	Provision for retirement benefits	42,984
Obligations pertaining to mutual assistance association	47,725	Obligations pertaining to mutual assistance association	44,195
Net operating loss carryforwards	42,855	Net operating loss carryforwards	45,685
Foreign exchange losses	26,558	Foreign exchange losses	20,139
Allowance for doubtful accounts	16,329	Allowance for doubtful accounts	10,488
Other	99,558	Other	73,255
Subtotal	288,744	Subtotal	236,748
Less valuation allowance	(64,919)	Less valuation allowance	(74,102)
Total	223,824	Total	162,646
Deferred tax liabilities		Deferred tax liabilities	
Reserve for reduction entry	(32,360)	Reserve for reduction entry	(26,306)
Basis differences in assets acquired and liabilities assumed upon acquisition	(73,387)	Basis differences in assets acquired and liabilities assumed upon acquisition	(72,286)
Other	(72,920)	Prepaid pension cost	(8,782)
Total	(178,668)	Other	(40,213)
Net deferred tax assets	45,156	Total	(147,589)
		Net deferred tax assets	15,056
Note: Net deferred tax assets were reflected in the consolidated balance sheets under the following captions:		Note: Net deferred tax assets were reflected in the consolidated balance sheets under the following captions:	
	(Millions of yen)		(Millions of yen)
Current assets-Deferred tax assets	29,675	Current assets-Deferred tax assets	26,615
Noncurrent assets-Deferred tax assets	128,786	Noncurrent assets-Deferred tax assets	85,375
Current liabilities-Deferred tax liabilities	2,915	Current liabilities-Deferred tax liabilities	2,357
Noncurrent liabilities-Deferred tax liabilities	110,389	Noncurrent liabilities-Deferred tax liabilities	94,577

As of March 31, 2009	As of March 31, 2010
2. Reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the consolidated statements of income, if there is a significant difference	2. Reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the consolidated statements of income, if there is a significant difference

As of March 31, 2009	(%)	As of March 31, 2010	(%)
Normal effective statutory tax rate	40.35	Normal effective statutory tax rate	40.35
(Adjustment)		(Adjustment)	
Tax rate difference applied for foreign consolidated subsidiaries	(12.60)	Tax rate difference applied for foreign consolidated subsidiaries	(6.90)
Non-deductible expenses	3.77	Non-deductible expenses	1.95
Amortization of goodwill	10.05	Amortization of goodwill	8.81
Valuation allowance	5.42	Valuation allowance	6.10
Uncertainty in income taxes of foreign consolidated subsidiaries	3.41	Gain from reversal of liability on fine levied under UK competition law	(2.44)
Other	1.09	Other	(0.31)
Actual effective tax rate	51.49	Actual effective tax rate	47.56

(Business combination)

Fiscal year ended March 31, 2009

Transactions under common control

1. Transferred business and description of the business, legal form of the business combination, name of the company after business combination, and outline and purpose of the transactions

   (1) Transferred business and description of the business

Transferred business:	Processed foods business (excluding chilled processed foods business) and seasonings business of JT
Description of business:	Mainly manufacturing and sales of processed frozen foods and seasoning product

   (2) Legal form of the business combination

   Business transfer of JT's processed foods business and seasonings business, and stock transfer of affiliates including JT Foods, a consolidated subsidiary of JT

   (3) Name of the company after business combination

   Katokichi Co., Ltd. (hereinafter, "Katokichi")

   (4) Outline and purpose of the transactions

   The business combination enables the Group to integrate JT's food business head office function and affiliated companies which are engaged in JT's processed foods business and seasonings business into Katokichi. After the combination, Katokichi holds the processed foods business including the largest scale of frozen foods business in Japan and seasonings business with leading manufacturing capability. Katokichi keeps implementing a business restructuring and setting up further business fundamentals as a food manufacturer.

2. Outline of accounting methods used

   This business combination was accounted for as a "transaction under common control" in accordance with the "Accounting Standards for Business Combinations" (Business Accounting Council, October 31, 2003) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, November 15, 2007).

Fiscal year ended March 31, 2010

No items to report

(Investment and rental properties)

Fiscal year ended March 31, 2010

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

(Millions of yen)

Intended use	Consolidated balance sheet amount			Fair value as of March 31, 2010
	Balance as of March 31, 2009	Increase/(decrease) in the fiscal year ended March 31, 2010	Balance as of March 31, 2010	
Office building for rent	41,505	(2,419)	39,086	140,605
Residence for rent	5,278	(142)	5,136	26,737
Others	29,271	(10,951)	18,319	66,774
Total	76,056	(13,514)	62,542	234,118

Notes: 1. Consolidated balance sheet amounts are net of accumulated depreciation and accumulated impairment losses, if any

2. Decrease during the fiscal year ended March 31, 2010 primarily represents the sales of domestic idle properties (¥11,214 million)

3. 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 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 Group measures the fair value of the investment properties based on such appraisal or indicators

The income and expenses for the investment properties for the year ended March 31, 2010 were as follows.

(Millions of yen)

Intended use	Income	Expenses	Net gain/(loss)	Other income/ (expense)
Office building for rent	11,546	5,179	6,366	(44)
Residence for rent	1,512	502	1,009	(20)
Others	2,941	3,327	(386)	21,767
Total	15,999	9,009	6,990	21,702

Note: The expenses above primarily consist of depreciation, repairs and maintenance expenses, insurance expense and fixed assets tax of each investment property.

(Segment information)

Operation by industry segment

Fiscal year ended March 31, 2009

(Millions of yen)

	domestic tobacco	International tobacco	Pharmaceutical	Food	Others	Total	Elimination and corporate	Consolidated total
I. Net sales and operating income (loss)								
Net sales								
(1) Sales to customers	3,200,493	3,118,318	56,757	435,966	20,770	6,832,307	–	6,832,307
(2) Intersegment sales or transfers	48,389	40,631	–	132	12,043	101,197	(101,197)	–
Total	3,248,883	3,158,949	56,757	436,099	32,814	6,933,505	(101,197)	6,832,307
Operating expenses	3,060,625	2,984,177	55,737	447,550	23,119	6,571,210	(102,709)	6,468,501
Operating income (loss)	188,258	174,772	1,020	(11,450)	9,694	362,294	1,511	363,806
II. Assets, depreciation and amortization other than goodwill, impairment loss and capital expenditure								
Assets	788,672	2,700,098	111,518	332,669	87,433	4,020,393	(140,590)	3,879,803
Depreciation and amortization other than goodwill	82,933	68,960	3,870	18,293	3,455	177,512	(612)	176,899
Impairment loss	–	–	–	3,829	–	3,829	12,534	16,364
Capital expenditure	46,506	59,776	3,425	23,201	1,128	134,037	234	134,272

Notes: 1. Industry segments are categorized based on types of products, characteristics and markets.

2. Main products or services under each segment are as follows:
   - a. Domestic tobacco: Tobacco products (These include tobacco products sold at duty-free shops in Japan, as well as at markets in China, Hong Kong and Macao, markets that are under the control of JT's China Division.)
   - b. International tobacco: Tobacco products
   - c. Pharmaceutical: Prescription drugs
   - d. Food: Beverages and processed foods
   - e. Others: Rent of real estate, leasing, engineering and others

3. The amounts of Corporate's assets included in the "Elimination and corporate" column and the "Assets" row are as follows. Major components are the surplus funds (cash and deposits, and short-term investment securities), the long-term investment funds (part of investment securities), the assets pertaining to basic research and the land not used for businesses.

   (Fiscal year ended March 31, 2008) ¥99,421 million
   (Fiscal year ended March 31, 2009) ¥96,835 million

4. The following table shows the amounts of goodwill amortization by industry segment which are included in "operating expenses" for the fiscal year ended March 31, 2008 and fiscal year ended March 31, 2009.

(Millions of yen)

	domestic tobacco	International tobacco	Pharmaceutical	Food	Others	Consolidated total
Fiscal year ended March 31, 2008	1,088	–	–	2,794	–	3,883
Fiscal year ended March 31, 2009	1,088	94,235	–	10,187	–	105,511

5. The domestic tobacco segment includes the sale by TS Network Co., Ltd., JT's consolidated subsidiary. TS Network Co., Ltd. distributes domestic tobacco products and sells imported tobacco products by wholesale. Net sales of imported tobacco products via TS Network Co., Ltd. was ¥1,135,319 million.

6. With respect to the international tobacco segment, as the closing date of the accounting period of foreign consolidated subsidiaries, in which JT International S.A. conducts the main operational role, is set on December 31, operating results from January 1, 2008 to December 31, 2008 have been included in the fiscal year ended March 31, 2009.

7. Changes in accounting policies

(Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements)

Effective from April 1, 2008, JT applied the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ PITF No. 18, May 17, 2006) as described in "Changes in significant matters in preparing consolidated financial statements." As a result of this change, the operating income for the international tobacco segment for this fiscal year decreased by ¥94,235 million as compared to the case where the previous method was adopted.

Fiscal year ended March 31, 2010

(Millions of yen)

	domestic tobacco	International tobacco	Pharmaceutical	Food	Others	Total	Elimination and corporate	Consolidated total
I. Net sales and operating income (loss)								
Net sales								
(1) Sales to customers	3,042,836	2,633,636	44,068	394,653	19,500	6,134,695	–	6,134,695
(2) Intersegment sales or transfers	54,921	38,128	–	111	10,448	103,609	(103,609)	–
Total	3,097,758	2,671,764	44,068	394,764	29,948	6,238,304	(103,609)	6,134,695
Operating expenses	2,894,418	2,562,637	57,661	408,460	19,393	5,942,571	(104,380)	5,838,190
Operating income (loss)	203,339	109,127	(13,592)	(13,695)	10,555	295,733	771	296,504
II. Assets, depreciation and amortization other than goodwill, impairment loss and capital expenditure								
Assets	782,293	2,765,948	114,060	311,189	85,093	4,058,584	(185,988)	3,872,595
Depreciation and amortization other than goodwill	53,218	56,089	3,941	16,498	2,781	132,529	240	132,770
Impairment loss	17	1,030	–	3,135	–	4,183	1,859	6,042
Capital expenditure	45,827	64,552	2,953	23,445	346	137,125	8	137,133

Notes: 1. Industry segments are categorized based on types of products, characteristics and markets.

2. Main products or services under each segment are as follows:
   - a. Domestic tobacco: Tobacco products (These include tobacco products sold at duty-free shops in Japan, as well as at markets in China, Hong Kong and Macao, markets that are under the control of JT's China Division.)
   - b. International tobacco: Tobacco products
   - c. Pharmaceutical: Prescription drugs
   - d. Food: Beverages and processed foods
   - e. Others: Rent of real estate, leasing and others

3. The amounts of Corporate's assets included in the "Elimination and corporate" column and the "Assets" row are as follows. Major components are the surplus funds (cash and deposits, and short-term investment securities), the assets pertaining to basic research and the land not used for businesses.

   (Fiscal year ended March 31, 2009) ¥96,835 million

   (Fiscal year ended March 31, 2010) ¥74,995 million

4. The following table shows the amounts of goodwill amortization by industry segment which are included in "operating expenses."

(Millions of yen)

	domestic tobacco	International tobacco	Pharmaceutical	Food	Others	Consolidated total
Fiscal year ended March 31, 2009	1,088	94,235	–	10,187	–	105,511
Fiscal year ended March 31, 2010	1,088	84,651	–	11,687	–	97,427

5. The domestic tobacco segment includes the sale by TS Network Co., Ltd., JT's consolidated subsidiary. TS Network Co., Ltd. distributes domestic tobacco products and sells imported tobacco products by wholesale. Net sales of imported tobacco products via TS Network Co., Ltd. was ¥1,084,320 million.

6. With respect to the international tobacco segment, as the closing date of the accounting period of foreign consolidated subsidiaries, in which JT International S.A. conducts the main operational role, is set on December 31, operating results from January 1, 2009 to December 31, 2009 have been included in the fiscal year ended March 31, 2010.

Operations by geographical segment

Fiscal year ended March 31, 2009

(Millions of yen)

	Japan	Western Europe	Others	Total	Elimination and corporate	Consolidated total
I. Net sales and operating income (loss)						
Net sales						
(1) Sales to customers	3,672,003	2,038,028	1,122,275	6,832,307	–	6,832,307
(2) Intersegment sales or transfers	53,334	223,871	39,185	316,391	(316,391)	–
Total	3,725,338	2,261,900	1,161,461	7,148,699	(316,391)	6,832,307
Operating expenses	3,538,898	2,286,087	961,828	6,786,815	(318,314)	6,468,501
Operating income (loss)	186,439	(24,187)	199,632	361,883	1,922	363,806
II. Assets	1,083,961	2,378,679	351,079	3,813,720	66,082	3,879,803

Notes: 1. Geographical segments are set with consideration of geographical proximity.

2. Countries or regions belonging to the segments other than Japan
   a. Western Europe: Switzerland, United Kingdom, Germany
   b. Others: Canada, Russia, Malaysia

3. The amount and details of Corporate's assets included in the "Elimination and corporate" column and the "Assets" row is the same as ones in "Note 3." of "Business segment information."

4. Changes in accounting policies

(Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements)

Effective from April 1, 2008, JT applied the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ PITF No. 18, May 17, 2006) as described in "Changes in significant matters in preparing consolidated financial statements." As a result of this change, the operating income for the Western Europe segment for this fiscal year decreased by ¥94,235 million as compared to the case where the previous method was adopted.

The following table shows the amounts of goodwill amortization by geographical segment which are included in "operating expenses" for the fiscal year ended March 31, 2009.

(Millions of yen)

	Japan	Western Europe	Others	Consolidated total
Fiscal year ended March 31, 2009	11,276	94,235	–	105,511

Fiscal year ended March 31, 2010

(Millions of yen)

	Japan	Western Europe	Others	Total	Elimination and corporate	Consolidated total
I. Net sales and operating income (loss)						
Net sales						
(1) Sales to customers	3,482,547	1,677,755	974,392	6,134,695	–	6,134,695
(2) Intersegment sales or transfers	59,889	196,600	34,326	290,815	(290,815)	–
Total	3,542,436	1,874,355	1,008,718	6,425,511	(290,815)	6,134,695
Operating expenses	3,357,883	1,914,644	858,223	6,130,751	(292,561)	5,838,190
Operating income (loss)	184,553	(40,288)	150,495	294,759	1,745	296,504
II. Assets	1,031,910	2,358,102	433,866	3,823,880	48,715	3,872,595

Notes: 1. Geographical segments are set with consideration of geographical proximity.

2. Countries or regions belonging to the segments other than Japan
   a. Western Europe: Switzerland, United Kingdom, Germany
   b. Others: Canada, Russia, Malaysia

3. The amount and details of Corporate’s assets included in the “Elimination and corporate” column and the “Assets” row is the same as ones in “Note 3.” of “Business segment information.”

4. The following table shows the amounts of goodwill amortization by geographical segment which are included in “operating expenses.”

(Millions of yen)

	Japan	Western Europe	Others	Consolidated total
Fiscal year ended March 31, 2009	11,276	94,235	–	105,511
Fiscal year ended March 31, 2010	12,775	84,651	–	97,427

Overseas sales

Fiscal year ended March 31, 2009

			Western Europe	Others	Total
I.	Overseas sales	(Millions of yen)	2,002,738	1,177,113	3,179,852
II.	Consolidated sales	(Millions of yen)			6,832,307
III.	Percentage of overseas sales	(%)	29.3	17.2	46.5

Notes: 1. Overseas sales figures consist of sales of JT and its consolidated subsidiaries in countries or regions outside Japan.
2. Geographical segments are set with consideration of geographical proximity.
3. Countries or regions belonging to each segment
a. Western Europe: Switzerland, United Kingdom, Germany
b. Others: Canada, Russia, Malaysia

Fiscal year ended March 31, 2010

			Western Europe	Others	Total
I.	Overseas sales	(Millions of yen)	1,646,648	1,008,325	2,654,973
II.	Consolidated sales	(Millions of yen)			6,134,695
III.	Percentage of overseas sales	(%)	26.8	16.5	43.3

Notes: 1. Overseas sales figures consist of sales of JT and its consolidated subsidiaries in countries or regions outside Japan.
2. Geographical segments are set with consideration of geographical proximity.
3. Countries or regions belonging to each segment
a. Western Europe: Switzerland, United Kingdom, Germany
b. Others: Canada, Russia, Malaysia

Related party transaction

Fiscal year ended March 31, 2009

Omitted because of immateriality.

Fiscal year ended March 31, 2010

Omitted because of immateriality.

(Per share information)

Fiscal year ended March 31, 2009		Fiscal year ended March 31, 2010	
Net assets per share	¥162,087.74	Net assets per share	¥172,139.61
Net income per share	¥12,880.90	Net income per share	¥14,451.67
Diluted net income per share	¥12,879.77	Diluted net income per share	¥14,448.89

Note: Basis for computing basic and diluted net income per share is as follows:

	Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
Net income per share		
Net income (Millions of yen)	123,400	138,448
Amounts not attributable to common shareholders (Millions of yen)	–	–
Net income related to common shares (Millions of yen)	123,400	138,448
Average number of common shares during the period (Thousands of shares)	9,580	9,580
Diluted net income per share		
Dilutive effects (Millions of yen)	–	–
Number of increased common shares (Thousands of shares)	0	1
(of which, subscription rights to shares) (Thousands of shares)	(0)	(1)
Dilutive shares which are not included in the calculation of diluted net income per share as they have no dilutive effects	–	–

(Additional information)

Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
1. On August 11, 2004, JTI-Macdonald Corp. ("JTI-Mac"), JT's Canadian consolidated subsidiary, received a Notice of Assessment from the Quebec Ministry of Revenue ("QMR") requiring an immediate payment of approximately CAD1.36 billion (approximately ¥106.4 billion), based on allegations that the company had contributed to tobacco smuggling from 1990 to 1998, prior to JT's acquisition of RJR Nabisco Inc.'s international (non-US) tobacco operations. JTI-Mac filed an application for protection with the Ontario Superior Court of Justice on August 24, 2004 under the Companies' Creditors Arrangement Act ("CCAA"), because the company's failure to pay the tax bill immediately could have prompted the QMR to confiscate its business assets, making it difficult for it to continue its normal business operations. As of March 31, 2009 (the end of this fiscal year), the company was continuing business operations with its assets protected under the CCAA. In order to enable JTI-Mac to repay part of its debts to other subsidiaries of JT, JT International Holding B.V., JT's Dutch consolidated subsidiary, provided a court-appointed monitor in April 2006 with a letter of credit issued by a financial institution for the amount corresponding to the repayment. JT believes that if JTI-Mac incurs financial damage or bears costs associated with this case, it will be entitled to seek indemnification from RJR Nabisco Inc. or its successors, based on the contract entered into between JT and RJR Nabisco Inc. at the time of JT's acquisition of JTI-Mac in 1999.	――――――

Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
2. In July 2004, ZAO JTI Marketing & Sales ("M&S Corp."), JT's Russian consolidated subsidiary that oversees distribution-related business in the Russian market, received an assessment from the Moscow tax authorities in which it was ordered to pay approximately 2.4 billion rubles (approximately ¥6.9 billion at the exchange rate effective at the time) as VAT, etc. for the period of January to December 2000. The taxed amount includes unpaid taxes (VAT, etc.), interest and additional taxes. Believing that the assessment by the Moscow tax authorities was based upon a misinterpretation of facts, M&S Corp. filed a lawsuit with the Moscow Arbitration Court seeking to invalidate the assessment. Although the Court of First Instance, the Court of Appeals and the Court of Cassation dismissed M&S Corp.'s argument, the Russian Federation Higher Arbitration Court reversed the lower courts' judgments and remanded the case to the Court of First Instance in April 2006. In October 2007, the Court of First Instance rendered judgment upholding M&S Corp.'s argument and invalidated the tax assessment, and both the Court of Appeals and the Court of Cassation dismissed the appeal by the tax authorities and upheld M&S Corp.'s argument in February and May 2008, respectively. Then the tax authorities filed a petition for appeal to the Russian Federation Higher Arbitration Court. In October 2008, the Court decided not to accept the appeal. As a result, the judgment in favor of M&S Corp. became final and binding.	―――――――

Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
3. On July 11, 2008, the Office of Fair Trading (OFT), the UK competition authority, announced that Gallaher Group Ltd. (former Gallaher Group Plc) and Gallaher Ltd. (together, hereinafter, “Gallaher”), JT’s consolidated subsidiaries in the United Kingdom, concluded an early resolution agreement with the OFT. Gallaher agreed to pay a fine for anti-competitive business practices relating to the retail pricing of tobacco products in the UK market during the period prior to JT’s acquisition of Gallaher. In August 2003, the OFT notified Gallaher of an inquiry into vertical agreements between manufacturers and retailers in the UK cigarette, tobacco and tobacco-related markets. Since that time, Gallaher has been fully cooperating with the OFT regarding the investigation. Regarding this matter, the OFT issued a statement of objections on April 25, 2008. Following a careful and comprehensive review of the document, the JT Group decided to conclude an early resolution agreement with the OFT, which JT believes best serves the interests of all parties involved. A certain amount, based on the company’s assumptions about the fine, has been booked as noncurrent liabilities in the purchase price allocation related to JT’s acquisition of Gallaher Group Plc (now Gallaher Group Ltd.). In the consolidated balance sheet for this fiscal year, the amount is included in current liabilities and noncurrent liabilities. This agreement requires us to cooperate with the OFT regarding the investigation. The fine of approximately £93 million (approximately ¥13.0 billion) payable by Gallaher is scheduled to be finally decided after such investigation has been completed. In cases where the payment amount is decided as the fine amount specified in this agreement, the difference between such fine and the liability already posted, approximately £71 million (approximately ¥10.0 billion), will be recorded as extraordinary income. While the agreement reached with the OFT relates only to Gallaher’s past business activities prior to JT’s acquisition of the Gallaher group of companies, JT considers that compliance with all applicable laws in each market in which it operates is of the utmost importance. JT will continue to enhance efforts to ensure compliance of the whole group of companies.	―――

Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
―――――――	4. 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 against 13 tobacco manufacturers and 1 industry organization for damages for the cost of health care benefits, resulting from 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.

(Important subsequent events)

Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
1. JT's Board of Directors resolved on April 30, 2009 that JT would close three cigarette factories in Japan. The Morioka Factory and the Yonago Factory will cease to manufacture at the end of March 2010, and the Odawara Factory will cease to manufacture at the end of March 2011. The financial impact of this resolution on the consolidated financial statements has not yet been confirmed. 2. JT's Board of Directors resolved on April 30, 2009, that JT would roll over part of the redemption of JT's First Series Straight Bonds issued in Japan and maturing on June 25, 2009 (issue price: ¥150 billion), by issuing other domestic straight bonds. Based on this resolution, JT issued the following straight bonds. The Fifth Series Straight Bonds with General Mortgage (1) Type of bonds Straight bonds (2) Total amount of issue ¥100.0 billion (3) Interest rate 1.128% per annum (4) Issue price ¥100 per face value of ¥100 (5) Redemption price ¥100 per face value of ¥100 (6) Issue date June 3, 2009 (7) Redemption date June 3, 2014 (8) Method of redemption Redemption at maturity; provided, however, that JT may repurchase and redeem the bonds after the date of issuance. (9) Mortgage General mortgage under the Japan Tobacco Inc. Act (10) Purpose of funds Funds for bond retirement (11) Financial covenant Not applicable	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 RJRI 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.

e. Supplementary statements–consolidated

Detailed statement of bonds payable

Company name	Issues	Issue date	Balance as of March 31, 2009 (Millions of yen)	Balance as of March 31, 2010 (Millions of yen)	Interest rate (%)	Security	Maturity
Japan Tobacco Inc.	No. 1 domestic straight bonds	June 25, 1999	150,000 (150,000)	–	1.98	Yes	June 25, 2009
Japan Tobacco Inc.	No. 2 domestic straight bonds	July 24, 2007	49,997	50,000 (50,000)	1.34	Yes	July 23, 2010
Japan Tobacco Inc.	No. 3 domestic straight bonds	July 24, 2007	40,000	40,000	1.53	Yes	July 22, 2011
Japan Tobacco Inc.	No. 4 domestic straight bonds	July 24, 2007	59,996	59,996	1.68	Yes	July 24, 2012
Japan Tobacco Inc.	No. 5 domestic straight bonds	June 3, 2009	–	100,000	1.13	Yes	June 3, 2014
JTI (UK) Finance Plc	Pound-denominated straight bonds	May 21, 1999	39,522 (39,522) [GBP 300 million]	–	6.63	No	May 21, 2009
JTI (UK) Finance Plc	Euro-denominated straight bonds	June 10, 2004	102,673 [EUR 800 million]	105,828 [EUR 800 million]	4.63	No	June 10, 2011
JTI (UK) Finance Plc	Pound-denominated straight bonds	February 6, 2003	32,733 [GBP 250 million]	36,513 [GBP 250 million]	5.75	No	February 6, 2013
JTI (UK) Finance Plc	Euro-denominated straight bonds	October 2, 2006	63,974 [EUR 500 million]	66,055 [EUR 500 million]	4.50	No	April 2, 2014
Other bonds	–	–	1,260 (840)	1,015 (395)	–	–	–
Total		–	540,157 (190,363)	459,409 (50,395)	–	–	–

Notes: 1. Figures in the parentheses of “Balance” columns are current portions included in the figures above.
2. Figures in the square bracket of “Balance” columns are foreign currency-denominated bonds included in the figures above.
3. Bond redemption schedule within five years after the closing date of accounting period are as follows:

(Millions of yen)

Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years
50,300	146,030	60,150	36,706	166,200

Detailed statement of loans payable

Category	Balance as of March 31, 2009 (Millions of yen)	Balance as of March 31, 2010 (Millions of yen)	Average interest rate (%)	Payment due
Short-term loans payable	113,231	109,263	4.8	–
Commercial paper	–	119,000	0.1	–
Current portion of long-term loans payable	26,380	23,024	1.4	–
Current portion of lease obligations	5,512	4,936	8.9	–
Long-term loans payable (excluding current portion)	299,563	149,569	1.2	2011 to 2028
Lease obligations (excluding current portion)	11,234	9,126	6.8	2011 to 2019
Other interest-bearing debts	–	–	–	–
Total	455,921	414,920	–	–

Notes: 1. Average interest rates above are computed based on the interest rate and outstanding balance as of the closing date of the accounting period.

2. Repayment of long-term loans payable and lease obligations (excluding current portion) above scheduled within 5 years after the closing date of accounting period are as follows:

(Millions of yen)

	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years
Long-term loans payable	22,203	104,106	20,928	1,800
Lease obligations	3,994	2,717	1,514	557

(2) Others

a. Quarterly data of the fiscal year ended March 31, 2010

(Millions of yen)

	First quarter From April 1, 2009 to June 30, 2009	Second quarter From July 1, 2009 to September 30, 2009	Third quarter From October 1, 2009 to December 31, 2009	Fourth quarter From January 1, 2010 to March 31, 2010
Net sales	1,463,121	1,591,133	1,597,636	1,482,804
Income before income taxes and minority interests	83,614	53,817	79,196	59,426
Net income	42,869	23,198	40,858	31,521
Net income per share (Yen)	4,474.90	2,421.50	4,264.94	3,290.35

Note: Quarterly data for the three months (the second, third and fourth quarters) is prepared by subtracting previous three, six and nine months’ amount from the total amount of six, nine and twelve months, respectively.

b. Lawsuit

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 against 13 tobacco manufacturers and 1 industry organization for damages for the cost of health care benefits, resulting from 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.

2. Non-consolidated financial statements, etc.

(1) Non-consolidated financial statements

a. Non-consolidated balance sheets

(Millions of yen)

		As of March 31, 2009		As of March 31, 2010
Assets				
Current assets				
Cash and deposits		7,090		2,466
Accounts receivable—trade	*2	49,446	*2	53,662
Short-term investment securities		–		6,760
Merchandise and finished goods		21,266		35,446
Semi-finished goods		118,789		108,997
Work in process		3,706		3,719
Raw materials and supplies		37,506		39,965
Advance payments—trade	*2	195	*2	452
Prepaid expenses	*2	4,940	*2	4,796
Deferred tax assets		15,317		13,988
Short-term loans receivable from subsidiaries and affiliates		–		174,555
Other	*2	21,918	*2	15,945
Allowance for doubtful accounts		(175)		(425)
Total current assets		280,004		460,328
Noncurrent assets				
Property, plant and equipment				
Buildings		422,323		410,946
Accumulated depreciation		(293,778)		(288,704)
Buildings, net		128,545		122,242
Structures		22,395		21,171
Accumulated depreciation		(18,555)		(17,662)
Structures, net		3,839		3,509
Machinery and equipment		334,208		320,518
Accumulated depreciation		(268,085)		(254,677)
Machinery and equipment, net		66,122		65,840
Vehicles		2,527		2,915
Accumulated depreciation		(1,077)		(1,353)
Vehicles, net		1,449		1,561
Tools, furniture and fixtures		97,368		92,769
Accumulated depreciation		(66,613)		(71,479)
Tools, furniture and fixtures, net		30,754		21,290
Land		101,025		93,453
Construction in progress		6,833		8,278
Total property, plant and equipment		338,571		316,176

(Millions of yen)

		As of March 31, 2009		As of March 31, 2010
Intangible assets				
Goodwill		5,156		–
Patent right		451		338
Leasehold right		126		13
Right of trademark		4,904		2,182
Design right		17		75
Software		10,639		10,996
Other		165		152
Total intangible assets		21,461		13,759
Investments and other assets				
Investment securities		39,893		43,896
Stocks of subsidiaries and affiliates		2,096,524		2,093,949
Investments in capital of subsidiaries and affiliates		782		782
Long-term loans receivable		7,294		310
Long-term loans receivable from subsidiaries and affiliates		1,212		32,540
Long-term prepaid expenses		6,514		7,131
Deferred tax assets		51,166		39,704
Other		21,619		19,573
Allowance for doubtful accounts		(7,715)		(648)
Total investments and other assets		2,217,293		2,237,239
Total noncurrent assets		2,577,325		2,567,175
Total assets		2,857,330		3,027,503
Liabilities				
Current liabilities				
Accounts payable—trade	*2	13,592	*2	15,266
Short-term loans payable		–		30,543
Short-term loans payable from cash management system	*3	184,123		–
Commercial paper		–		119,000
Current portion of bonds	*1	150,000	*1	50,000
Current portion of long-term loans payable		20,200		20,200
Lease obligations	*2	14,041	*2	6,116
Accounts payable—other	*2	41,805	*2	48,241
Accrued expenses	*2	2,822	*2	2,309
National tobacco excise taxes payable		45,357		45,439
National tobacco special excise taxes payable		10,470		10,490
Local tobacco excise taxes payable		55,847		55,982
Income taxes payable		29,623		30,697
Consumption taxes payable		8,148		13,904
Advances received		84		12
Deposits received		679		623
Deposits in cash management system		–	*4	227,108
Unearned revenue	*2	200	*2	184
Provision for bonuses		12,990		11,534
Other	*2	1,171	*2	1,069
Total current liabilities		591,159		688,722

(Millions of yen)

		As of March 31, 2009		As of March 31, 2010
Noncurrent liabilities				
Bonds payable	*1	149,994	*1	199,996
Long-term loans payable		60,560		40,360
Lease obligations	*2	8,404	*2	5,244
Provision for retirement benefits		191,264		177,988
Lease and guarantee deposits received	*2	8,567	*2	7,695
Long-term accounts payable—other		1,937		5,735
Total noncurrent liabilities		420,726		437,020
Total liabilities		1,011,886		1,125,743
Net assets				
Shareholders' equity				
Capital stock		100,000		100,000
Capital surplus				
Legal capital surplus		736,400		736,400
Other capital surplus		–		6
Total capital surpluses		736,400		736,406
Retained earnings				
Legal retained earnings		18,776		18,776
Other retained earnings				
Reserve for reduction entry		44,734		38,320
Special account for reduction entry		2,413		4,254
General reserve		916,300		955,300
Retained earnings brought forward		93,326		112,612
Total retained earnings		1,075,550		1,129,263
Treasury stock		(74,578)		(74,575)
Total shareholders' equity		1,837,372		1,891,095
Valuation and translation adjustments				
Valuation difference on available-for-sale securities		7,627		10,099
Deferred gains or losses on hedges		79		–
Total valuation and translation adjustments		7,706		10,099
Subscription rights to shares		364		564
Total net assets		1,845,443		1,901,759
Total liabilities and net assets		2,857,330		3,027,503

b. Non-consolidated statements of income

(Millions of yen)

		Fiscal year ended March 31, 2009		Fiscal year ended March 31, 2010
Net sales		2,173,552		2,052,654
Cost of sales				
Beginning merchandise and finished goods		21,791		21,266
Cost of products manufactured		300,988		302,735
Cost of purchased goods		5,312		603
National tobacco excise taxes		561,359		532,760
National tobacco special excise taxes		129,591		122,990
Local tobacco excise taxes		690,943		655,745
Transfer to other account	*1	2,796	*1	556
Ending merchandise and finished goods		21,266		35,446
Cost of sales on real estate business		4,323		3,618
Total cost of sales		1,690,247		1,603,720
Gross profit		483,305		448,934
Selling, general and administrative expenses				
Advertising expenses		13,226		13,993
Promotion expenses		52,224		52,365
License fee		1,812		2,438
Transportation and warehousing expenses		20,164		19,807
Compensations, salaries and allowances		32,219		33,002
Retirement benefit expenses		5,432		6,593
Legal welfare expenses		5,764		5,805
Employees’ bonuses		7,633		7,650
Provision for bonuses		7,429		6,985
Business consignment expenses		25,834		22,276
Depreciation		63,251		31,793
Research and development expenses	*5	41,895	*5	41,655
Other		38,729		40,717
Total selling, general and administrative expenses		315,617		285,086
Operating income		167,687		163,847
Non-operating income				
Interest income	*4	348	*4	587
Dividends income	*4	3,616	*4	5,917
Rent income from subsidiaries and affiliates		989		765
Other	*4	3,507	*4	2,959
Total non-operating income		8,460		10,229

(Millions of yen)

		Fiscal year ended March 31, 2009		Fiscal year ended March 31, 2010
Non-operating expenses				
Interest expenses	*4	3,418	*4	2,724
Interest on bonds		4,700		3,791
Foreign exchange losses		2,337		–
Financial support for domestic leaf tobacco growers		768		522
Periodic mutual assistance association cost		2,024		1,724
Provision of allowance for doubtful accounts		49		–
Other		2,648		3,707
Total non-operating expenses		15,947		12,470
Ordinary income		160,200		161,606
Extraordinary income				
Gain on sales of land		45,576		30,415
Gain on sales of other noncurrent assets		3		0
Other		182		3,492
Total extraordinary income		45,762		33,907
Extraordinary loss				
Loss on sales of noncurrent assets	*2	1,806	*2	3,514
Loss on retirement of noncurrent assets	*3	10,119	*3	4,144
Impairment loss	*6	12,534		1,859
Business restructuring costs		–	*8	5,004
Loss on transfer of business	*4	9,863		–
Introduction costs for vending machines with adult identification functions	*7	13,468		–
Expense for disposal of PCB-containing wastes		–		4,055
Other		10,997		2,023
Total extraordinary losses		58,791		20,601
Income before income taxes		147,172		174,912
Income taxes—current		52,588		56,358
Income taxes—deferred		4,946		11,192
Total income taxes		57,535		67,551
Net income		89,637		107,361

Detailed statement of manufacturing cost

(Millions of yen)

		Fiscal year ended March 31, 2009		Fiscal year ended March 31, 2010	
Category	Note	Amount	%	Amount	%
Raw material cost		216,143	71.9	209,637	71.1
Labor cost		25,548	8.5	25,508	8.7
Other expenses		58,853	19.6	59,387	20.2
Total manufacturing cost of this fiscal year		300,545	100.0	294,533	100.0
Beginning semi-finished goods		120,091		118,789	
Beginning work in process		4,091		3,706	
Total		424,728		417,029	
Ending semi-finished goods		118,789		108,997	
Ending work in process		3,706		3,719	
Transfer to other account	*1	1,244		1,576	
Cost of products manufactured		300,988		302,735	

(Millions of yen)

Item	Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
Major item of other expenses		
Depreciation and amortization	17,091	18,055

Note: *1. Mainly consisting of transfers to raw materials used for trials.

Method of cost accounting

Process cost accounting system is used for the cost accounting for our major products, tobacco, where processes are classified as the process of threshing and processing tobacco leaves (process to manufacture semi-finished goods) and the process of manufacturing finished goods from semi-finished goods of tobacco leaves threshed and processed.

c. Non-consolidated statements of changes in net assets

(Millions of yen)

	Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
Shareholders' equity		
Capital stock		
Balance at the end of previous period	100,000	100,000
Balance at the end of current period	100,000	100,000
Capital surplus		
Legal capital surplus		
Balance at the end of previous period	736,400	736,400
Balance at the end of current period	736,400	736,400
Other capital surplus		
Balance at the end of previous period	–	–
Changes of items during the period		
Disposal of treasury stock	–	6
Total changes of items during the period	–	6
Balance at the end of current period	–	6
Total capital surplus		
Balance at the end of previous period	736,400	736,400
Changes of items during the period		
Disposal of treasury stock	–	6
Total changes of items during the period	–	6
Balance at the end of current period	736,400	736,406
Retained earnings		
Legal retained earnings		
Balance at the end of previous period	18,776	18,776
Balance at the end of current period	18,776	18,776
Other retained earnings		
Reserve for reduction entry		
Balance at the end of previous period	46,180	44,734
Changes of items during the period		
Provision of reserve for reduction entry	5,415	3,068
Reversal of reserve for reduction entry	(6,862)	(9,481)
Total changes of items during the period	(1,446)	(6,413)
Balance at the end of current period	44,734	38,320
Special account for reduction entry		
Balance at the end of previous period	3,833	2,413
Changes of items during the period		
Provision of reserve for special account for reduction entry	2,413	4,254
Reversal of reserve for special account for reduction entry	(3,833)	(2,413)
Total changes of items during the period	(1,419)	1,841
Balance at the end of current period	2,413	4,254

(Millions of yen)

	Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
General reserve		
Balance at the end of previous period	836,300	916,300
Changes of items during the period		
Provision of general reserve	80,000	39,000
Total changes of items during the period	80,000	39,000
Balance at the end of current period	916,300	955,300
Retained earnings brought forward		
Balance at the end of previous period	130,639	93,326
Changes of items during the period		
Provision of reserve for reduction entry	(5,415)	(3,068)
Reversal of reserve for reduction entry	6,862	9,481
Provision of reserve for special account for reduction entry	(2,413)	(4,254)
Reversal of reserve for special account for reduction entry	3,833	2,413
Provision of general reserve	(80,000)	(39,000)
Dividends from surplus	(49,816)	(53,648)
Net income	89,637	107,361
Total changes of items during the period	(37,313)	19,285
Balance at the end of current period	93,326	112,612
Total retained earnings		
Balance at the end of previous period	1,035,729	1,075,550
Changes of items during the period		
Dividends from surplus	(49,816)	(53,648)
Net income	89,637	107,361
Total changes of items during the period	39,820	53,713
Balance at the end of current period	1,075,550	1,129,263
Treasury stock		
Balance at the end of previous period	(74,578)	(74,578)
Changes of items during the period		
Disposal of treasury stock	–	3
Total changes of items during the period	–	3
Balance at the end of current period	(74,578)	(74,575)
Total shareholders’ equity		
Balance at the end of previous period	1,797,551	1,837,372
Changes of items during the period		
Dividends from surplus	(49,816)	(53,648)
Net income	89,637	107,361
Disposal of treasury stock	–	9
Total changes of items during the period	39,820	53,723
Balance at the end of current period	1,837,372	1,891,095

(Millions of yen)

	Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
Valuation and translation adjustments		
Valuation difference on available-for-sale securities		
Balance at the end of previous period	18,578	7,627
Changes of items during the period		
Net changes of items other than shareholders' equity	(10,951)	2,472
Balance at the end of current period	7,627	10,099
Deferred gains or losses on hedges		
Balance at the end of previous period	411	79
Changes of items during the period		
Net changes of items other than shareholders' equity	(331)	(79)
Balance at the end of current period	79	–
Total valuation and translation adjustments		
Balance at the end of previous period	18,990	7,706
Changes of items during the period		
Net changes of items other than shareholders' equity	(11,283)	2,392
Balance at the end of current period	7,706	10,099
Subscription rights to shares		
Balance at the end of previous period	185	364
Changes of items during the period		
Net changes of items other than shareholders' equity	179	200
Balance at the end of current period	364	564
Total net assets		
Balance at the end of previous period	1,816,727	1,845,443
Changes of items during the period		
Dividends from surplus	(49,816)	(53,648)
Net income	89,637	107,361
Disposal of treasury stock	–	9
Net changes of items other than shareholders' equity	(11,104)	2,593
Total changes of items during the period	28,716	56,316
Balance at the end of current period	1,845,443	1,901,759

Significant accounting policies

Item	Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
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 With a fair value --- Stated at fair value based on market prices, etc. on the closing date of the accounting period. (Valuation difference is stated as a component of net assets, and the cost of securities sold is calculated by applying the moving-average method.) Without a fair value --- Stated at cost determined by the moving-average method.	Stocks of subsidiaries and affiliates --- Same as left Available-for-sale securities With a fair value --- Same as left Without a fair value --- Same as left
2. Valuation standard and method for derivatives	Derivatives --- Stated based on the fair value method.	Derivatives --- Same as left
3. Valuation standard and method for inventories	Stated at cost determined by the gross average method. (Balance sheet amounts are measured at the lower of cost or net selling value.)	Same as left
4. Depreciation methods for depreciable assets	(1) 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 useful lives of major items are as follows: Buildings (excluding accompanying facilities) 38 to 50 years Machinery and equipment 10 years	(1) 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 useful lives of major items are as follows: Buildings (excluding accompanying facilities) 38 to 50 years Machinery and equipment 10 years

Item	Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
	(Additional information) The useful lives of property, plant and equipment were changed as a result of the review of these assets' usage in conjunction with the revision of the Corporate Tax Act in 2008. As an example, the useful life of tobacco manufacturing facilities, which are JT's main machinery and equipment, was changed from 8 years to 10 years. As a result, depreciation expense decreased by ¥2,623 million during this fiscal year and operating income, ordinary income and income before income taxes increased by ¥2,476 million, respectively. (2) Intangible assets (excluding lease assets) The straight-line method is applied. The useful lives of major items are as follows: Goodwill 5 years Patent right 8 years Right of trademark 10 years Software 5 years (3) Lease assets For finance leases that do not transfer ownership of the leased property to the lessee, depreciation expense is mostly computed based on the straight-line method over the lease period as the useful life and assuming no residual value.	 (2) Intangible assets (excluding lease assets) Same as left (3) Lease assets Same as left
5. 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.	Same as left
6. Policy for reserve allowances	(1) Allowance for doubtful accounts Provided for possible losses from bad debts at an amount determined using a credit loss ratio based on past experience for general receivables and the individual recoverability of specific doubtful receivables from customers experiencing financial difficulties. (2) Provision for bonuses Provided based on the estimated bonus amount payable to employees and directors.	(1) Allowance for doubtful accounts Same as left (2) Provision for bonuses Same as left

Item	Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
	(3) Provision for retirement benefits Provided in preparation for the payment of retirement benefits to employees based on the estimated retirement benefits obligation and fair value of plan assets as of the end of this fiscal year. Prior service cost is amortized using the straight-line method over the average remaining years of service of the employees. (10 years) Actuarial gains or losses are amortized from the year following the year in which the gains or losses 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.).	(3) Provision for retirement benefits Same as left
7. Hedge accounting method	(1) Hedge accounting method Deferral hedge accounting is applied. Assets and liabilities denominated in foreign currencies are translated at foreign exchange rate stipulated in foreign currency forward contracts where requirements are met. (2) Hedging instruments and hedged items No items to report	(1) Hedge accounting method Same as left (2) Hedging instruments and hedged items Hedging instruments --- Foreign currency forward contracts Hedged items --- Loans receivable

Item	Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
	(3) Hedging policy Derivative transactions are mainly used in line with the Risk Management Policy, the internal policy for derivative transactions, for the purpose of avoiding or reducing foreign currency exchange risks associated with future foreign currency transactions and for the purpose of avoiding interest rate risks associated with interest receipts on debt securities and interest payments on loans. (4) Assessment of hedge effectiveness As a general rule, the effectiveness of hedging instruments is determined by comparing the accumulated amount of changes in hedging instruments with the accumulated amount of changes in hedged items. Assessment of effectiveness is omitted for foreign currency forward contracts that are not remeasured at fair value, but used for translation of foreign currency-denominated assets and liabilities.	(3) Hedging policy Derivative transactions are mainly used in line with the Group Basic Policy on Financial Operations, the internal policy for derivative transactions, for the purpose of avoiding or reducing foreign currency exchange risks associated with future foreign currency transactions and for the purpose of avoiding interest rate risks associated with interest receipts on debt securities and interest payments on loans. (4) Assessment of hedge effectiveness Same as left
8. Other significant accounting policies	Consumption taxes National consumption tax and local consumption tax are excluded from the non-consolidated statement of income.	Consumption taxes Same as left

Changes in significant matters in preparing non-consolidated financial statements

Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
The accounting treatment for finance lease transactions that do not transfer ownership followed the same method as the one for operating lease transactions. However, effective from April 1, 2008, JT applied the "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13 [Business Accounting Council Committee No. 1, June 17, 1993; revised March 30, 2007]) and the "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16 [The Japanese Institute of Certified Public Accountants (JICPA) Accounting Standard Committee, January 18, 1994; revised March 30, 2007]), and such transactions are accounted for in a similar manner with ordinary sale and purchase transactions. With respect to finance lease transactions that do not transfer ownership commenced prior to the first year of implementation of this accounting standard, the balance of future minimum lease payments as of the end of the previous fiscal year (after deduction of the interest element) is regarded as the acquisition cost, at which lease assets are recognized as if acquired at the beginning of the year. The impact of this change on operating income, ordinary income and income before income taxes is immaterial.	

Changes in methods of presentation

Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
(Non-consolidated balance sheets) In the previous fiscal year, "Long-term loans receivable" (¥310 million recorded in the previous fiscal year) was included in "Other" in "Investments and other assets," however, it is now presented separately due to its increased materiality.	(Non-consolidated balance sheets) 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," however, it is now presented separately due to its increased materiality.
(Non-consolidated statements of income) In the previous fiscal year, "Interest on securities" (¥0 million recorded in this fiscal year) was presented separately in "Non-operating income," however, in this fiscal year, it is included in "Interest income" due to its immateriality.	(Non-consolidated statements of income) 1. In the previous fiscal year, "Foreign exchange losses" (¥1,168 million recorded in this fiscal year) was presented separately in "Non-operating expenses," however, in this fiscal year, it is included in "Other" in "Non-operating expenses" due to its immateriality. 2. In the previous fiscal year, "Business restructuring costs" (¥1,860 million recorded in the previous fiscal year) was included in "Other" in "Extraordinary loss," however, it is now presented separately due to its increased materiality.

Notes to non-consolidated financial statements

(Notes to non-consolidated balance sheets)

<table>
<tr><th>As of March 31, 2009</th><th>As of March 31, 2010</th></tr>
<tr><td>*1. Pursuant to Article 6 of the Japan Tobacco Inc. Act, JT’s assets are pledged as general collateral for its corporate bonds.</td><td>*1. Same as left</td></tr>
<tr><td>*2. Amounts incurred from transactions with subsidiaries and affiliates that are included in the relevant accounts other than those separately presented as such are as follows:
(Millions of yen)
Assets for subsidiaries and affiliates: 35,403
Liabilities for subsidiaries and affiliates: 47,955</td><td>*2. Amounts incurred from transactions with subsidiaries and affiliates that are included in the relevant accounts other than those separately presented as such are as follows:
(Millions of yen)
Assets for subsidiaries and affiliates: 35,369
Liabilities for subsidiaries and affiliates: 40,082</td></tr>
<tr><td>*3. “Short-term loans payable from cash management system” represents the fund borrowed from JT Finance Service Co., Ltd., a consolidated subsidiary of JT, which controls the cash management system of domestic Group companies.</td><td>―</td></tr>
<tr><td>―</td><td>*4. “Deposits in cash management system” represents the fund entrusted in the cash management system of domestic Group companies.
Please note that, from this fiscal year, the company that controls the cash management system was changed from JT Finance Service Co., Ltd. to JT.</td></tr>
<tr><td>5. Contingent obligations
Guarantees are provided for bank loans and bonds of subsidiaries and affiliates as follows:
Bank loans
(Millions of yen)
JT International Holding B.V.: 231,434 (GBP 1,149 million) (USD 450 million) (EUR 202 million)
JT International Germany GmbH: 15,338 (EUR 118 million)
JT International S.A.: 13,797 (CHF 64 million) (SIT 50 million) (EUR 44 million) (USD 25 million) (TND 0 million)
JT Finance Service Co., Ltd.: 13,000
JTI Polska sp.z.o.o.: 12,442 (PLN 453 million)
Other (44 companies): 68,048
Total: 354,061</td><td>5. Contingent obligations
Guarantees are provided for bank loans and bonds of subsidiaries and affiliates as follows:
Bank loans
(Millions of yen)
JT International Holding B.V.: 98,272 (GBP 700 million)
JT International Germany GmbH: 14,968 (EUR 119 million)
JT International S.A.: 13,564 (CHF 64 million) (EUR 44 million) (USD 25 million)
JT International Company Netherlands B.V.: 10,041 (EUR 80 million) (USD 0 million)
Other (40 companies): 69,990
Total: 206,837</td></tr>
</table>

As of March 31, 2009	As of March 31, 2010
Bonds (Millions of yen) JTI (UK) Finance PLC 255,176 (EUR 1,348 million) (GBP 569 million) Total 255,176 Note: Guarantee obligations denominated in foreign currencies were translated to yen amounts using the exchange rate as of the end of the fiscal year.	Bonds (Millions of yen) JTI (UK) Finance PLC 204,118 (EUR 1,352 million) (GBP 252 million) Total 204,118 Note: Guarantee obligations denominated in foreign currencies were translated to yen amounts using the exchange rate as of the end of the fiscal year.

(Notes to non-consolidated statements of income)

Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
*1. "Transfer to other account" represents the amount of merchandise and finished goods that were transferred due to a transfer of business and those to be used as samples or for other purposes.	*1. "Transfer to other account" represents the amount of merchandise and finished goods to be used as samples or for other purposes.
*2. The main component of "Loss on sales of noncurrent assets" is as follows: (Millions of yen) Buildings 1,199	*2. The main component of "Loss on sales of noncurrent assets" is as follows: (Millions of yen) Buildings 1,683 Land 1,620
*3. The main component of "Loss on retirement of noncurrent assets" is as follows: (Millions of yen) Buildings 7,311	*3. The main component of "Loss on retirement of noncurrent assets" is as follows: (Millions of yen) Buildings 1,574 Machinery and equipment 1,566
*4. Amounts incurred from transactions with subsidiaries and affiliates that are included in the relevant accounts other than those separately presented as such are as follows: (Millions of yen) Dividends income 1,915 Other non-operating income 1,616 Interest expenses 2,087 Loss on transfer of business 9,863	*4. Amounts incurred from transactions with subsidiaries and affiliates that are included in the relevant accounts other than those separately presented as such are as follows: (Millions of yen) Dividends income 3,897 Other non-operating income 2,036 Interest expenses 1,475
*5. Total research and development expenses are ¥41,895 million, all of which recorded as general and administrative expenses.	*5. Total research and development expenses are ¥41,655 million, all of which recorded as general and administrative expenses.

<table>
<tr><th>Fiscal year ended March 31, 2009</th><th>Fiscal year ended March 31, 2010</th></tr>
<tr><td>*6. An impairment loss was posted for the following asset groups.
<table>
<tr><th>Location</th><th>Usage</th><th>Assets category</th><th>Impairment loss (Millions of yen)</th></tr>
<tr><td>Tokyo metropolitan area</td><td>Company housing planned to be demolished, etc.</td><td>Buildings and structures</td><td>3,803</td></tr>
<tr><td>Kinki region</td><td>Company housing planned to be demolished, etc.</td><td>Buildings and structures</td><td>1,940</td></tr>
<tr><td>Others</td><td>Company housing planned to be demolished, etc.</td><td>Buildings and structures</td><td>6,791</td></tr>
</table>
Asset grouping is based on the smallest identifiable unit that generates cash flows that are largely independent of the cash flows from other assets.
During this fiscal year, it was resolved to demolish certain buildings and structures of company housing. Most of the impairment loss recognized was on such buildings and structures. The book value of such assets was written down to the recoverable value. The impairment loss therefore was ¥11,993 million.
The recoverable value of such assets was calculated mainly by its value in use, which is set at zero.</td>
<td>―――――――――――</td></tr>
<tr><td>*7. Introduction costs for vending machines with adult identification functions consist of costs incurred in the development of the “Taspo” IC card adult identification system introduced countrywide in this fiscal year and in the installation of adult identification functions into vending machines leased under lease agreements, all in an effort to prevent youth smoking.</td><td>―――――――――――</td></tr>
<tr><td>―――――――――――</td><td>*8. “Business restructuring costs” in “Extraordinary loss” were incurred in line with the business restructuring measures mainly for additional retirement benefits related to early retirement.</td></tr>
</table>

(Notes to non-consolidated statements of changes in net assets)

Fiscal year ended March 31, 2009

Type and total number of treasury shares

(Thousands of shares)

	Number of shares as of March 31, 2008	Increase in the fiscal year ended March 31, 2009	Decrease in the fiscal year ended March 31, 2009	Number of shares as of March 31, 2009
Common stock	419	–	–	419
Total	419	–	–	419

Fiscal year ended March 31, 2010

Type and total number of treasury shares

(Thousands of shares)

	Number of shares as of March 31, 2009	Increase in the fiscal year ended March 31, 2010	Decrease in the fiscal year ended March 31, 2010	Number of shares as of March 31, 2010
Common stock (Note)	419	–	0	419
Total	419	–	0	419

Note: The decrease of 17 shares in the number of common shares of treasury stock is due to the exercise of stock options.

(Lease transactions)

Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
[As lessee] Operating leases Future minimum lease payments under noncancelable operating leases (Millions of yen) Due within one year 5 Due after one year 11 Total 17	**[As lessee]** Operating leases Future minimum lease payments under noncancelable operating leases (Millions of yen) Due within one year 5 Due after one year 6 Total 11

(Short-term investment securities and investment securities)

I As of March 31, 2009

Investments in subsidiaries and affiliates with fair value

(Millions of yen)

Type	Balance sheet amount	Fair value	Difference
Investments in subsidiaries	41,580	20,957	(20,622)
Total	41,580	20,957	(20,622)

II As of March 31, 2010

Investments in subsidiaries and affiliates

(Millions of yen)

Type	Balance sheet amount	Fair value	Difference
Investments in subsidiaries	41,580	28,241	(13,338)
Total	41,580	28,241	(13,338)

Note: Investments in subsidiaries and affiliates whose fair value is deemed extremely difficult to determine

(Millions of yen)

Type	Balance sheet amount (Millions of yen)
Investments in subsidiaries	2,052,133
Investments in affiliates	235

The above are not included in “Investments in subsidiaries and affiliates” because their market values are not available and their fair values are deemed extremely difficult to determine.

(Tax effect accounting)

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

(Millions of yen)

	As of March 31, 2009	As of March 31, 2010
Deferred tax assets		
Provision for retirement benefits	29,449	27,623
Obligations pertaining to mutual assistance association	47,725	44,195
Impairment loss	5,258	1,173
Provision for bonuses	5,241	4,654
Other	25,125	20,235
Subtotal	112,800	97,880
Less valuation allowance	(2,768)	(2,960)
Total	110,031	94,920
Deferred tax liabilities		
Reserve for reduction entry	(30,260)	(25,921)
Other	(13,287)	(15,305)
Total	(43,547)	(41,227)
Net deferred tax assets	66,484	53,692

2. Reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the non-consolidated statements of income, if there is a significant difference

As of March 31, 2009	As of March 31, 2010
Note is omitted because the difference between the normal effective statutory tax rates and the actual effective tax rates are not more than 5% of the normal effective statutory tax rates.	Same as left

(Business Combination)

Fiscal year ended March 31, 2009

Transactions under common control

Notes to this item are omitted because they are presented in (Business Combination) of “Notes to consolidated financial statements.”

Fiscal year ended March 31, 2010

No items to report

(Per share information)

Fiscal year ended March 31, 2009		Fiscal year ended March 31, 2010	
Net assets per share	¥192,595.36	Net assets per share	¥198,452.58
Net income per share	¥9,356.60	Net income per share	¥11,206.74
Diluted net income per share	¥9,355.78	Diluted net income per share	¥11,204.58

Note: Basis for computing basic and diluted net income per share is as follows:

	Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
Net income per share		
Net income (Millions of yen)	89,637	107,361
Amounts not attributable to common shareholders (Millions of yen)	–	–
Net income related to common shares (Millions of yen)	89,637	107,361
Average number of common shares during the period (Thousands of shares)	9,580	9,580
Diluted net income per share		
Dilutive effects (Millions of yen)	–	–
Number of increased common shares (Thousands of shares)	0	1
(of which, subscription rights to shares) (Thousands of shares)	(0)	(1)
Dilutive shares which are not included in the calculation of diluted net income per share as they have no dilutive effects	–	–

(Important subsequent events)

Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
1. JT's Board of Directors resolved on April 30, 2009 that JT would close three cigarette factories in Japan. The Morioka Factory and the Yonago Factory will cease to manufacture at the end of March 2010, and the Odawara Factory will cease to manufacture at the end of March 2011. The financial impact of this resolution on the non-consolidated financial statements has not yet been confirmed. 2. JT's Board of Directors resolved on April 30, 2009, that JT would roll over part of the redemption of JT's First Series Straight Bonds issued in Japan and maturing on June 25, 2009 (issue price: ¥150 billion), by issuing other domestic straight bonds. Based on this resolution, JT issued the following straight bonds. The Fifth Series Straight Bonds with General Mortgage (1) Type of bonds Straight bonds (2) Total amount of issue ¥100.0 billion (3) Interest rate 1.128% per annum (4) Issue price ¥100 per face value of ¥100 (5) Redemption price ¥100 per face value of ¥100 (6) Issue date June 3, 2009 (7) Redemption date June 3, 2014 (8) Method of redemption Redemption at maturity; provided, however, that JT may repurchase and redeem the bonds after the date of issuance. (9) Mortgage General mortgage under the Japan Tobacco Inc. Act (10) Purpose of funds Funds for bond retirement (11) Financial covenant No such special provisions	———

d. Supplementary statements

Detailed statement of short-term investment securities

Shares

<table>
<tr><th colspan="3">Issues</th><th>Number of shares (Share)</th><th>Balance sheet amount (Millions of yen)</th></tr>
<tr><td rowspan="11">Investment securities</td><td rowspan="11">Available-for-sale securities</td><td>KT&G Corporation</td><td>2,864,904</td><td>14,759</td></tr>
<tr><td>UNIMAT LIFE CORPORATION</td><td>3,739,500</td><td>5,029</td></tr>
<tr><td>Mitsubishi UFJ Financial Group, Inc.</td><td>5,015,750</td><td>2,457</td></tr>
<tr><td>Mizuho Financial Group, Inc.</td><td>12,750,700</td><td>2,358</td></tr>
<tr><td>Seven & i Holdings Co., Ltd.</td><td>852,000</td><td>1,924</td></tr>
<tr><td>DOUTOR-NICHIRES Holdings Co., Ltd.</td><td>1,320,000</td><td>1,635</td></tr>
<tr><td>Sumitomo Mitsui Financial Group, Inc.</td><td>340,901</td><td>1,053</td></tr>
<tr><td>OKAMURA CORPORATION</td><td>1,206,000</td><td>719</td></tr>
<tr><td>Central Japan Railway Company</td><td>1,000</td><td>712</td></tr>
<tr><td>NIPPON EXPRESS CO., LTD.</td><td>1,730,400</td><td>695</td></tr>
<tr><td>55 other issues</td><td>13,578,324</td><td>6,752</td></tr>
<tr><td colspan="3">Total</td><td>43,399,479</td><td>38,100</td></tr>
</table>

Other

<table>
<tr><th colspan="3">Issues</th><th>Number of investment units (Unit)</th><th>Balance sheet amount (Millions of yen)</th></tr>
<tr><td rowspan="2">Short-term investment securities</td><td rowspan="2">Available-for-sale securities</td><td>Certificates of deposit</td><td>–</td><td>6,760</td></tr>
<tr><td>Subtotal</td><td>–</td><td>6,760</td></tr>
<tr><td rowspan="5">Investment securities</td><td rowspan="5">Available-for-sale securities</td><td>Real-estate investment trust beneficiary certificates</td><td>5,891</td><td>4,276</td></tr>
<tr><td>Preferred securities</td><td>1,115,540</td><td>999</td></tr>
<tr><td>Securities issued by government agencies</td><td>50,000</td><td>500</td></tr>
<tr><td>Limited liabilities partnership for investments
(1 partnership)</td><td>100</td><td>19</td></tr>
<tr><td>Subtotal</td><td>–</td><td>5,796</td></tr>
<tr><td colspan="3">Total</td><td>–</td><td>12,556</td></tr>
</table>

Detailed statement of property, plant and equipment and others

(Millions of yen)

Type of assets	Balance as of March 31, 2009	Increase in the fiscal year ended March 31, 2010	Decrease in the fiscal year ended March 31, 2010	Balance as of March 31, 2010	Accumulated depreciation or accumulated amortization as of March 31, 2010	Depreciation during the fiscal year ended March 31, 2010	Balance as of March 31, 2010
Property, plant and equipment							
Buildings	422,323	8,444	19,821 (1,571)	410,946	288,704	9,940	122,242
Structures	22,395	324	1,547 (51)	21,171	17,662	477	3,509
Machinery and equipment	334,208	18,333	32,023 (10)	320,518	254,677	16,471	65,840
Vehicles	2,527	504	116	2,915	1,353	348	1,561
Tools, furniture and fixtures	97,368	9,824	14,423	92,769	71,479	18,730	21,290
Land	101,025	44	7,616 (225)	93,453	–	–	93,453
Construction in progress	6,833	33,309	31,864	8,278	–	–	8,278
Total property, plant and equipment	986,681	70,784	107,413 (1,859)	950,052	633,876	45,968	316,176
Intangible assets							
Goodwill	33,095	–	–	33,095	33,095	5,156	–
Patent right	37,227	31	–	37,259	36,921	144	338
Leasehold right	126	–	113	13	–	–	13
Right of trademark	297,588	427	–	298,015	295,832	3,148	2,182
Design right	214	62	–	276	200	3	75
Software	50,336	4,631	739	54,228	43,232	4,227	10,996
Other	985	0	43	941	788	12	152
Total intangible assets	419,573	5,152	896	423,830	410,070	12,694	13,759
Long-term prepaid expenses	14,179	2,565	691	16,054	8,922	1,929	7,131

Notes: 1. The figures in parentheses in “Decrease in the fiscal year ended March 31, 2010” represent impairment losses included in figures above.

2. Major breakdowns of “Increase in the fiscal year ended March 31, 2010” and “Decrease in the fiscal year ended March 31, 2010” are as follows:

(Millions of yen)

Buildings	Decrease	Abandoned company-owned residences for employees	16,675
Machinery and equipment	Increase	Tobacco products manufacturing equipment and other	16,792
	Decrease	Tobacco products manufacturing equipment and other	21,222

Detailed statement of reserve allowances

(Millions of yen)

Category	Balance as of March 31, 2009	Increase in the fiscal year ended March 31, 2010	Decrease in the fiscal year ended March 31, 2010 (specific purposes)	Decrease in the fiscal year ended March 31, 2010 (other)	Balance as of March 31, 2010
Allowance for doubtful accounts	7,890	258	4,393	2,680	1,074
Provision for bonuses	12,990	11,534	12,990	—	11,534

Note: “Decrease in the fiscal year ended March 31, 2010 (other)” for allowance for doubtful accounts consists of ¥8 million of provision by mark-to-market using a credit loss ratio based on past experience for general receivables and ¥2,672 million of reversal due to collection.

(2) Principal assets and liabilities

Breakdowns of assets and liabilities as of March 31, 2010 are as follows.

1. Assets

a. Cash and deposits

(Millions of yen)

Category	Amount
Cash	69
Type of deposits	
Checking accounts	2,119
Saving accounts	276
Subtotal	2,396
Total	2,466

b. Accounts receivable—trade

i. Balance by business partner

(Millions of yen)

Business partner	Amount
JT International S.A.	13,013
JT Beverage Inc.	8,691
LAWSON, INC.	4,385
FamilyMart Co., Ltd.	3,664
Circle K Sunkus Co., Ltd.	3,190
Other	20,718
Total	53,662

ii. Accrual, collection and retention of accounts receivable—trade

Balance carried from the fiscal year ended March 31, 2009 (Millions of yen)	Accrual in the fiscal year ended March 31, 2010 (Millions of yen)	Collection in the fiscal year ended March 31, 2010 (Millions of yen)	Balance carried forward (Millions of yen)	Collection rate (%)	Detention period (Day)
(A)	(B)	(C)	(D)	$\frac{(C)}{(A)+(B)} \times 100$	$\frac{\frac{(A)+(D)}{2}}{\frac{(B)}{365}}$
49,446	2,152,522	2,148,307	53,662	97.6	8.7

Note: In JT's accounting, consumption taxes are, in general, excluded from transaction amounts. However, "Accrual in the fiscal year ended March 31, 2010" above includes consumption taxes.

c. Inventories

i. Merchandise and finished goods

(Millions of yen)

	Item	Amount
Merchandise	Vending machinery-related products	92
	Other	45
	Subtotal	138
Finished goods	Tobacco products	32,850
	Other	2,457
	Subtotal	35,307
Total		35,446

ii. Semi-finished goods

(Millions of yen)

Item	Amount
Processed raw materials for tobacco products (thrashed tobacco)	108,997
Total	108,997

iii. Work in process

(Millions of yen)

Item	Amount
Tobacco products	3,719
Total	3,719

iv. Raw materials and supplies

(Millions of yen)

	Item	Amount
Raw materials	Leaf tobacco	29,126
	Other	3,164
	Subtotal	32,290
Supplies	Supplies for tobacco products	3,504
	Other	4,170
	Subtotal	7,674
Total		39,965

d. Short-term loans receivable from subsidiaries and affiliates

(Millions of yen)

Issue	Amount
JT International Holding B.V.	165,630
TableMark Co., Ltd.	6,440
Saint-Germain Co., Ltd.	920
JT CMK Corporation	417
Sunburg Co., Ltd.	278
Other	867
Total	174,555

e. Stock of subsidiaries and affiliates

(Millions of yen)

Issue	Amount
JT Europe Holding B.V.	1,831,099
TableMark Co., Ltd.	142,718
Japan Beverage Inc.	47,564
Torii Pharmaceutical Co., Ltd.	41,580
Japan Filter Technology Co., Ltd.	12,584
Other	18,402
Total	2,093,949

2. Liabilities

a. Accounts payable—trade

(Millions of yen)

Business partner	Amount
Japan Filter Technology Co., Ltd.	2,659
JT International S.A.	2,193
HOKKAI CAN CO., LTD	1,073
TOPPAN PROSPRINT CO., LTD.	988
KEY COFFEE INC.	521
Other	7,829
Total	15,266

b. Cash management system deposits received

Details are described in “Notes to non-consolidated balance sheets, Notes to non-consolidated financial statements of (1) Non-consolidated financial statements in 2. Non-consolidated financial statements, etc.”

c. Bonds payable

The breakdown is described in "Detailed statement of bonds payable, e. Supplementary statements–consolidated of (1) Consolidated financial statements in 1. Consolidated financial statements, etc."

d. Provision for retirement benefits

i. Retirement benefits

(Millions of yen)

Category	Amount
Projected benefit obligations	140,288
Fair value of plan assets	(81,367)
Unrecognized actuarial difference	(3,216)
Unrecognized prior service cost	(4,877)
Prepaid pension cost	17,632
Subtotal	68,459

ii. Obligations pertaining to mutual assistance association (Note)

(Millions of yen)

Category	Amount
Benefit obligations	106,345
Unrecognized actuarial difference	3,183
Subtotal	109,529

(Millions of yen)

Total	177,988

Note: As described in "(3) Provision for retirement benefits, 6. Policy for reserve allowances of Significant accounting policies of (1) Non-consolidated financial statements in 2. Non-consolidated financial statements, etc.," JT computes the amount of mutual assistance association obligation separately and includes it in provision for retirement benefits.

(3) Others

No items to report

VI. Outline of filing company’s business concerning shares

Business year	From April 1 to March 31
Annual General Meeting of Shareholders	June
Record date	March 31
Record dates for dividends from surplus	September 30 March 31
Share trade unit	Not applicable.
Purchase of shares less than one unit:	
Office for handling business	Not applicable.
Shareholder registry administrator	Not applicable.
Forwarding office	Not applicable.
Handling charge for purchase	Not applicable.
Method of public notice	Electronic public notice will be made. However, if JT is unable to make electronic public notice due to an accident or any other compelling reason, it will make an alternative public notice on “The Nikkei” newspaper. Electronic public notice will be notified on JT’s website (http://www.jti.co.jp/).
Special benefits for shareholders	Special benefits for shareholders (1) Scope: All shareholders who appear in the shareholder registry as of March 31 and September 30 each year and hold one or more shares. (2) Description: JT presents one of various own products (including products of JT Group companies and gifts and novelties with JT name) a. Shareholders with one or more than one and less than five shares: ¥2,000 equivalent b. Shareholders with five or more shares: ¥3,000 equivalent

VII. Reference Information on Filing Company

1. Information on filing company’s parent company

JT does not have a parent company as described by the provisions of Article 24-7, paragraph (1) of the Financial Instruments and Exchange Act.

2. Other reference information

From the beginning of this fiscal year until the filing date of this Annual Securities Report, JT has filed the following documents.

(1) Annual Securities Report and Appendices, and Written Confirmation

Filed to Director-General of Kanto Local Finance Bureau on June 23, 2009.

24th term; from April 1, 2008 to March 31, 2009

(2) Internal Control Report

Filed to Director-General of Kanto Local Finance Bureau on June 23, 2009.

24th term; from April 1, 2008 to March 31, 2009

(3) Quarterly Securities Reports and Written Confirmations

Filed to Director-General of Kanto Local Finance Bureau on August 13, 2009.

(First quarter of the 25th term; from April 1, 2009 to June 30, 2009)

Filed to Director-General of Kanto Local Finance Bureau on November 13, 2009.

(Second quarter of the 25th term; from July 1, 2009 to September 30, 2009)

Filed to Director-General of Kanto Local Finance Bureau on February 12, 2010.

(Third quarter of the 25th term; from October 1, 2009 to December 31, 2009)

(4) Extraordinary Reports

Filed to Director-General of Kanto Local Finance Bureau on September 28, 2009.

Extraordinary Report based on Article 19, paragraph (2), item (ii-2) (Issuance of Subscription Rights to Shares as Stock Options) of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

Filed to Director-General of Kanto Local Finance Bureau on October 23, 2009.

Extraordinary Report based on Article 19, paragraph (2), item (xiv) (Lawsuits Against JT Subsidiaries) of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

(5) Amendment Report of Extraordinary Report

Filed to Director-General of Kanto Local Finance Bureau on October 14, 2009.

Amendment Report of Extraordinary Report filed on September 28, 2009.

(6) Shelf Registration Statement (straight bonds) and Appendices

Filed to Director-General of Kanto Local Finance Bureau on April 20, 2009.

(7) Amendment to Shelf Registration Statements

Filed to Director-General of Kanto Local Finance Bureau on June 23, 2009, August 13, 2009, September 28, 2009, October 14, 2009, October 23, 2009, November 13, 2009 and February 12, 2010.

Amendment to Shelf Registration Statements pertaining to Shelf Registration Statement (straight bonds) filed on April 20, 2009.

(8) Shelf Registration Supplement (straight bonds) and Appendices

Filed to Director-General of Kanto Local Finance Bureau on May 28, 2009.

(9) Withdrawal Report of Shelf Registration (straight bonds)

Filed to Director-General of Kanto Local Finance Bureau on April 20, 2009.

B. Information on Guarantee Companies, etc. of Filing Company

No items to report

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

INDEPENDENT AUDITORS' REPORT

June 23, 2009

To the Board of Directors of Japan Tobacco Inc.

Deloitte Touche Tohmatsu

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

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

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

[Audit of Financial Statements]
Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements included in the Financial Section, namely, the consolidated balance sheet and the related consolidated statements of income, changes in net assets and cash flows, and consolidated supplementary schedules of Japan Tobacco Inc. and consolidated subsidiaries for the fiscal year from April 1, 2008 to March 31, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

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

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

[Audit of Internal Control over Financial Reporting]
Pursuant to the second paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited management's report on internal control over financial reporting of Japan Tobacco Inc. as of March 31, 2009. The Company's management is responsible for designing and operating effective internal control over financial reporting and preparing its report on internal control over financial reporting. Our responsibility is to express an opinion on management's report on internal control over financial reporting based on our audit. There is a possibility that material misstatements will not completely be prevented or detected by internal control over financial reporting.

We conducted our audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether management's report on internal control over financial reporting is free of material misstatement. An audit includes examining, on a test basis, the scope, procedures and results of assessment of internal control made by management, as well as evaluating the overall presentation of the management's report on internal control over financial reporting. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, management's report on internal control over financial reporting referred to above, which represents that the internal control over financial reporting of Japan Tobacco Inc. as of March 31, 2009 is effectively maintained, presents fairly, in all material respects, the assessment of internal control over financial reporting in conformity with assessment standards for internal control over financial reporting 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 Law.

Notes: 1. The document presented above is a digitized copy of the original version of the Accountants' Report. The original report is kept separately by JT (the filing company of the Annual Securities Report).
2. The section of financial statements of this report does not contain their XBRL data.

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

INDEPENDENT AUDITORS' REPORT

June 24, 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 (Seal)

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

Shuichi Momoki (Seal)

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

Satoshi Iizuka (Seal)

[Audit of Financial Statements]
Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements included in the Financial Section, namely, the consolidated balance sheet and the related consolidated statements of income, changes in net assets and cash flows, and consolidated supplementary schedules of Japan Tobacco Inc. and consolidated subsidiaries 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 Japan Tobacco Inc. and consolidated subsidiaries as of March 31, 2010, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

[Audit of Internal Control over Financial Reporting]

Pursuant to the second paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited management's report on internal control over financial reporting of Japan Tobacco Inc. as of March 31, 2010. The Company's management is responsible for designing and operating effective internal control over financial reporting and preparing its report on internal control over financial reporting. Our responsibility is to express an opinion on management's report on internal control over financial reporting based on our audit. There is a possibility that material misstatements will not completely be prevented or detected by internal control over financial reporting.

We conducted our audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether management's report on internal control over financial reporting is free of material misstatement. An audit includes examining, on a test basis, the scope, procedures and results of assessment of internal control made by management, as well as evaluating the overall presentation of the management's report on internal control over financial reporting. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, management's report on internal control over financial reporting referred to above, which represents that the internal control over financial reporting of Japan Tobacco Inc. as of March 31, 2010 is effectively maintained, presents fairly, in all material respects, the assessment of internal control over financial reporting in conformity with assessment standards for internal control over financial reporting 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.

Notes: 1. The document presented above is a digitized copy of the original version of the Accountants' Report. The original report is kept separately by JT (the filing company of the Annual Securities Report).

2. The section of financial statements of this report does not contain their XBRL data.

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

INDEPENDENT AUDITORS' REPORT

June 23, 2009

To the Board of Directors of Japan Tobacco Inc.

Deloitte Touche Tohmatsu

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

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

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

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the financial statements included in the Financial Section, namely, the balance sheet and the related statements of income, changes in net assets, and supplemental schedules of Japan Tobacco Inc. for the 24th fiscal year from April 1, 2008 to March 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

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

Notes: 1. The document presented above is a digitized copy of the original version of the Accountants' Report. The original report is kept separately by JT (the filing company of the Annual Securities Report).
2. The section of financial statements of this report does not contain their XBRL data.

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

INDEPENDENT AUDITORS' REPORT

June 24, 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 (Seal)

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

Shuichi Momoki (Seal)

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

Satoshi Iizuka (Seal)

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the financial statements included in the Financial Section, namely, the balance sheet and the related statements of income, changes in net assets and cash flows, and supplemental schedules of Japan Tobacco Inc. for the 25th fiscal year from April 1, 2009 to March 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Japan Tobacco Inc. 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.

Notes: 1. The document presented above is a digitized copy of the original version of the Accountants' Report. The original report is kept separately by JT (the filing company of the Annual Securities Report).

2. The section of financial statements of this report does not contain their XBRL data.