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

Securities Code: 2914
June 6, 2011

To Our Shareholders

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

NOTICE OF CONVOCATION OF THE 26TH ORDINARY GENERAL MEETING OF SHAREHOLDERS

We all express our heartfelt sympathy to our shareholders who were affected by the Great East Japan Earthquake, and wish the reconstruction of the devastated areas as early as possible.

You are cordially invited to attend the 26th ordinary general meeting of shareholders of Japan Tobacco Inc. ("JT" or the "Company") to be held as set forth below.

If you cannot attend the meeting, you may exercise your voting rights in written form or by electromagnetic means including the Internet. Please see the "Reference Documents for the General Meeting of Shareholders" hereinafter described and exercise your voting rights by 6:00 p.m., on Thursday, June 23, 2011, by returning to us by that time the Voting Rights Exercise Form enclosed herewith indicating whether you are for or against each of the items, or by accessing the web-site designated by us for the exercise of voting rights (http://www.evote.jp/).

Particulars

1. **Date and Time of the Meeting:** Friday, June 24, 2011, at 10:00 a.m.
2. **Place of the Meeting:** Tokyo Prince Hotel
   3-1, Shibakoen 3-chome, Minato-ku, Tokyo
3. **Purpose of the Meeting:**

Matters to be Reported:

1. Report on the Business Report, the Consolidated Financial Statements, and the Independent Auditors' Report and JT's Audit Board Report on the Consolidated Financial Statements for the 26th Business Term (From April 1, 2010 to March 31, 2011)
2. Report on the Non-Consolidated Financial Statements for the 26th Business Term (From April 1, 2010 to March 31, 2011)

Matters to be Resolved:

Item 1: Appropriation of Surplus
Item 2: Partial Amendments to the Articles of Incorporation
Item 3: Election of Four (4) Auditors

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

4. Other Decisions on the Convocation of the Meeting

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

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

[Instructions for Exercising Your Voting Rights]

1. Exercise of the Voting Rights by post:

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

2. Exercise of the Voting Rights via the Internet:

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

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

[Attached Documents]

Business Report

(For this fiscal year from April 1, 2009 to March 31, 2010)

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

1. Overview and results of operations

As a result of the Great East Japan Earthquake, which occurred in March this year, for the JT Group, in the Japanese Domestic Tobacco Business, there was damage to some of our places of business, including manufacturing facilities. Owing to the effect this had on elements of the business such as the manufacture and supply of products, as an interim measure, we stopped deliveries temporarily, and currently, we are limiting the number of brands and the volume of products in our deliveries. Going forward, we intend to steadily expand the number of brands of which we make deliveries, and we will work towards having a delivery structure for 73 brands in place in early August. While working unfailingly to make sure of this, the JT Group will continue to make efforts to make improvements in aspects of our products such as taste and flavor, design and packaging form for the satisfaction of our customers.

The damage to places of business in the Pharmaceutical Business has been minor, and in the Food Business, despite damage to some places of business, there has been no significant damage to manufacturing facilities, and as a result, the business is maintaining nearly normal manufacturing capabilities.

General summary

The JT Group's results of business for the current fiscal year are as follows.

Owing to a large-scale tobacco tax hike in Japan in October last year, in addition to tax increases in other countries, net sales including tobacco excise taxes increased by ¥59.8 billion, or 1.0%, from the previous fiscal year, to ¥6.1945 trillion.

In terms of net sales excluding tobacco excise taxes (Note 1), despite being at the same level as in the previous fiscal year in the Japanese Domestic Tobacco Business, they decreased by ¥27.9 billion, or 1.1%, from the previous fiscal year, to ¥2.4861 trillion, owing to factors such as the negative effects from foreign currency conversions due to an appreciated yen in the International Tobacco Business, and the abolishment of part of the Food Business.

Although net sales excluding tobacco excise taxes decreased, mainly due to the effect of higher unit prices in the International Tobacco Business, operating income increased by ¥32.1 billion, or 10.9%, from the previous fiscal year, to ¥328.6 billion. EBITDA (Note 2) increased by ¥14.4 billion, or 2.7%, from the previous fiscal year, to ¥541.1 billion. This was the result of a ¥17.7 billion decrease in depreciation and amortization expenses due to a decrease in depreciation expense relating to vending machines and the completion of the amortization of some trademark rights in the Japanese Domestic Tobacco Business as well as a decrease in depreciation and amortization expenses from foreign exchange effects in the International Tobacco Business, among others.

An improvement in foreign exchange gains/losses resulting from hedging activities effected in the course of business and a decrease in interest expenses due to the repayment of loans payable and redemption of bonds, etc. improved non-operating income/loss by ¥24.9 billion. With the ¥32.1 billion increase in operating income, ordinary income rose ¥57.1 billion, or 22.4%, from the previous fiscal year, to ¥312.4 billion.

Net extraordinary income/loss worsened by ¥52.6 billion in the fiscal year ended March 31, 2011, due to, in addition to the recording of a gain from reversal of liabilities related to the fine imposed pursuant to the Competition Law in the U.K. in the previous fiscal year, the recording of a loss from the payment for regulatory fine in Canada and a loss on the Great East Japan Earthquake, as well as factors such as a decrease in gain on sales of noncurrent assets. These losses just about offset a ¥57.1 billion increase in ordinary income. As a result, net income increased by ¥6.5 billion, or 4.7%, from the previous fiscal year, to ¥144.9 billion.

(Notes) 1. Net sales excluding tobacco excise taxes are net sales after deducting the amount equivalent to tobacco excise taxes.

2. EBITDA = operating income + depreciation and amortization (including depreciation of property, plant and equipment, and amortization of intangible assets, long-term prepaid expenses and goodwill)

* The closing date of the consolidated subsidiaries allocated to the international tobacco business segment is December 31, and their financial results used for the consolidated fiscal year ended March 31, 2011, are for the twelve months from January 1 to December 31, 2010.

Review of operations by business segment

Japanese Domestic Tobacco Business

Sales volume for cigarettes in the fiscal year ended March 31, 2011 decreased by 17.2 billion cigarettes, or 11.3%, from the previous fiscal year, to 134.6 billion cigarettes (Note 1), due to factors such as the effects in the second half of the fiscal year of a drop in demand resulting from the hike in tobacco excise taxes in October last year and retail price amendments.

Furthermore, our market share for the fiscal year ended March 31, 2011 was 64.1%, compared with 64.9% for the previous fiscal year. This is mainly because, as well as the impact of the difference according to brand in the extent of price rises in the retail price amendments accompanying the hike in tobacco excise taxes, there was damage from the earthquake disaster to some of our facilities and some of non-tobacco material suppliers, resulting in shortages of some of our brands and a temporary suspension in deliveries for all of our brands. With the retail price amendments, net sales per 1,000 cigarettes (tax excluded) increased by ¥526 from the previous fiscal year to ¥4,582.

As a result, in terms of net sales, the effect of higher unit prices just about offset the decrease in sales volume. Net sales excluding tobacco excise taxes (Note 2) came to ¥1.0278 trillion, up 1.1% from the previous fiscal year, and adjusted net sales excluding tobacco excise taxes (Note 3) came to ¥617.9 billion, up 0.3% from the previous fiscal year, making them about equal with the previous fiscal year. EBITDA increased by ¥6.4 billion, or 2.6%, from the previous fiscal year, to ¥257.6 billion, as a result of the effects of higher unit prices exceeding the decrease in sales volume, despite the recording of sales promotion expenses to provide a level of quality and service that befits our prices, and temporary costs associated with the hike in the tobacco excise taxes and retail price amendment.

(Notes)
1. In addition to the figure stated above, during the fiscal year ended March 31, 2011, 3.5 billion cigarettes were sold at duty-free shops in Japan, as well as at markets in China, Hong Kong and Macau that are under the control of JT’s China Division.
2. Net sales excluding tobacco excise taxes are net sales after deducting the amount equivalent to tobacco excise taxes.
3. Adjusted net sales excluding tobacco excise taxes are net sales excluding tobacco excise taxes after mainly deducting net sales relating to imported tobacco, duty-free shops in Japan and the China Division,.

International Tobacco Business

In the GFB (Note 1) in the fiscal year ended March 31, 2011, there was steady growth in sales of Winston in Italy and France and in sales of Camel in Turkey and France. In addition, there was steady growth in sales of LD in Poland and Turkey. As a result, the sales volume of GFB increased by 6.5 billion cigarettes, or 2.7%, from the previous fiscal year to 249.8 billion cigarettes. However, owing to an overall decline in demand in Russia, among others, the volume of our International Tobacco Business’s cigarette sales including GFB decreased by 6.5 billion cigarettes, or 1.5%, from the previous fiscal year to 428.4 billion cigarettes (Note 2).

In the fiscal year ended March 31, 2011, despite a decline in sales volume, because of advantageous movements of the local currencies of major markets compared to the previous fiscal year against the U.S. dollar, which is used by the subsidiary which consolidates the accounts of the subsidiaries in the International Tobacco Business, in addition to effects from higher unit prices, dollar-based net sales excluding tobacco excise taxes (Note 3) increased by $489 million, or 4.4%, from the previous fiscal year to $11,585 million while adjusted net sales excluding tobacco excise taxes (Note 4) increased by $540 million, or 5.6%, from the previous fiscal year to $10,223 million. EBITDA was $3,282 million, an increase of $317 million, or 10.7%, compared to the previous fiscal year, despite an increase in cost of sales resulting from higher leaf tobacco price.

However, due to the effects of a high yen when making conversions to that currency, net sales excluding tobacco excise taxes decreased by ¥22.1 billion, or 2.1%, from the previous fiscal year to ¥1.017 trillion with a decrease in adjusted net sales excluding tobacco excise taxes of ¥9.3 billion, or 1.0%, to ¥897.4 billion and an increase in EBITDA of ¥10.4 billion, or 3.8%, to ¥288.1 billion.

(Notes)

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).
2. In addition to the figure stated above, the sales volume of private label products, mainly for the German market, was 0.8 billion cigarettes for the fiscal year ended March 31, 2011.
3. Net sales excluding tobacco excise taxes are net sales after deducting the amount equivalent to tobacco excise taxes.
4. Adjusted net sales excluding tobacco excise taxes are net sales excluding tobacco excise taxes after mainly deducting net sales relating to the distribution business, leaf tobacco sales and contract manufacturing.
5. The amounts in U.S. dollars shown above are rounded off to the nearest unit.

* The foreign exchange rate in the fiscal year ended March 31, 2011 was ¥87.79 per U.S. dollar, representing a ¥5.86 year-on-year yen appreciation, compared with ¥93.65 per U.S. dollar in the previous fiscal year.

Pharmaceutical Business

In the Pharmaceutical Business, we focused our efforts on 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.

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 enjoyed growth in sales of REMITCH CAPSULES, an oral antipruritus drug for hemodialysis patients, and Truvada Tablets, an anti-HIV drug, leading to an increase in sales. However, operating income decreased as a result of higher cost of sales due to changes in the composition of products on sale, as well as an increase in research and development expenses due to factors such as the payment of a licensing lump-sum for the license agreement Torii entered into with ALK-Abello A/S for that company’s house dust mite allergy immunotherapy products (for asthma and allergic rhinitis).

Net sales in the fiscal year ended March 31, 2011 increased by ¥2.9 billion, or 6.6%, from the previous fiscal year to ¥46.9 billion due to the increased revenue at Torii and the occurrence of lump-sum revenue in connection with an already-licensed-out product reaching a development milestone. EBITDA was negative ¥13.2 billion (compared to negative ¥9.6 billion in the previous fiscal year) due to factors such as an increase in research and development expenses.

[Reference] Clinical development

Code	Stage	Key indication	Rights
JTT-705 (oral)	Phase 2 (Japan)	Dyslipidemia	Roche (Switzerland) obtained the rights to develop and commercialize the compound worldwide, with the exception of Japan. * Development stage by Roche: Phase 3
JTT-130 (oral)	Phase 2 (Japan) Phase 2 (Overseas)	Dyslipidemia	
JTK-303 (oral)	Phase 1 (Japan)	HIV infection	Gilead Sciences (U.S.) obtained the rights to develop and commercialize this compound worldwide, with the exception of Japan. * Development stage by Gilead Sciences: Phase 3
JTT-302 (oral)	Phase 2 (Overseas)	Dyslipidemia	
JTT-305 (oral)	Phase 2 (Japan)	Osteoporosis	Merck (U.S.) obtained the rights to develop and commercialize this compound worldwide, with the exception of Japan.
JTS-653 (oral)	Phase 2 (Japan)	Pain, Overactive bladder	
JTK-656 (oral)	Phase 1 (Overseas)	HIV infection	
JTT-751 (oral)	Phase 3 (Japan)	Hyperphosphatemia	JT obtained the rights to develop and commercialize this compound in Japan from Keryx Biopharmaceuticals (U.S.) (Developed jointly with Torii Pharmaceutical Co., Ltd.)
JTK-853 (oral)	Phase 1 (Overseas)	Hepatitis C	
JTT-851 (oral)	Phase 1 (Japan)	Type 2 diabetes mellitus	

Food Business

Net sales for our Food Business in the fiscal year ended March 31, 2011 declined by ¥19.6 billion, or 5.0%, from the previous fiscal year to ¥375.0 billion due to a decrease in sales of commercial use products as well as the abolishment of our white rice wholesale business and effects from the exclusion from the scope of consolidation of some subsidiaries in our processed food business. This is despite an increase in demand due to the hot summer and higher sales mostly with respect to our flagship Roots brand in the beverage business. EBITDA increased by ¥2.7 billion, or 19.2%, from the previous fiscal year to ¥17.2 billion thanks to a solid performance by the beverage business, and the absence of a temporary loss pertaining to fishery products business at the processed food business which was recorded in the previous fiscal year.

2. Status of capital expenditures

In this fiscal year, we made capital expenditures totaling ¥146.0 billion. In the Japanese Domestic Tobacco Business, we spent ¥55.9 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 ¥60.9 billion mainly for the purpose of expanding our production capacity. In the Pharmaceutical Business, we spent ¥2.8 billion mainly for production and research facilities. In the Food Business, we invested ¥25.0 billion, mainly for enhancing production and sales facilities.

3. Status of financing

The Company issued bonds totaling ¥80.0 billion on December 3, 2010 to be allocated for the repayment of short-term bank loans and the redemption of bonds.

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

No items to report.

5. Business transfers from other companies

No items to report.

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

No items to report.

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

No items to report.

8. Trends in assets and operating results

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

	23rd term FY2007	24th term FY2008	25th term FY2009	26th term FY2010
Net sales (Millions of yen)	6,409,726	6,832,307	6,134,695	6,194,554
Ordinary income (Millions of yen)	362,681	307,586	255,377	312,487
Net income (Millions of yen)	238,702	123,400	138,448	144,961
Net income per share (Yen)	24,916	12,880	14,451	15,141
Total assets (Millions of yen)	5,087,214	3,879,803	3,872,595	3,571,927
Net assets (Millions of yen)	2,154,629	1,624,288	1,723,278	1,591,202

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

	23rd term FY2007	24th term FY2008	25th term FY2009	26h term FY2009
Net sales (Millions of yen)	2,302,704	2,173,552	2,052,654	2,066,340
Ordinary income (Millions of yen)	177,757	160,200	161,606	182,818
Net income (Millions of yen)	131,145	89,637	107,361	32,216
Net income per share (Yen)	13,689	9,356	11,206	3,365
Total assets (Millions of yen)	2,902,509	2,857,330	3,027,503	2,879,353
Net assets (Millions of yen)	1,816,727	1,845,443	1,901,759	1,854,401

9. Issues to be addressed

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.

As one large environmental change of late, as of October last year, a hike in tobacco excise taxes of ¥3.5 per cigarette (¥70 per packet containing 20 cigarettes) was carried out. In addition to the decreasing birth rate, aging population and other structural factors, this unprecedentedly large and drastic tax increase inevitably led to a significant decrease in total tobacco demand. In order to continue providing the quality and services which will satisfy our customers the JT Group carried out an amendment of our retail prices which exceeds the excise tax hike, given our cost reduction efforts alone will be insufficient to absorb the impact of the fall in demand. We will continue to bolster our R&D with an eye on improving product value, introduce new products under our core brands and improve taste and flavor, design and packaging form, among other measures, to provide a level of quality and service that befits our prices and satisfies our valued customers.

In addition to the above, owing to the effects of Great East Japan Earthquake, which occurred in March this year, on the manufacture of goods and on supply, at present we are limiting the deliveries we make in terms of the number of brands and delivery volume as a temporary measure. While the number of brands for which we make deliveries is set at 25 since May 9, the number of delivered brands will be expanded gradually, to 36 brands as of June 6, to 58 brands in early July, and we will work towards having a delivery structure of 73 brands in place in early August. While working to make sure of this, the JT Group will continue to make efforts to make improvements in aspects of our products such as taste and flavor, design and packaging form for the satisfaction of our customers. In conjunction with this, we will make every possible effort to enhance our competitiveness in order to regain our market share at an early juncture through efforts such as the active introduction of new products under our core brands and the development of effective sales promotions.

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

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

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

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

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

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

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

10. Main business contents

Business segment	Main business
Japanese Domestic Tobacco Business	Manufacture and sale of tobacco products, mainly Mild Seven and Seven Star
International Tobacco Business	Manufacture and sale of tobacco products, mainly Winston and Camel
Pharmaceutical Business	Research and development, manufacture and sale of prescription drugs
Food Business	Manufacture and sale of beverages, processed foods and seasonings

11. Status of important subsidiaries

Company name	Capital	Equity ownership (%)	Main business
TS Network Co., Ltd.	(Millions of yen) 460	74.5	Distribution of tobacco products
Japan Filter Technology Co., Ltd.	(Millions of yen) 461	87.1	Manufacture and sale of filters for tobacco products
JT International S.A.	(Thousand of CHF) 1,215,425	(100.0)	Manufacture and sale of tobacco products
Gallaher Ltd.	(Thousand of GBP) 172,494	(100.0)	Manufacture and sale of tobacco products
Torii Pharmaceutical Co., Ltd.	(Millions of yen) 5,190	53.5	Manufacture and sale of prescription drugs
TableMark Co., Ltd.	(Millions of yen) 47,502	100.0	Manufacture and sale of processed foods
JT Beverage Inc.	(Millions of yen) 90	100.0	Sale of beverages
Japan Beverage Holdings Inc.	(Millions of yen) 500	66.7	Sale of beverages by vending machine

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

2. Japan Beverage Holdings Inc. absorbed its subsidiary, Japan Beverage Inc. in an absorption-type merger on January 1, 2011.

3. JT Real Estate Co., Ltd. and JT Finance Service Co., Ltd. were taken out of the classification of important subsidiaries from this fiscal year.

4. There were 246 consolidated subsidiaries in this fiscal year, including 8 above-mentioned important subsidiaries, as well as 14 affiliates accounted for by the equity method. In addition, consolidated net sales for this fiscal year amounted to ¥6.1945 trillion (up 1.0% year on year) with consolidated net income at ¥144.9 billion (up 4.7% year on year).

12. Major lenders

Lender	Outstanding balance (Millions of yen)
Syndicated loan	97,815

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

13. Major sales offices and factories

(1) JT

Headquarters:	2-1, Toranomon 2-chome, Minato-ku, Tokyo, Japan
Sales Office:	Hokkaido (Hokkaido), Sendai (Miyagi), Tokyo (Tokyo), Nagoya (Aichi), Osaka (Osaka), Hiroshima (Hiroshima), Shikoku (Kagawa), Fukuoka (Fukuoka), and other 17 sales offices
Factories:	Kita-Kanto (Tochigi), Tokai (Shizuoka), Kansai (Kyoto), Kyushu (Fukuoka), and other 6 factories
Laboratories:	Leaf Tobacco Research Center (Tochigi), Tobacco Science Research Center (Kanagawa), and Central Pharmaceutical Research Institute (Osaka)

(Note) Odawara factory closed as of March 31, 2011.

(2) Subsidiaries

TS Network Co., Ltd. (Tokyo)

Japan Filter Technology Co., Ltd. (Tokyo)

JT International S.A. (Switzerland)

Gallaher Ltd. (U.K.)

Torii Pharmaceutical Co., Ltd. (Tokyo)

TableMark Co., Ltd. (Kagawa)

JT Beverage Inc. (Tokyo)

Japan Beverage Holdings Inc. (Tokyo)

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

14. Status of employees

(1) Employees of the JT Group

Business segment	Number of employees (Person)
Japanese Domestic Tobacco Business	11,191
International Tobacco Business	23,902
Pharmaceutical Business	1,664
Food Business	10,864
Common company-wide services within JT	851
Total	48,472

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

(2) Employees of JT

Male/Female	Number of employees (Person)	Year on year increase (decrease) (Person)	Average age (Year old)	Average years of service (Year)
Male	7,948	(25)	43.7	22.4
Female	980	(8)	37.7	16.2
Total or average	8,928	(33)	43.0	21.7

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

II. Matters Concerning Shares of JT

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

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

(Including treasury stock 478,526 shares)

3. Number of shareholders: 58,151

4. Major shareholders

Name of shareholders	Number of shares held (Share)	Equity ownership (%)
The Minister of Finance	5,001,345	52.53
Japan Trustee Services Bank, Ltd. (Trust Account)	256,502	2.69
State Street Bank and Trust Company 505223	224,116	2.35
The Master Trust Bank of Japan, Ltd. (Trust Account)	222,931	2.34
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	169,000	1.77
The Chase Manhattan Bank 385036	85,107	0.89
Mellon Bank, N.A. as Agent for its Client Melon Omnibus US Pension	80,675	0.85
State Street Bank and Trust Company	78,317	0.82
HSBC BANK PLC A/C THE CHILDRENS INVESTMENT MASTER FUND	68,367	0.72
State Street Bank and Trust Company 505225	61,888	0.65

(Note) Equity ownership is calculated after deducting treasury stock (478,526 shares).

5. Other important matters regarding stocks

As part of its efforts to increase shareholder returns, and in order to improve capital efficiency, JT acquired treasury stock in market transactions as follows, based on a resolution of the meeting of the Board of Directors held on February 7, 2011.

(1) Class and number of shares acquired — Common stock 58,630 shares

(2) Total cost of acquisition — ¥19,999,745,500

(3) Period of acquisition — From February 9, 2011 to March 4, 2011

III. Matters Concerning Subscription Rights to Shares

1. Total number and others of subscription rights to shares as of March 31, 2011

(1) Total number of subscription rights to shares:

3,081 units

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

Common stock 3,081 shares

(1 share per subscription right to shares)

2. Status of subscription rights to shares held by Directors and Auditors of JT as of March 31, 2011

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

Common stock 1,535 shares

(1 share per subscription right to shares)

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

¥1 per share

(3) Assignment of subscription rights to shares

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

(4) Conditions for exercising subscription rights to shares

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

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

Category	Year granted	Payment due upon allotment of subscription rights to shares	Exercise period of subscription rights to shares	Number of units	Number of shareholders
Director	FY2007	¥581,269 per unit	From January 9, 2008 to January 8, 2038	153	8
	FY2008	¥285,904 per unit	From October 7, 2008 to October 6, 2038	234	9
	FY2009	¥197,517 per unit	From October 14, 2009 to October 13, 2039	616	9
	FY2010	¥198,386 per unit	From October 5, 2010 to October 4, 2040	521	9
Auditor	FY2007	¥581,269 per unit	From January 9, 2008 to January 8, 2038	11	1

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

3. Status of subscription rights to shares granted to employees of JT from April 1, 2010 to March 31, 2011

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

Common stock 458 shares

(1 share per subscription right to shares)

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

¥198,386 per share

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

¥1 per share

(4) Exercise period of subscription rights to shares

From October 5, 2010 to October 4, 2040

(5) Assignment of subscription rights to shares

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

(6) Conditions for exercising subscription rights to shares

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

(7) Status of granting to employees of JT

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

IV. Matters Concerning Directors and Auditors of JT

1. Directors and Auditors

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

(Notes)
1. Auditors Hisao Tateishi, Takanobu Fujita and Koichi Ueda are Outside Auditors.
2. Auditor Gisuke Shiozawa has relevant knowledge about financing and accounting as he was the head of Treasury Division of JT.
3. The asterisk * denotes Directors who have assumed their offices on June 24, 2010.
4. Member of the Board Sadao Furuya resigned on June 24, 2010.
5. Auditors Hisao Tateishi, Takanobu Fujita and Koichi Ueda were notified as independent

officers (auditors) to the financial instruments exchange.

6. Changes to Directors and Officers after the end of the business year (as of June 1, 2011)

Position	Name	Responsibility	Significant concurrent positions outside the Company
Member of the Board	Mutsuo Iwai		JT International S.A. Executive Vice President
Member of the Board	Yasushi Shingai	Executive Vice President in charge of International Tobacco Business	

2. Remunerations for Directors and Auditors

(1) Total remunerations for Directors and Auditors

Category	Directors		Auditors		Total	
	Number to be paid (Person)	Amount to be paid (Millions of yen)	Number to be paid (Person)	Amount to be paid (Millions of yen)	Number to be paid (Person)	Amount to be paid (Millions of yen)
Basic remuneration	10	372	4	90	14	463
Directors' bonus	7	107	-	-	7	107
Stock option grants	9	103	-	-	9	103
Total	-	583	-	90	-	673

(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.

(2) Policy concerning the remuneration amount for Directors and Auditors and the remuneration calculation method thereof and the method of determining the policy

JT's basic concept of remuneration for Directors and Auditors is as follows:

- Setting the remuneration at a level sufficient to secure personnel with superior capabilities
- Linking the remuneration to business performance so as to motivate Directors and Auditors to enhance performance
- Linking the remuneration to medium and long-term corporate value
- Ensuring transparency based on an objective point of view and quantitative schemes

In accordance with the above concept, the remuneration system for Directors and Auditors is made of three components. In addition to the monthly "basic remuneration," there is a "directors' bonus," which reflects the Company's business performance in the relevant fiscal year, and a "stock option," which is linked to the medium and long-term corporate value of JT.

The composition of the remuneration for Directors is as follows:

	Role	Composition of remuneration
Directors serving concurrently as Executive Officer *(sikkoyakuin)*	Directors serving concurrently as Executive Officer *(sikkoyakuin)*	“Basic remuneration” “Directors’ bonus” “Stock option”
Directors not serving concurrently as Executive Officers *(sikkoyakuin)*	Participating in decision-making regarding companywide business strategies aimed at increasing the corporate value of JT and performing their audit-related duties	“Basic remuneration” “Stock option”

In the light of the main role of auditors, which is to audit the status of compliance with laws and regulations, remuneration for auditors comprises of “basic remuneration” only.

In addition, decisions on the amount of remuneration are taken after monitoring is carried out of remuneration levels at major Japanese manufacturers whose level of scale and profits are at the same level as JT’s, and which are operating globally, and in the light of deliberation by the Compensation Advisory Panel, whose members include outside experts. Remuneration for Directors is decided by the Board of Directors, while remuneration for Auditors is decided through deliberation by the Auditors.

Details of remuneration linked to business performance and the company’s corporate value are as follows.

The “Directors’ bonus” is linked to the Company’s consolidated business performance and the performances of business divisions for each year, while the “stock option” is linked to medium and the company’s long term corporate value. For Directors who serve concurrently as Executive Officers *(sikkoyakuin)*, who are in the scope of payment of the “Directors’ bonus,” in the case that the “Directors’ bonus” is a standard amount, the total amount of the “Directors’ bonus” and the “stock option” is set as a percentage of just over 70% of the “basic remuneration.”

3. Matters concerning Outside Directors and Outside Auditors

(1) Significant concurrent positions outside the Company

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

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

(2) Major activities during this fiscal year

Category	Name	Status of main activities
Auditor	Hisao Tateishi	Attended all 19 meetings of the Board of Directors, as well as all 16 meetings of the Audit Board held during this fiscal year. Mr. Tateishi asked questions and made remarks where necessary at these meetings, as an auditor.
	Takanobu Fujita	Attended all 19 meetings of the Board of Directors, as well as all 16 meetings of the Audit Board during this fiscal year. Mr. Fujita asked questions and made remarks where necessary at these meetings, as an auditor.
	Koichi Ueda	Attended all 19 meetings of the Board of Directors, as well as all 16 meetings of the Audit Board during this fiscal year. Mr. Ueda asked questions and made remarks where necessary at these meetings, as an auditor.

(3) Total amount of remunerations

Category	Outside Auditor	
	Number to be paid (Person)	Amount to be paid (Millions of yen)
Basic remuneration	3	56

V. Matters Relating to Independent Auditor

1. Name of Independent Auditor: Deloitte Touche Tohmatsu LLC

2. Fees for Independent Auditor relating to this fiscal year

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

i)	Fees for audit attestation based on Article 2, paragraph (1) of the Certified Public Accountants Act:	¥281 million
ii)	Fees for tasks other than audit attestation based on Article 2, paragraph (1) of the Certified Public Accountants Act:	¥75 million

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

¥571 million

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

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

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

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

In the case that an Independent Auditor is adjudged to fall within any of the items listed in Article 340, paragraph (1) of the Companies Act, the Board of Auditors, with the agreement of all of the Auditors, shall dismiss the Independent Auditor. Additionally, apart from the above, should an incident occur casting serious doubt on the ability of the Independent Auditor to continue to perform its duties, after securing the agreement of the Board of Auditors, or in accordance with a request from the Board of Auditors, the Board of Directors shall submit a proposal to the General Meeting of Shareholders that the Independent Auditor should be dismissed or should not be reappointed.

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

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

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

i) Compliance system

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

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

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

(Internal reporting system)

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

ii) System to ensure the reliability of financial reporting

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

iii) Internal audit system

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

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

i) Storage and management of minutes

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

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

ii) Storage and management of other information

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

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

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

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

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

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

ii) Preparedness for possible emergencies

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

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

i) Board of Directors

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

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

ii) Proper delegation of authority and system of responsibilities

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

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

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

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

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

i) Mission of the JT Group

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

ii) Group management

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

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

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

i) Establishment of Auditor's Office

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

ii) Allocation of staff

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

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

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

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

ii) Prohibition of concurrent assignments

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

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

i) Reporting to the Audit Board

When Directors and Executive Officers *(sikkoyakuin)* detect any matter that may cause substantial damage to JT, they are due to report it to the Audit Board. Moreover, when Directors and employees detect any evidence of malfeasance in financial documents or serious breaches of laws or

JT's Articles of Incorporation, they are due to report them to the Audit Board, along with other relevant matters that could affect JT's management.

ii) Attendance at important meetings

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

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

(9) Other systems to ensure effective auditing by Auditors

i) Cooperation with audits and auditing expenses

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

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

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

* All figures contained in this Business Report are rounded down to the nearest unit unless otherwise noted.

Consolidated Balance Sheet

(As of March 31, 2011)

(Millions of yen)

Account title	Amount	Account title	Amount
ASSETS		**LIABILITIES**	
Current assets	**1,247,820**	**Current liabilities**	**1,063,374**
Cash and deposits	117,458	Notes and accounts payable–trade	170,820
Notes and accounts receivable–trade	301,829	Short-term loans payable	70,059
Short-term investment securities	159,097	Current portion of bonds	126,486
Merchandise and finished goods	129,654	Current portion of long-term loans payable	21,490
Semi-finished goods	103,475		
Work in process	3,738	Lease obligations	4,591
Raw materials and supplies	276,989	Accounts payable-other	67,129
Deferred tax assets	24,674	National tobacco excise taxes payable	202,234
Other	133,684	National tobacco special excise taxes payable	8,150
Allowance for doubtful accounts	(2,781)		
		Local tobacco excise taxes payable	102,168
		Income taxes payable	65,651
		Consumption taxes payable	69,825
		Deferred tax liabilities	2,241
		Provision	38,777
		Other	113,746
Noncurrent assets	**2,324,107**	**Noncurrent liabilities**	**917,350**
Property, plant and equipment	**663,550**	Bonds payable	325,738
Buildings and structures	224,815	Long-term loans payable	152,414
Machinery, equipment and vehicles	231,527	Lease obligations	7,949
Tools, furniture and fixtures	50,899	Deferred tax liabilities	72,630
Land	127,207	Provision for retirement benefits	231,601
Construction in progress	29,100	Provision for directors' retirement benefits	375
		Other	126,639
Intangible assets	**1,461,487**	**Total Liabilities**	**1,980,724**
Goodwill	1,147,816	**NET ASSETS**	
Right of trademark	286,435	**Shareholders' equity**	**2,142,025**
Other	27,234	Capital stock	100,000
		Capital surplus	736,409
		Retained earnings	1,400,189
Investments and other assets	**199,069**	Treasury stock	(94,573)
Investment securities	58,582	**Accumulated other comprehensive income**	**(627,732)**
Deferred tax assets	82,328		
Other	81,698	Valuation difference on available-for-sale securities	5,753
Allowance for doubtful accounts	(23,540)		
		Pension liability adjustment of foreign consolidated subsidiaries	(27,486)
		Foreign currency translation adjustment	(606,000)
		Subscription rights to shares	**763**
		Minority interests	**76,146**
		Total net assets	**1,591,202**
Total Assets	**3,571,927**	**Total Liabilities and Net Assets**	**3,571,927**

Consolidated Statement of Income

(Fiscal year ended March 31, 2011)

(Millions of yen)

Account title	Amount	
Net sales		6,194,554
Cost of sales		5,074,074
Gross profit		**1,120,479**
Selling, general and administrative expenses		791,798
Operating income		**328,680**
Non-operating income		
Interest income	2,174	
Dividend income	853	
Foreign exchange gains	797	
Equity in earnings of affiliates	2,329	
Other	5,873	12,029
Non-operating expenses		
Interest expense	17,059	
Financial support for domestic leaf tobacco growers	1,491	
Periodic mutual assistance association cost	1,384	
Other	8,286	28,222
Ordinary income		**312,487**
Extraordinary income		
Gain on sales of noncurrent assets	12,182	
Gain on sales of investment securities	5,389	
Other	3,028	20,600
Extraordinary loss		
Loss on sales of noncurrent assets	850	
Loss on retirement of noncurrent assets	7,255	
Impairment loss	5,297	
Business restructuring costs	4,322	
Regulatory fine in Canada	12,843	
Loss on the Great East Japan Earthquake	10,966	
Other	11,055	52,590
Income before income taxes and minority interests		**280,497**
Income taxes–current	152,402	
Income taxes–deferred	(21,512)	130,889
Net Income before minority interests		**149,607**
Minority interests in income		4,646
Net income		**144,961**

Consolidated Statement of Changes in Net Assets

(Fiscal year ended March 31, 2011)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2010	100,000	736,406	1,310,669	(74,575)	2,072,501
Changes of items during the period					
Dividends from surplus			(55,564)		(55,564)
Net income			144,961		144,961
Change in scope of consolidation			122		122
Purchase of treasury stock				(19,999)	(19,999)
Disposal of treasury stock		2		1	4
Net changes of items other than shareholders' equity					
Total changes of items during the period	-	2	89,519	(19,998)	69,523
Balance as of March 31, 2011	100,000	736,409	1,400,189	(94,573)	2,142,025

(Millions of yen)

	Accumulated other comprehensive income				Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Pension liability adjustment of foreign consolidated subsidiaries (Note)	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance as of March 31, 2010	12,043	(26,269)	(409,160)	(423,387)	564	73,599	1,723,278
Changes of items during the period							
Dividends from surplus							(55,564)
Net income							144,961
Change in scope of consolidation							122
Purchase of treasury stock							(19,999)
Disposal of treasury stock							4
Net changes of items other than shareholders' equity	(6,290)	(1,216)	(196,839)	(204,345)	198	2,547	(201,599)
Total changes of items during the period	(6,290)	(1,216)	(196,839)	(204,345)	198	2,547	(132,075)
Balance as of March 31, 2011	5,753	(27,486)	(606,000)	(627,732)	763	76,146	1,591,202

(Note) "Pension liability adjustment of foreign consolidated subsidiaries" in accumulated other comprehensive income is the unfunded obligation recognized by foreign consolidated subsidiaries applying U.S.GAAP.

1. Notes to significant preparation policy of consolidated financial statements

(1) Scope of consolidation

Number of consolidated subsidiaries: 246 companies

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

In addition, a total of 12 companies, including JT International Zagreb d.o.o. za trgovinu i usluge, were included in the scope of consolidation from this fiscal year.

A total of 24 companies, including FOOD INCLUVE CO., LTD., were excluded from the scope of consolidation due to transfers of stocks or other reasons.

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

(2) Scope of equity method

Number of non-consolidated subsidiaries and affiliates accounted for by the equity method: 14 companies

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

In addition, 3 companies, including Senichi Foods Co., Ltd., were excluded from the scope of affiliates accounted for by the equity method due to transfers of stocks.

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

Of the companies accounted for by the equity method, some companies' closing dates are different from the closing date for the consolidated financial statements. In that case, their financial statements as at their closing dates are used for the consolidation.

(3) Fiscal year of consolidated subsidiaries

Of the consolidated subsidiaries, most foreign consolidated subsidiaries have a closing date on December 31.

The consolidated financial statements are prepared using their financial statements on the closing date, and any necessary adjustments for the significant transactions occurred in the period between their closing date and the consolidated year-end are made for consolidation purposes.

(4) Accounting policies

i) Valuation standard and method for securities

Held-to-maturity bonds:

Stated at amortized cost (straight-line method).

Available-for-sale securities:

Securities with a fair value:

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

Securities without a fair value:

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

ii) Valuation standard and method for derivatives

Stated based on the fair value method.

iii) Valuation standard and method for inventories

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

iv) Depreciation methods for significant depreciable assets

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

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

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

b. Intangible assets (excluding lease assets)

Straight-line method

The main useful lives are as follows.

Right of trademark	10 years

c. Lease assets

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

v) Policy for significant reserve allowances

a. Allowance for doubtful accounts

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

b. Provision for bonuses

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

c. Provision for retirement benefits

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

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

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

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

d. Provision for directors’ retirement benefits

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

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

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

vii) Significant hedge accounting method

Deferral hedge accounting is applied.

Transactions under foreign currency forward contracts are translated into Japanese yen at the foreign exchange rate stipulated in the contracts where requirements are met. Interest rate swaps are treated by the exceptional treatment if the swaps qualify for such treatments. For interest rate and currency swaps, if they satisfy the requirements for treatment that incorporates swaps into underlying accounting items (accounting by applying foreign exchange rate stipulated in the contracts, exceptional treatment), they are accounted for by incorporating swaps into underlying accounting items.

viii) Accounting policies of foreign consolidated subsidiaries

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

a. Valuation standard and method of inventories

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

b. Depreciation of significant depreciable assets

Property, plant and equipment

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

Intangible assets

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

c. Retirement benefit pension plans

The difference of retirement benefits obligation and fair value of pension plan assets is recognized on the consolidated balance sheet as assets or liabilities. Unrecognized net actuarial gains or losses and prior service cost, net of applicable taxes, is recorded as pension liability adjustment of foreign consolidated subsidiaries under accumulated other comprehensive income of net assets.

d. Derivative treatment method

Derivatives related to foreign currency and interest rate are entered into for hedging. All derivatives are recognized at fair value on the balance sheet as assets or liabilities and the fluctuations are recognized in income.

ix) Matters regarding the amortization of goodwill

For the amortization of goodwill, the amortization period is substantively estimated, and goodwill is amortized over this estimated number of years. The amortization period is between 5 years and 20 years. However, in the case that the amount is minimal, this amount is fully charged to expenses in the fiscal year when it occurs.

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

(5) Changes in significant matters in preparing consolidated financial statements

Application of Accounting Standard for Asset Retirement Obligations

Effective from April 1, 2010, JT applied the “Accounting Standard for Asset Retirement Obligations” (ASBJ Statement No. 18, March 31, 2008) and the “Guidance on Accounting Standard for Asset Retirement Obligations” (ASBJ Guidance No. 21, March 31, 2008).

The impact of the application of this new accounting standard on operating income, ordinary income and income before income taxes and minority interests during this fiscal year is immaterial.

(6) Changes in methods of presentation

i) In the previous fiscal year, “Gain on sales of investment securities” (¥3,820 million recorded in the previous fiscal year) was included in “Other” in “Extraordinary income” of the consolidated statement of income; however, it is now presented separately due to its increased materiality.

ii) In the previous fiscal year, “Expense for disposal of PCB-containing wastes” (¥86 million recorded in this fiscal year) was presented separately in “Extraordinary loss” of the consolidated statement of income; however, in this fiscal year, it is included in “Other” in “Extraordinary loss” due to its decreased materiality.

iii) From the current fiscal year, in accordance with “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, December 26, 2008), “Ordinance of the Ministry of Justice on Partially Revision Act on Enforcement of the Companies Act, Statutory Financial Statements Rules, etc.” (Ordinance of the Ministry of Justice No. 7 of March 27, 2009,) is applied, and the line item, “Net income before minority interests” is included in the Consolidated Statement of Income.

(7) Additional information

Effective from the fiscal year ended March 31, 2011, JT applied the “Accounting Standard for Presentation of Comprehensive Income” (ASBJ Statement No. 25, June 30, 2010). However, the amounts of “Accumulated other comprehensive income” and “Total accumulated other comprehensive income” as of March 31, 2010 represent the amounts of “Valuation and translation adjustments” and “Total valuation and translation adjustments,” respectively.

2. Notes to consolidated balance sheet

(1) Accumulated depreciation of property, plant and equipment: ¥934,350 million

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

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

Amount of liabilities relating to collateral

Yen straight bonds:	¥279,998 million

ii) Assets pledged as collateral related to some consolidated subsidiaries are ¥12,867 million.

Type and amount of assets pledged as collateral

Buildings and structures:	¥7,209 million
Land:	¥3,394 million
Other:	¥2,263 million

The amount of liabilities related to assets pledged as collateral is ¥6,847 million.

Amount of liabilities relating to collateral

Short-term loans payable and Long-term loans payable:	¥6,227 million
Other:	¥620 million

3. Notes to consolidated statement of income

(1) Total research and development expenses are ¥53,363 million, all of which are recorded as general and administrative expenses.

(2) "Business restructuring costs" in "Extraordinary loss" are costs associated with the business restructuring measures and its main components consist of rationalizing costs for the Japanese Domestic Tobacco Business and the Food Business.

(3) 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 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. and paid CAD150 million. The amount paid is recorded in extraordinary loss as "Regulatory fine in Canada."

(4) "Loss on the Great East Japan Earthquake" in extraordinary loss refers to items such as loss on destruction of noncurrent assets and restoration costs, as well as loss on destruction of inventories, which occurred to the manufacturing facilities and other sites of JT and JT's consolidated subsidiaries, as a result of the Great East Japan Earthquake, which struck on March 11, 2011.

Most of the noncurrent assets and inventories damaged in the earthquake disaster are covered by casualty insurance.

4. Notes to consolidated statement of changes in net assets

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

(Thousands of shares)

	Number of shares as of March 31, 2010	Increase in this fiscal year ended March 31, 2011	Decrease in this fiscal year ended March 31, 2011	Number of shares as of March 31, 2011
Issued shares				
Common stock	10,000	-	-	10,000
Total	10,000	-	-	10,000
Treasury stock				
Common stock	419	58	0	478
Total	419	58	0	478

(2) Cash dividends

i) Dividend payments

(Resolution)	Class of shares	Total amount of dividends (Millions of yen)	Cash dividend per share (Yen)	Record date	Effective date
Annual General Meeting of Shareholders held on June 24, 2010	Common stock	28,740	3,000	March 31, 2010	June 25, 2010
Meeting of the Board of Directors held on October 28, 2010	Common stock	26,824	2,800	September 30, 2010	December 1, 2010

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

The following proposal will be placed on the agenda of the Annual General Meeting of Shareholders to be held on June 24, 2011.

(Proposal)	Class 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 to be held on June 24, 2011	Common stock	38,085	Retained earnings	4,000	March 31, 2011	June 27, 2011

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

Common stock 3,081 shares

5. Tax effect accounting

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

Deferred tax assets	
Provision for retirement benefits	¥41,028 million
Obligations pertaining to mutual assistance pension benefits	¥40,753 million
Net operating loss carry forwards	¥65,122 million
Other	¥77,114 million
Subtotal	¥224,018 million
Less valuation allowance	(¥69,116) million
Total	¥154,902 million
Deferred tax liabilities	
Reserve for reduction entry	(¥25,498) million
Basis differences in assets acquired and liabilities assumed upon acquisition	(¥56,576) million
Prepaid pension cost	(¥8,637) million
Other	(¥32,057) million
Total	(¥122,770) million
Net deferred tax assets	¥32,131 million

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

Normal effective statutory tax rate	40.35 %
(Adjustment)	
Tax rate difference applied for foreign consolidated subsidiaries	(10.32%)
Non-deductible expenses	2.75%
Amortization of goodwill	8.75%
Valuation allowance	(1.43%)
Regulatory fine in Canada	1.60%
Uncertainty in income tax of foreign consolidated subsidiaries	5.31%
Other	(0.35%)
Actual effective tax rate	46.66%

6. Financial instruments

(1) Matters regarding financial instruments

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

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

(2) Matters regarding fair values of financial instruments

Consolidated balance sheet amounts and fair values at March 31, 2011 (the closing date of the fiscal year) and their differences are as follows.

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

(Millions of yen)

	Consolidated balance sheet amount	Fair value	Difference
1) Cash and deposits	117,458	117,458	-
2) Notes and accounts receivable-trade	301,829		
Allowance for doubtful accounts (*1)	(2,362)		
	299,466	299,466	-
3) Short-term investment securities and investment securities			
Available-for-sale securities	194,164	194,164	-
Total assets	611,090	611,090	-
1) Notes and accounts payable-trade	170,820	170,820	-
2) Short-term loans payable	70,059	70,059	-
3) Accounts payable-other	67,129	67,129	-
4) National tobacco excise taxes payable	202,234	202,234	-
5) National tobacco special excise taxes payable	8,150	8,150	-
6) Local tobacco excise taxes payable	102,168	102,168	-
7) Income taxes payable	65,651	65,651	-
8) Consumption taxes payable	69,825	69,825	-
9) Bonds payable	452,225	462,475	10,250
10) Long-term loans payable	173,905	174,302	396
Total liabilities	1,382,170	1,392,817	10,647
Derivative transactions (*2)	3,950	3,950	-

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

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

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

Assets

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

3) Short-term investment securities and investment securities

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

Notes concerning securities by purpose of holding are as follows.

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

(Millions of yen)

	Type	Consolidated balance sheet amount	Acquisition cost or amortized cost	Difference
Available-for-sale securities which consolidated balance sheet amounts exceed their acquisition costs or amortized costs	(1) Equity securities	21,444	10,546	10,898
	(2) Bonds	6,438	6,380	58
	(3) Other	24	17	6
	Subtotal	27,908	16,944	10,963
Available-for-sale securities which consolidated balance sheet amounts do not exceed their acquisition costs or amortized costs	(1) Equity securities	8,939	11,587	(2,648)
	(2) Bonds	17,888	17,940	(51)
	(3) Other	139,429	139,429	–
	Subtotal	166,256	168,956	(2,699)
Total		194,164	185,901	8,263

Liabilities

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

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

9) Bonds payable

The 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, the fair value is determined by discounting total of principal and interest to the present value at a rate considering the bonds' remaining period and credit risk.

10) Long-term loans payable

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

Derivative transactions

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

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

a. Derivatives to which hedge accounting is not applied

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

(a) Derivatives related to currencies

(Millions of yen)

Category	Type	Contract/ notional amount	Over one year	Fair value	Gain (loss) on valuation
Non-market transactions	Foreign currency forward contracts:				
	Buying	204,215	–	2,944	2,944
	Selling	85,173	–	(1,237)	(1,237)
	Currency swaps:				
	Selling	1,781	1,781	(82)	(82)
	Currency options				
	Buying	6,111	–	120	(151)
Total		297,282	1,781	1,745	1,473

(b) Derivatives related to interest rates

(Millions of yen)

Category	Type	Contract/ notional amount	Over one year	Fair value	Gain (loss) on valuation
Non-market transactions	Interest rate swaps:				
	Fixed rate receipt and floating rate payment	31,576	31,576	2,191	2,191
	Interest rate caps:				
	Buying	31,576	31,576	13	(513)
Total		63,152	63,152	2,205	1,677

b. Derivatives to which hedge accounting is applied

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

(a) Derivatives related to interest rates

(Millions of yen)

Category	Type	Main hedged item	Contract/ notional amount	Over one year	Fair value	Gain (loss) on valuation
Exceptional treatment of interest rate swaps	Interest rate swaps: Floating rate receipt and fixed rate payment	Long-term loans payable	357	197	(*1)	

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

(b) Derivatives related to interest rates and currency

(Millions of yen)

Category	Type	Main hedged item	Contract/ notional amount	Over one year	Fair value	Gain (loss) on valuation
Accounting that incorporates interest rate and currency swaps into underlying accounting items	Interest rate and currency swaps Floating rate receipt and fixed rate payment Buying	Long-term loans payable	30,000	30,000	(*2)	

(*2) Interest rate and currency swaps that are qualified for the accounting that incorporates the swaps into underlying accounting items (accounting by applying foreign exchange rate stipulated in the contracts, exceptional treatment) are accounted for with the long-term loans payable that are the hedged items, and the fair value of interest rate and currency swaps is included in that of long -term loans payable.

7. Investment and rental property

(1) Matters regarding investment and rental property

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

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

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

(Millions of yen)

Usage	Consolidated balance sheet amount	Fair value
Office building	37,035	124,706
Residence	4,303	24,037
Others	13,880	59,523
Total	55,219	208,267

(Notes)
1. Consolidated balance sheet amount is net of accumulated depreciation and accumulated impairment losses, if any.
2. The fair value of investment properties at March 31, 2010 is principally measured based on the real-estate appraisal assessed by the external real-estate appraiser. And the others are measured by the JT Group based on the assessed value of taxable fixed asset. However, unless the appraisal or indicators that are regarded to reflect the fair value of the investment properties appropriately change significantly since the date of acquisition or the date of the latest appraisal, the JT Group measures the fair value of the investment properties based on such appraisal or indicators.

8. Per share information

(1) Net assets per share: ¥159,039.71

(2) Net income per share: ¥15,141.31

(3) Diluted net income per share: ¥15,136.79

9. Retirement benefits

(1) Retirement benefits

i) Overview of the adopted retirement benefit pension plans

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

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

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

ii) Projected retirement benefit obligations

a.	Projected benefit obligations	(¥486,862) million
b.	Fair value of plan assets	¥307,113 million
c.	Funded status (a+b)	(¥179,748) million
d.	Unrecognized actuarial net loss	¥100,671 million
e.	Unrecognized prior service cost	¥3,533 million
f.	Net amount recognized (c+d+e)	(¥75,544) million
g.	Pension liability adjustment of foreign consolidated subsidiaries (Note 2)	(¥34,685) million
h.	Prepaid pension cost	¥22,807 million
i.	Other current liabilities (Note 3)	(¥2,434) million
j.	Provision for retirement benefits (f+g-h-i) (Note 4)	(¥130,601) million

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

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

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

4. As described in "1. Notes to significant preparation policy of consolidated financial statements, (4) Accounting policies, v) Policy for significant reserve allowances, c. Provision for retirement benefits," the reserve for mutual assistance pension benefits is calculated separately from "j. Provision for retirement benefits" above and included in "Provision for retirement benefits." The amount thereof was ¥100,999 million.

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

a) Funded status of the entire plan as of March 31, 2010:

Fair value of plan assets	¥403,992 million
Benefit obligations	¥458,224 million
Deficit	(¥54,232) million

b) Proportion of the domestic consolidated subsidiaries companies' contributions to the entire plan as of March 31, 2011: 1.3%

iii) Net periodic retirement benefit cost

a.	Service cost (Note 1)	¥11,126 million
b.	Interest cost	¥17,928 million
c.	Expected return on plan assets	(¥13,883) million
d.	Recognized actuarial net loss (Note 2)	¥2,903 million
e.	Amortization of prior service cost (Note 2)	¥1,639 million
f.	Net periodic retirement benefit cost (a+b+c+d+e)	¥19,714 million

(Notes) 1. Retirement benefit cost for the consolidated subsidiaries which apply the simplified method is included in "a. Service cost."

2. Additional retirement benefits amount to ¥2,872 million and are recorded in "Extraordinary loss."

3. In addition to the above, a total of ¥5,812 million was recorded as necessary amounts relating to the defined contribution plan.

iv) Assumptions used for computation of projected retirement benefit obligations

(Domestic retirement benefit pension plans)

a.	Periodic allocation standard for projected retirement benefit obligation:	Principally, straight-line method
b.	Discount rate:	Principally, 1.7%
c.	Expected rate of return on plan assets:	Principally, 2.5%
d.	Period over which prior service cost is amortized:	Principally, 10 years
e.	Period over which actuarial gains or losses are amortized:	Principally, 10 years

(Overseas retirement benefit pension plans)

a.	Periodic allocation standard for projected retirement benefit obligation:	Principally, plan's benefit formula.
b.	Discount rate:	Principally, 2.8 to 5.4%
c.	Expected rate of return on plan assets:	Principally, 4.3% to 5.7%
d.	Period over which prior service cost is amortized:	Principally, 7 to 10 years
e.	Period over which actuarial gains or losses are amortized:	Principally, 7 to 15 years

(2) Mutual assistance pension benefits

The following are details relating to the calculation of obligations relating to mutual assistance pension benefit as described in "1. Notes to significant preparation policy of consolidated financial statements, (4) Accounting policies, v) Policy for significant reserve allowances, c. Provision for retirement benefits."

i) Obligations relating to mutual assistance pension benefits

a.	Benefit obligations (Note 1)	(¥97,576) million
b.	Unrecognized actuarial (gain) loss (Note 2)	(¥3,422) million
c.	Liabilities recognized (a+b) (Note 3)	(¥100,999) million

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

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

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

a.	Interest cost	¥1,595 million
b.	Recognized actuarial (gain)loss (Note 1)	(¥210) million
c.	Net periodic costs (a+b)	¥1,384 million

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

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

a.	Discount rate:	1.2%
b.	Period over which actuarial gains or losses are amortized:	10 years

10. Additional information

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

(1) Parties to the lawsuit

Plaintiff Government of Ontario (Canada)

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

(2) Content of the complaint

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

3. Amount of the claim

CAD50.0 billion (approximately ¥4,283.0 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, the Government of New Brunswick and the Government of Newfoundland and Labrador claiming the recovery of health care costs; however, the amounts of claims have not been specified in these lawsuits.

11. Significant subsequent events

JT decided by resolution at a meeting of the Board of Directors held on April 27, 2011, to approve the proposal of the management board of Austria Tabak Gmbh, a consolidated subsidiary of JT, to close the Hainburg factory followed by a restructuring of the central office in Vienna.

The effects of the events on the consolidated financial statements are currently undetermined.

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

Non-Consolidated Balance Sheet

(As of March 31, 2011)

(Millions of yen)

Account title	Amount	Account title	Amount
ASSETS		**LIABILITIES**	
Current assets	**420,441**	**Current liabilities**	**551,697**
Cash and deposits	291	Accounts payable–trade	10,525
Accounts receivable–trade	55,919	Current portion of bonds	40,000
Short-term investment securities	139,400	Current portion of long-term loans payable	20,200
Merchandise and finished goods	8,437		
Semi-finished goods	102,958	Lease obligations	3,327
Work in process	2,031	Accounts payable–other	44,272
Raw materials and supplies	41,140	National tobacco excise taxes payable	52,703
Advance payments–trade	483	National tobacco special excise taxes payable	8,150
Prepaid expenses	5,206		
Deferred tax assets	12,457	Local tobacco excise taxes payable	61,868
Short-term loans receivable from subsidiaries and affiliates	30,965	Income taxes payable	33,888
		Consumption taxes payable	23,010
Other	21,569	Deposits in cash management system	232,174
Allowance for doubtful accounts	(422)	Provision for bonuses	11,753
		Other	9,822
Noncurrent assets	**2,458,912**	**Noncurrent liabilities**	**473,255**
Property, plant and equipment	**316,050**	Bonds payable	239,998
Buildings	116,494	Long-term loans payable	50,160
Structures	3,225	Lease obligations	6,096
Machinery and equipment	75,412	Provision for retirement benefits	163,963
Vehicles	1,480	Asset retirement obligations	397
Tools, furniture and fixtures	20,510	Lease and guarantee deposits received	7,254
Land	91,721	Long-term accounts payable-other	5,385
Construction in progress	7,206	**Total Liabilities**	**1,024,952**
		NET ASSETS	
Intangible assets	**16,975**	**Shareholders' equity**	**1,847,751**
Patent right	221	**Capital stock**	**100,000**
Right of trademark	4,905	**Capital surplus**	**736,409**
Software	11,553	Legal capital surplus	736,400
Other	294	Other capital surplus	9
		Retained earnings	**1,105,915**
Investments and other assets	**2,125,886**	Legal retained earnings	18,776
Investment securities	27,804	Other retained earnings	1,087,138
Stocks of subsidiaries and affiliates	2,018,926	Reserve for reduction entry	37,127
Investments in capital of subsidiaries and affiliates	782	Special account for reduction entry	1,882
		General reserve	955,300
Long-term loans receivable	310	Retained earnings brought forward	92,829
Long-term loans receivable from subsidiaries and affiliates	14,450	**Treasury stock**	**(94,573)**
		Valuation and translation adjustments	**5,886**
Long-term prepaid expenses	7,157	Valuation difference on available-for-sale securities	5,886
Deferred tax assets	39,698		
Other	17,335	**Subscription rights to shares**	**763**
Allowance for doubtful accounts	(578)	**Total net assets**	**1,854,401**
Total Assets	**2,879,353**	**Total Liabilities and Net Assets**	**2,879,353**

Non-Consolidated Statement of Income

(Fiscal year ended March 31, 2011)

(Millions of yen)

Account title	Amount	
Net sales		2,066,340
Cost of sales		1,607,374
Gross profit		**458,966**
Selling, general and administrative expenses		273,543
Operating income		**185,422**
Non-operating income		
Interest income	517	
Dividend income	4,880	
Other	3,550	8,948
Non-operating expenses		
Interest expense	1,848	
Interest on bonds	3,158	
Foreign exchange losses	1,466	
Financial support for domestic leaf tobacco growers	1,491	
Periodic mutual assistance association cost	1,384	
Other	2,201	11,552
Ordinary income		**182,818**
Extraordinary income		
Gain on sales of noncurrent assets	8,169	
Gain on sales of investment securities	1,381	
Other	82	9,634
Extraordinary loss		
Loss on sales of noncurrent assets	715	
Loss on retirement of noncurrent assets	4,210	
Impairment loss	1,974	
Loss on valuation of stocks of subsidiaries and affiliates	74,942	
Loss on the Great East Japan Earthquake	8,667	
Other	3,353	93,864
Income before income taxes		**98,588**
Income taxes–current	62,031	
Income taxes–deferred	4,341	66,372
Net income		**32,216**

Non-Consolidated Statement of Changes in Net Assets

(Fiscal year ended March 31, 2011)

(Millions of yen)

	Shareholders' equity											
		Capital surplus			Retained earnings							
						Other retained earnings						
	Capital stock	Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Reserve for reduction entry	Special account for reduction entry	General reserve	Retained earnings brought forward	Total retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2010	100,000	736,400	6	736,406	18,776	38,320	4,254	955,300	112,612	1,129,263	(74,575)	1,891,095
Changes of items during the period												
Provision of reserve for reduction entry						4,969			(4,969)	-		-
Reversal of reserve for reduction entry						(6,161)			6,161	-		-
Provision of reserve for special account for reduction entry							1,882		(1,882)	-		-
Reversal of reserve for special account for reduction entry							(4,254)		4,254	-		-
Dividends from surplus									(55,564)	(55,564)		(55,564)
Net income									32,216	32,216		32,216
Purchase of treasury stock										-	(19,999)	(19,999)
Disposal of treasury stock			2	2						-	1	4
Net changes of items other than shareholders' equity												
Total changes of items during the period	-	-	2	2	-	(1,192)	(2,372)	-	(19,783)	(23,348)	(19,998)	(43,344)
Balance as of March 31, 2011	100,000	736,400	9	736,409	18,776	37,127	1,882	955,300	92,829	1,105,915	(94,573)	1,847,751

(Millions of yen)

	Valuation and translation adjustments		Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance as of March 31, 2010	10,099	10,099	564	1,901,759
Changes of items during the period				
Provision of reserve for reduction entry				-
Reversal of reserve for reduction entry				-
Provision of reserve for special account for reduction entry				-
Reversal of reserve for special account for reduction entry				-
Dividends from surplus				(55,564)
Net income				32,216
Purchase of treasury stock				(19,999)
Disposal of treasury stock				4
Net changes of items other than shareholders' equity	(4,212)	(4,212)	198	(4,014)
Total changes of items during the period	(4,212)	(4,212)	198	(47,358)
Balance as of March 31, 2011	5,886	5,886	763	1,854,401

1. Notes to significant accounting policies

(1) Valuation standard and method for securities

Stocks of subsidiaries and affiliates:

Stated at cost determined by the moving-average method.

Available-for-sale securities:

Securities with a fair value:

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

Securities without a fair value:

Stated at cost determined by the moving-average method.

(2) Valuation standard and method for derivatives

Stated based on the fair value method.

(3) Valuation standard and method for inventories

Stated at cost determined by the average cost method.

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

(4) Depreciation methods for depreciable assets

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

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

The main useful lives are as follows.

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

ii) Intangible assets (excluding lease assets)

Straight-line method

The main useful lives are as follows.

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

iii) Lease assets

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

(5) Policy for reserve allowances

i) Allowance for doubtful accounts

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

ii) Provision for bonuses

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

iii) Provision for retirement benefits

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

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

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

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

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

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

(7) Hedge accounting method

Deferral hedge accounting is applied.

Transactions under foreign currency forward contracts are translated into Japanese yen at the foreign exchange rate stipulated in the contracts where requirements are met. For interest rate and currency swaps, if they satisfy the requirements for treatment that incorporates swaps into underlying accounting items (accounting by applying foreign exchange rate stipulated in the contracts, exceptional treatment), they are accounted for by incorporating swaps into underlying accounting items.

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

(9) Changes in significant accounting policies

Accounting Standard for Asset Retirement Obligations

Effective from April 1, 2010, JT applied the “Accounting Standard for Asset Retirement Obligations” (ASBJ Statement No. 18, March 31, 2008) and the “Guidance on Accounting Standard for Asset Retirement Obligations” (ASBJ Guidance No. 21, March 31, 2008).

The impact of the application of this new accounting standard on operating income, ordinary income and income before income taxes during this fiscal year is immaterial.

(10) Changes in methods of presentation

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

ii) In the previous fiscal year, “Gain on sales of investment securities” (¥23 million recorded in the previous fiscal year) was included in “Other” in “Extraordinary income” of the non-consolidated statement of income; however, it is now presented separately due to its increased materiality.

iii) In the previous fiscal year, “Business restructuring costs” (¥1,844 million recorded in this fiscal year) was presented separately in “Extraordinary loss” of the non-consolidated statement of income; however, in this fiscal year, it is included in “Other” in “Extraordinary loss” due to its decreased materiality.

iv) In the previous fiscal year, “Expense for disposal of PCB-containing wastes” (¥11 million recorded in this fiscal year) was presented separately in “Extraordinary loss” of the non-consolidated statement of income; however, in this fiscal year, it is included in “Other” in “Extraordinary loss” due to its decreased materiality.

2. Notes to non-consolidated balance sheet

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

Short-term receivables:	¥37,493 million
Short-term payables:	¥20,323 million
Long-term payables:	¥12,830 million

(2) Accumulated depreciation of property, plant and equipment: ¥623,536 million

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

Amount of liabilities relating to collateral:	Yen straight bonds	¥279,998 million

(4) Guarantee obligations

Guaranteed party	Guarantee amount (Millions of yen)	Type of guarantee obligation	
JTI (UK) Finance PLC	192,562	Bond guarantee, guarantee denominated in foreign currencies	¥192,562 million (EUR 1,352 million) (GBP 252 million)
JT International Holding B.V.	124,626	Loan guarantee, guarantee denominated in foreign currencies	¥124,626 million (EUR 510 million) (GBP 455 million) (CAD 44 million)
JTI Ireland Limited	22,787	Loan guarantee, guarantee denominated in foreign currencies	¥22,787 million (EUR 194 million)
JT International Hellas A.E.B.E.	20,497	Loan guarantee, guarantee denominated in foreign currencies	¥20,497 million (EUR 174 million)
JT International Germany GmbH	14,253	Loan Guarantee, guarantee denominated in foreign currencies	¥14,253 million (EUR 121 million)
JT International S.A.	13,197	Loan Guarantee, guarantee denominated in foreign currencies	¥13,197 million (EUR 54 million) (CHF 53 million) (USD 23 million)
Others (47 companies)	70,743	Loan Guarantee	
Total	458,667		

(5) Payables to Directors and Auditors

Long-term payables ¥89 million

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

3. Notes to non-consolidated statement of income

(1) Amount of transactions with subsidiaries and affiliates

Net sales:	¥123,862 million
Purchase of goods:	¥82,277 million
Selling, general and administrative expenses:	¥64,952 million
Amount of non-operating transactions:	¥32,083 million

(2) Total research and development expenses are ¥41,956 million, all of which were recorded as general and administrative expenses.

(3) "Loss on valuation of stocks of subsidiaries and affiliates" in extraordinary loss represents an impairment loss on the stock of JT's subsidiary, TableMark Co., Ltd.

(4) "Loss on the Great East Japan Earthquake" in extraordinary loss refers to items such as loss on destruction of noncurrent assets and restoration costs, as well as loss on destruction of inventories, which occurred at JT's manufacturing facilities and other sites as a result of the Great East Japan Earthquake, which struck on March 11, 2011.
Most of the noncurrent assets and inventories damaged in the earthquake disaster are covered by casualty insurance.

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

Class and total number of treasury stock

(Thousands of shares)

	Number of shares as of March 31, 2010	Increase in this fiscal year ended March 31, 2011	Decrease in this fiscal year ended March 31 2011	Number of shares as of March 31, 2011
Treasury stock				
Common stock	419	58	0	478
Total	419	58	0	478

5. Tax effect accounting

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

Deferred tax assets	
Provision for retirement benefits	¥25,406 million
Obligations pertaining to mutual assistance pension benefits	¥40,753 million
Impairment loss on noncurrent assets	¥941 million
Provision for bonuses	¥4,742 million
Loss on valuation of stocks of subsidiaries and affiliates	¥31,259 million
Other	¥17,641 million
Subtotal	¥120,744 million
Less: valuation allowance	(¥33,406) million
Total	¥87,337 million
Deferred tax liabilities	
Reserve for reduction entry	(¥25,114) million
Other	(¥10,066) million
Total	(¥35,181) million
Net deferred tax assets	¥52,156 million

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

Normal effective statutory tax rate	40.35%
(Adjustment)	
Expenses not deductible permanently such as entertainment expenses	0.77%
Income not taxable permanently such as dividends income	(1.74)%
Tax credit on experiment and research expenses	(3.01)%
Valuation allowance	30.88%
Other	0.07%
Actual effective tax rate	67.32%

6. Related party transaction

Subsidiaries and Affiliates

Type	Name	Ownership ratio of voting rights	Relation with related parties	Description of transaction	Transaction amount		Item	End-of-period balance
					Lending of funds	Receipt of repayment of funds		
					millions of yen	millions of yen		million yen
Subsidiary	JT International Holding B.V.	Indirect ownership 100%	Lending of funds, etc.	Lending of funds (Note 1)	547,545	713,327	Short-term loans receivable	-
Subsidiary	TableMark Co., Ltd.	Direct ownership 100%	Lending of funds, etc.	Lending of funds (Note 1)	12,700	6,560	Short-term loans receivable	29,985
							Long-term loans receivable	12,955

Type	Name	Ownership ratio of voting rights	Relation with related parties	Description of transaction	Transaction amount	Item	End-of-period balance
					millions of yen		millions of yen
Subsidiary	TS Network Co., Ltd.	Direct ownership 74.5%	Deposits received for cash management system	Receipt of surplus funds (Notes 2, 3)	-	Deposits for cash management system	128,188
	JTI (UK) Finance PLC	Indirect ownership 100%	Guarantee obligations	Guarantee obligations (Note 4)	192,562	-	-
	JT International Holding B.V.	Indirect ownership 100%	Guarantee obligations	Guarantee obligations (Note 4)	124,626	-	-

Transaction conditions and policy on determination of transaction conditions

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

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

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

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

7. Per share information

(1) Net assets per share: ¥194,679.73

(2) Net income per share: ¥3,365.00

(3) Diluted net income per share: ¥3,364.00

8. Retirement benefits

(1) Retirement benefits

i) Overview of the adopted retirement benefit pension plans

JT has defined payment plans, including an unfunded severance indemnity plan and a cash balance pension plan. It also has a defined contribution plan.

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

ii) Projected retirement benefit obligations

a.	Projected benefit obligations	(¥190,439) million
b.	Fair value of plan assets	¥77,073 million
c.	Funded status (a+b)	(¥113,366) million
d.	Unrecognized actuarial gains	¥62,388 million
e.	Unrecognized prior service cost	¥3,650 million
f.	Net amount recognized (c+d+e)	(¥47,327) million
g.	Prepaid pension cost	¥15,637 million
h.	Provision for retirement benefits (f-g) (Note)	(¥62,964) million

(Note) As described in “1. Notes to significant accounting policies, (5) Policy for reserve allowances, iii) Provision for retirement benefits,” the reserve for mutual assistance pension benefits is calculated separately from “h.” Provision for retirement benefits” above and included in “Provision for retirement benefits.” The amount thereof is ¥100,999 million.

iii) Net periodic retirement benefit cost

a.	Service cost	¥4,239 million
b.	Interest cost	¥3,507 million
c.	Expected return on plan assets	(¥2,034) million
d.	Recognized actuarial (gain)loss	¥664 million
e.	Amortization of prior service cost	¥1,226 million
f.	Net periodic retirement benefit cost (a+b+c+d+e)	¥7,603 million

(Notes) 1. Additional retirement benefits amount to ¥841 million and are recorded in “Extraordinary loss.”

2. In addition to the above, a total of ¥1,805 million was recorded as necessary amounts relating to the defined contribution plan.

iv) Assumptions used for computation of projected retirement benefit obligations

a.	Periodic allocation standard for projected retirement benefit obligation:	straight-line method
b.	Discount rate:	1.7%
c.	Expected rate of return on plan assets:	2.5%
d.	Period over which prior service cost is amortized:	10 years
e.	Period over which actuarial gains or losses are amortized:	10 years

(2) Mutual assistance pension benefits

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

i) Obligations relating to mutual assistance pension benefits

a.	Benefit obligations (Note 1):	(¥97,576) million
b.	Unrecognized actuarial (gain)loss (Note 2):	(¥3,422) million
c.	Liabilities recognized (a+b) (Note 3):	(¥100,999) million

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

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

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

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

a.	Interest cost:	¥1,595 million
b.	Recognized actuarial (gain)loss (Note 1):	(¥210) million
c.	Net periodic costs (a+b):	¥1,384 million

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

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

a.	Discount rate:	1.2%
b.	Period over which actuarial gains or losses are amortized:	10 years

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

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

INDEPENDENT AUDITORS' REPORT

May 12, 2011

To the Board of Directors of
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC

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

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

Designated Limited Liability Partner,
Engagement Partner,
Certified Public Accountant:Koji Ishikawa(Seal)

Pursuant to the fourth paragraph of Article 444 of the Companies Act, we have audited the consolidated financial statements, namely, the consolidated balance sheet as of March 31, 2011 of Japan Tobacco Inc. (the “Company”), and the related consolidated statements of income and changes in net assets, and the related notes for the 26 th fiscal year from April 1, 2010 to March 31, 2011.. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and consolidated subsidiaries as of March 31, 2011, and the results of their operations for the year then ended in conformity with accounting principles generally accepted in Japan.

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

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

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

INDEPENDENT AUDITORS' REPORT

May 12, 2011

To the Board of Directors of
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC

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

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

Designated Limited Liability Partner,
Engagement Partner,
Certified Public Accountant:Koji Ishikawa(Seal)

Pursuant to the first item, second paragraph of Article 436 of the Companies Act, we have audited the financial statements, namely, the balance sheet as of March 31, 2011 of Japan Tobacco Inc. (the “Company”), and the related statements of income and changes in net assets, and the related notes for the 26 th fiscal year from April 1, 2010 to March 31, 2011, and the accompanying supplemental schedules. These financial statements and the accompanying supplemental schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the accompanying supplemental schedules based on our audit.

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

In our opinion, the financial statements and the accompanying supplemental schedules referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2011, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in Japan.

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

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

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

Audit Report of the Board of Auditors

AUDIT REPORT

Regarding the performance of duties by the Directors for the 26th business year from April 1, 2010 to March 31, 2011, the Board of Auditors hereby submits its audit report, which has been prepared through discussions based on the audit report prepared by each Auditor.

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

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

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

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

2. Audit Results

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

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

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

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

(3) Results of Audit of Consolidated Financial Statements

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

May 13, 2011

Board of Auditors, Japan Tobacco Inc.

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

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

REFERENCE DOCUMENTS
FOR THE GENERAL MEETING OF SHAREHOLDERS

Items and Relevant Information

Item 1: Appropriation of Surplus

The surplus is proposed to be appropriated as follows:

Year-end dividends

The year-end dividends on shares of Common Stock for the 26th Business Term are proposed to be paid on the following terms, for the purpose of making a return to JT's shareholders while ensuring the internal reserve fund required for the future business development.

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

Cash

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

¥4,000 per share of Common Stock of JT Aggregate amount: ¥38,085,896,000

Together with the interim dividends of ¥2,800 per share paid in December 2010, the annual dividends for the 26th Business Term will be ¥6,800 per share.

(3) Effective date for distribution of surplus:

June 27, 2011

Item 2: Partial Amendments to the Articles of Incorporation

1. Reasons for amendments

(1) It is proposed newly establish provisions permitting exemption of liability of the Directors and the Statutory Auditors to the extent provided by the Companies Act and permitting execution of liability limitation contracts with Outside Directors and Outside Statutory Auditors in advance, so that they can fully exercise expected roles and the Company may appoint appropriate persons with broader choice within and outside the Company. (Articles 23 and 28)
In addition, the Statutory Auditors have unanimously agreed on the proposed provision on exemption of liability of the Directors. (Article 23)

(2) Following the insertion of the provisions described above, Articles 23 to 26 and Articles 27 to 29 will be renumbered accordingly.

2. Details of amendments

Details of amendments are as follows:

(Underlined portions to be amended.)

Current Articles of Incorporation	Proposed Amendments
(Newly established)	<u>(Limitation of Liability of Directors)</u> <u>Article 23.In accordance with the provisions of Article 426, paragraph 1 of the Companies Act, the Company may, by resolution of the Board of Directors, exempt any Director (including any former Director) from the liabilities under Article 423, paragraph 1 of the Companies Act, to the extent permitted by laws and ordinances.</u> <u>2. In accordance with the provision of Article 427, paragraph 1 of the Companies Act, the Company may enter into an agreement with Outside Directors to limit the liability under Article 423, paragraph 1 of the Companies Act to the amount provided by laws and ordinances.</u>

Current Articles of Incorporation	Proposed Amendments
Article <u>23.</u> to Article <u>26.</u> (Provisions omitted)	Article <u>24.</u> to Article <u>27.</u> (Same as at present)
(Newly established)	<u>(Limitation of Liability of Statutory Auditors)</u> <u>Article 28. In accordance with the provisions of Article 426, paragraph 1 of the Companies Act, the Company may, by resolution of the Board of Directors, exempt any Statutory Auditor (including any former Statutory Auditor) from the liabilities under Article 423, paragraph 1 of the Companies Act, to the extent permitted by laws and ordinances.</u> <u>2. In accordance with the provisions of Article 427, paragraph 1 of the Companies Act, the Company may enter into an agreement with Outside Statutory Auditors to limit liability under Article 423, paragraph 1 of the Companies Act to the amount provided by laws and ordinances.</u>
Article <u>27.</u> to Article <u>29.</u> (Provisions omitted)	Article <u>29.</u> to Article <u>31.</u> (Same as at present)

Item 3: Election of Four (4) Auditors

The term of office of all four (4) present Auditors will expire at the conclusion of this ordinary general meeting of shareholders. Accordingly, the election of four (4) Auditors is proposed.

The Board of Auditors has approved this proposition.

The candidates for the office of Auditor are as follows:

Candidate Number	Name (Date of Birth)	Brief Personal History, Positions in the Company, and Significant Concurrent Positions outside the Company		Number of the Company's Shares Held
1	Hisao Tateishi (December 23, 1946)	Apr. 1971 Jul. 1997 Jul. 1999 Jan. 2001 Jul. 2001 Jul. 2003 Sep. 2005 Jun. 2007	Joined Ministry of Finance Commissioner of Kanto Shinetsu Regional Taxation Bureau, National Tax Agency Deputy Director-General of Personnel Affairs Bureau, Management and Coordination Agency Deputy Director-General of Personnel Affairs and Pension Bureau, Ministry of Internal Affairs and Communication Standing Director, Japan Foundation for Regional Vitalization Standing Director, Federation of National Public Service Personnel Mutual Aid Associations Senior Director, Federation of National Public Service Personnel Mutual Aid Associations Standing Auditor of the Company (Current Position)	25
2	Gisuke Shiozawa (April 18, 1952)	Apr. 1976 Aug. 1995 Sep. 1999 Apr. 2002 Jun. 2003 Jun. 2005 Jun. 2008	Joined the Company (Japan Tobacco and Salt Public Corporation) Head of Treasury Division Assistant to Director in Food Business Planning Division, Food Business Senior Manager in Soft Drink Business Division, Food Business Senior Vice President, Head of Food Business Planning Division, Food Business Senior Vice President, Head of Soft Drink Business Division, Food Business Standing Auditor (Current Position)	67
3	Koichi Ueda (December 17, 1943)	Apr. 1967 Apr. 1969 Jun. 2006 Dec. 2006 Jan. 2007 Apr. 2007 Jan. 2009 Mar. 2009 Jun. 2009	Judicial Apprentice Appointed as Public Prosecutor Superintending Public Prosecutor, the Tokyo High Public Prosecutors Office Took mandatory retirement Registered as an attorney at law Specially Appointed Professor of Meiji University Law School (Current Position) Representative Director, The Resolution and Collection Corporation President and Representative Director, The Resolution and Collection Corporation (Current Position) Auditor of the Company (Current Position)	6
		(Significant Concurrent Positions outside the Company) President and Representative Director, The Resolution and Collection Corporation Attorney at Law, Koichi Ueda Law Office		

Candidate Number	Name (Date of Birth)	Brief Personal History, Positions in the Company, and Significant Concurrent Positions outside the Company		Number of the Company's Shares Held
4	Yoshinori Imai (December 3, 1944)	Apr. 1968 Jun. 1995 May 2000 Jun. 2003 Jan. 2008 Jan. 2011 Apr. 2011	Joined Japan Broadcasting Corporation Bureau Chief of General Bureau for Europe Director General, Planning & Broadcasting Department, Japan Broadcasting Corporation Executive Editor and Programme Host, Japan Broadcasting Corporation Executive Vice President, Japan Broadcasting Corporation Retired from Executive Vice President, Japan Broadcasting Corporation Visiting Professor, Ritsumeikan University (Current Position)	0

(Notes) 1. No conflict of interest exists between the Company and each of the above candidates.

2. Hisao Tateishi, Koichi Ueda, and Yoshinori Imai are candidates for the office of Outside Statutory Auditor.

3. Relevant matters concerning the candidates for the office of Outside Statutory Auditor are described as follows:

(1) For Hisao Tateishi

We comprensively judged that he is suitable to be an Outside Statutory Auditor considering his considerable experience and extensive insight obtained from his many years of administrative practice and execution of his duties at the Federation of National Public Service Personnel Mutual Aid Associations.

While having not been involved in corporate management, it is judged that he would be able to appropriately execute his duty as Outside Statutory Auditor for the above-mentioned reasons and based on the fact that he has sufficiently performed his duty as the Company’s Statutory Auditor.

The period during which Hisao Tateishi has held the office of Statutory Auditor is four (4) years as at the conclusion of this ordinary general meeting of shareholders.

(2) For Koichi Ueda

We comprehensively judged that he is suitable to be an Outside Statutory Auditor considering his considerable experiences and extensive insight obtained from his legal career.

The period during which Koichi Ueda has held the office of Statutory Auditor is two (2) years as at the conclusion of this ordinary general meeting of shareholders.

(3) For Yoshinori Imai

We comprehensively judged that he is suitable to be an Outside Statutory Auditor considering his abundant experiences and broad insights into global politics and economics gained from performing responsibilities as Executive Vice President of Japan Broadcasting Corporation (NHK).

While he has not been involved in corporate management, it is judged that he would be able to appropriately execute his duty as Outside Statutory Auditor for the above-mentioned reasons.

4. Should Item 2 (the partical amendments to the Articles of Incorporation) and the election of Hisao Tateishi, Koichi Ueda, and Yoshinori Imai be approved at this Ordinary General Meeting of Shareholders, pursuant to the provision of Article 28 of the amended Articles of Incorporation, the Company intends to enter into an agreement with each of them to limit their liabilities sptipulated in Article 423, Paragraph 1 of the Companies Act to the extent permitted by the laws and ordinances.

5. Hisao Tateishi, Koichi Ueda, and Yoshinori Imai meet the requirements for independent auditor provided under the stock exchnage rules.

Direction for Exercise of the Voting Rights via the Internet:

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

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

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

1. Web-site for Exercise of Voting Rights

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

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

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

(3) The exercise of voting rights via the Internet is only available until 6 p.m. on Thursday, June 23, 2011. We ask that you please exercise your voting rights at your earliest convenience.

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

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

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

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

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

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

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

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

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

System Inquiries (Help Desk)

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

Consolidated Balance Sheet

(As of March 31, 2011)

(Millions of yen)

Account title	Amount	Account title	Amount
ASSETS		**LIABILITIES**	
Current assets	**1,247,820**	**Current liabilities**	**1,063,374**
Cash and deposits	117,458	Notes and accounts payable–trade	170,820
Notes and accounts receivable–trade	301,829	Short-term loans payable	70,059
Short-term investment securities	159,097	Current portion of bonds	126,486
Merchandise and finished goods	129,654	Current portion of long-term loans payable	21,490
Semi-finished goods	103,475		
Work in process	3,738	Lease obligations	4,591
Raw materials and supplies	276,989	Accounts payable-other	67,129
Deferred tax assets	24,674	National tobacco excise taxes payable	202,234
Other	133,684	National tobacco special excise taxes payable	8,150
Allowance for doubtful accounts	(2,781)		
		Local tobacco excise taxes payable	102,168
		Income taxes payable	65,651
		Consumption taxes payable	69,825
		Deferred tax liabilities	2,241
		Provision	38,777
		Other	113,746
Noncurrent assets	**2,324,107**	**Noncurrent liabilities**	**917,350**
Property, plant and equipment	**663,550**	Bonds payable	325,738
Buildings and structures	224,815	Long-term loans payable	152,414
Machinery, equipment and vehicles	231,527	Lease obligations	7,949
Tools, furniture and fixtures	50,899	Deferred tax liabilities	72,630
Land	127,207	Provision for retirement benefits	231,601
Construction in progress	29,100	Provision for directors’ retirement benefits	375
		Other	126,639
Intangible assets	**1,461,487**	**Total Liabilities**	**1,980,724**
Goodwill	1,147,816	**NET ASSETS**	
Right of trademark	286,435	**Shareholders’ equity**	**2,142,025**
Other	27,234	Capital stock	100,000
		Capital surplus	736,409
		Retained earnings	1,400,189
Investments and other assets	**199,069**	Treasury stock	(94,573)
Investment securities	58,582	**Accumulated other comprehensive income**	**(627,732)**
Deferred tax assets	82,328		
Other	81,698	Valuation difference on available-for-sale securities	5,753
Allowance for doubtful accounts	(23,540)		
		Pension liability adjustment of foreign consolidated subsidiaries	(27,486)
		Foreign currency translation adjustment	(606,000)
		Subscription rights to shares	**763**
		Minority interests	**76,146**
		Total net assets	**1,591,202**
Total Assets	**3,571,927**	**Total Liabilities and Net Assets**	**3,571,927**

Consolidated Statement of Income

(Fiscal year ended March 31, 2011)

(Millions of yen)

Account title	Amount	
Net sales		6,194,554
Cost of sales		5,074,074
Gross profit		**1,120,479**
Selling, general and administrative expenses		791,798
Operating income		**328,680**
Non-operating income		
Interest income	2,174	
Dividend income	853	
Foreign exchange gains	797	
Equity in earnings of affiliates	2,329	
Other	5,873	12,029
Non-operating expenses		
Interest expense	17,059	
Financial support for domestic leaf tobacco growers	1,491	
Periodic mutual assistance association cost	1,384	
Other	8,286	28,222
Ordinary income		**312,487**
Extraordinary income		
Gain on sales of noncurrent assets	12,182	
Gain on sales of investment securities	5,389	
Other	3,028	20,600
Extraordinary loss		
Loss on sales of noncurrent assets	850	
Loss on retirement of noncurrent assets	7,255	
Impairment loss	5,297	
Business restructuring costs	4,322	
Regulatory fine in Canada	12,843	
Loss on the Great East Japan Earthquake	10,966	
Other	11,055	52,590
Income before income taxes and minority interests		**280,497**
Income taxes–current	152,402	
Income taxes–deferred	(21,512)	130,889
Net Income before minority interests		**149,607**
Minority interests in income		4,646
Net income		**144,961**

Consolidated Statement of Changes in Net Assets

(Fiscal year ended March 31, 2011)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2010	100,000	736,406	1,310,669	(74,575)	2,072,501
Changes of items during the period					
Dividends from surplus			(55,564)		(55,564)
Net income			144,961		144,961
Change in scope of consolidation			122		122
Purchase of treasury stock				(19,999)	(19,999)
Disposal of treasury stock		2		1	4
Net changes of items other than shareholders' equity					
Total changes of items during the period	-	2	89,519	(19,998)	69,523
Balance as of March 31, 2011	100,000	736,409	1,400,189	(94,573)	2,142,025

(Millions of yen)

	Accumulated other comprehensive income				Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Pension liability adjustment of foreign consolidated subsidiaries (Note)	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance as of March 31, 2010	12,043	(26,269)	(409,160)	(423,387)	564	73,599	1,723,278
Changes of items during the period							
Dividends from surplus							(55,564)
Net income							144,961
Change in scope of consolidation							122
Purchase of treasury stock							(19,999)
Disposal of treasury stock							4
Net changes of items other than shareholders' equity	(6,290)	(1,216)	(196,839)	(204,345)	198	2,547	(201,599)
Total changes of items during the period	(6,290)	(1,216)	(196,839)	(204,345)	198	2,547	(132,075)
Balance as of March 31, 2011	5,753	(27,486)	(606,000)	(627,732)	763	76,146	1,591,202

(Note) "Pension liability adjustment of foreign consolidated subsidiaries" in accumulated other comprehensive income is the unfunded obligation recognized by foreign consolidated subsidiaries applying U.S.GAAP.

1. Notes to significant preparation policy of consolidated financial statements

(1) Scope of consolidation

Number of consolidated subsidiaries: 246 companies

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

In addition, a total of 12 companies, including JT International Zagreb d.o.o. za trgovinu i usluge, were included in the scope of consolidation commencing with this fiscal year.

A total of 24 companies, including FOOD INCLUVE CO., LTD., were excluded from the scope of consolidation due to transfers of stocks or other reasons.

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

(2) Scope of equity method

Number of non-consolidated subsidiaries and affiliates accounted for by the equity method: 14 companies

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

In addition, 3 companies, including Senichi Foods Co., Ltd., were excluded from the scope of affiliates accounted for by the equity method due to transfers of stocks.

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

Of the companies accounted for by the equity method, some companies' closing dates are different from the closing date for the consolidated financial statements. In that case, their financial statements as at their closing dates are used for the consolidation.

(3) Fiscal year of consolidated subsidiaries

Of the consolidated subsidiaries, most foreign consolidated subsidiaries have a closing date on December 31.

The consolidated financial statements are prepared using their financial statements on the closing date, and any necessary adjustments for the significant transactions occurring in the period between their closing date and the consolidated year-end are made for consolidation purposes.

(4) Accounting policies

i) Valuation standard and method for securities

Held-to-maturity bonds:

Stated at amortized cost (straight-line method).

Available-for-sale securities:

Securities with a fair value:

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

Securities without a fair value:

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

ii) Valuation standard and method for derivatives

Stated based on the fair value method.

iii) Valuation standard and method for inventories

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

iv) Depreciation methods for significant depreciable assets

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

Mainly, the declining balance method (straight-line method is applied for buildings (excluding building equipment) acquired on or after April 1, 1998) is applied, however, some domestic consolidated subsidiaries apply the straight-line method. The main useful lives are as follows.

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

b. Intangible assets (excluding lease assets)

Straight-line method

The main useful lives are as follows.

Right of trademark	10 years

c. Lease assets

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

v) Policy for significant reserve allowances

a. Allowance for doubtful accounts

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

b. Provision for bonuses

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

c. Provision for retirement benefits

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

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

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

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

d. Provision for directors' retirement benefits

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

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

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

vii) Significant hedge accounting method

Deferral hedge accounting is applied.

Transactions under foreign currency forward contracts are translated into Japanese yen at the foreign exchange rate stipulated in the contracts where requirements are met. Interest rate swaps are treated by the exceptional treatment if the swaps qualify for such treatments. For interest rate and currency swaps, if they satisfy the requirements for treatment that incorporates swaps into underlying accounting items (accounting by applying foreign exchange rate stipulated in the contracts, exceptional treatment), they are accounted for by incorporating swaps into underlying accounting items.

viii) Accounting policies of foreign consolidated subsidiaries

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

a. Valuation standard and method of inventories

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

b. Depreciation of significant depreciable assets

Property, plant and equipment

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

Intangible assets

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

c. Retirement benefit pension plans

The difference of retirement benefits obligation and fair value of pension plan assets is recognized on the consolidated balance sheet as assets or liabilities. Unrecognized net actuarial gains or losses and prior service cost, net of applicable taxes, are recorded as pension liability adjustment of foreign consolidated subsidiaries under accumulated other comprehensive income in net assets.

d. Derivative treatment method

Derivatives related to foreign currency and interest rate are entered into for hedging. All derivatives are recognized at fair value on the balance sheet as assets or liabilities and the fluctuations are recognized in income.

ix) Matters regarding the amortization of goodwill

For the amortization of goodwill, the amortization period is substantively estimated, and goodwill is amortized over this estimated number of years. The amortization period is between 5 years and 20 years. However, in the case that the amount is minimal, this amount is fully charged to expenses in the fiscal year when it occurs.

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

(5) Changes in significant matters in preparing consolidated financial statements

Application of Accounting Standard for Asset Retirement Obligations

Effective from April 1, 2010, JT applied the “Accounting Standard for Asset Retirement Obligations” (ASBJ Statement No. 18, March 31, 2008) and the “Guidance on Accounting Standard for Asset Retirement Obligations” (ASBJ Guidance No. 21, March 31, 2008).

The impact of the application of this new accounting standard on operating income, ordinary income and income before income taxes and minority interests during this fiscal year is immaterial.

(6) Changes in methods of presentation

i) In the previous fiscal year, “Gain on sales of investment securities” (¥3,820 million recorded in the previous fiscal year) was included in “Other” in “Extraordinary income” of the consolidated statement of income; however, it is now presented separately due to its increased materiality.

ii) In the previous fiscal year, “Expense for disposal of PCB-containing wastes” (¥86 million recorded in this fiscal year) was presented separately in “Extraordinary loss” of the consolidated statement of income; however, in this fiscal year, it is included in “Other” in “Extraordinary loss” due to its decreased materiality.

iii) From the current fiscal year, in accordance with “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, December 26, 2008), “Ordinance of the Ministry of Justice on Partially Revision Act on Enforcement of the Companies Act, Statutory Financial Statements Rules, etc.” (Ordinance of the Ministry of Justice No. 7 of March 27, 2009,) is applied, and the line item, “Net income before minority interests” is included in the Consolidated Statement of Income.

(7) Additional information

Effective from the fiscal year ended March 31, 2011, JT applied the “Accounting Standard for Presentation of Comprehensive Income” (ASBJ Statement No. 25, June 30, 2010). However, the amounts of “Accumulated other comprehensive income” and “Total accumulated other comprehensive income” as of March 31, 2010 represent the amounts of “Valuation and translation adjustments” and “Total valuation and translation adjustments,” respectively.

2. Notes to consolidated balance sheet

(1) Accumulated depreciation of property, plant and equipment: ¥934,350 million

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

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

Amount of liabilities relating to collateral

Yen straight bonds:	¥279,998 million

ii) Assets pledged as collateral related to some consolidated subsidiaries are ¥12,867 million.

Type and amount of assets pledged as collateral

Buildings and structures:	¥7,209 million
Land:	¥3,394 million
Other:	¥2,263 million

The amount of liabilities related to assets pledged as collateral is ¥6,847 million.

Amount of liabilities relating to collateral

Short-term loans payable and Long-term loans payable:	¥6,227 million
Other:	¥620 million

3. Notes to consolidated statement of income

(1) Total research and development expenses are ¥53,363 million, all of which are recorded as general and administrative expenses.

(2) "Business restructuring costs" in "Extraordinary loss" are costs associated with the business restructuring measures and its main components consist of rationalizing costs for the Japanese Domestic Tobacco Business and the Food Business.

(3) 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 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. and paid CAD150 million. The amount paid is recorded in extraordinary loss as "Regulatory fine in Canada."

(4) "Loss on the Great East Japan Earthquake" in extraordinary loss refers to items such as loss on destruction of manufacturing facilities and inventories, which mainly JT and those group companies in the Tohoku region of northeast Japan hold, have suffered damage from the Great East Japan Earthquake occurred on March 11, 2011.

JT group had originally arranged accident insurances which cover the facilities and inventories that suffered damage from the earthquake.

4. Notes to consolidated statement of changes in net assets

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

(Thousands of shares)

	Number of shares as of March 31, 2010	Increase in this fiscal year ended March 31, 2011	Decrease in this fiscal year ended March 31, 2011	Number of shares as of March 31, 2011
Issued shares				
Common stock	10,000	-	-	10,000
Total	10,000	-	-	10,000
Treasury stock				
Common stock	419	58	0	478
Total	419	58	0	478

(2) Cash dividends

i) Dividend payments

(Resolution)	Class of shares	Total amount of dividends (Millions of yen)	Cash dividend per share (Yen)	Record date	Effective date
Annual General Meeting of Shareholders held on June 24, 2010	Common stock	28,740	3,000	March 31, 2010	June 25, 2010
Meeting of the Board of Directors held on October 28, 2010	Common stock	26,824	2,800	September 30, 2010	December 1, 2010

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

The following proposal will be placed on the agenda of the Annual General Meeting of Shareholders to be held on June 24, 2011.

(Proposal)	Class 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 to be held on June 24, 2011	Common stock	38,085	Retained earnings	4,000	March 31, 2011	June 27, 2011

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

Common stock 3,081 shares

5. Tax effect accounting

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

Deferred tax assets	
Provision for retirement benefits	¥41,028 million
Obligations pertaining to mutual assistance pension benefits	¥40,753 million
Net operating loss carry forwards	¥65,122 million
Other	¥77,114 million
Subtotal	¥224,018 million
Less valuation allowance	(¥69,116) million
Total	¥154,902 million
Deferred tax liabilities	
Reserve for reduction entry	(¥25,498) million
Basis differences in assets acquired and liabilities assumed upon acquisition	(¥56,576) million
Prepaid pension cost	(¥8,637) million
Other	(¥32,057) million
Total	(¥122,770) million
Net deferred tax assets	¥32,131 million

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

Normal effective statutory tax rate	40.35 %
(Adjustment)	
Tax rate difference applied for foreign consolidated subsidiaries	(10.32%)
Non-deductible expenses	2.75%
Amortization of goodwill	8.75%
Valuation allowance	(1.43%)
Regulatory fine in Canada	1.60%
Uncertainty in income tax of foreign consolidated subsidiaries	5.31%
Other	(0.35%)
Actual effective tax rate	46.66%

6. Financial instruments

(1) Matters regarding financial instruments

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

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

(2) Matters regarding fair values of financial instruments

Consolidated balance sheet amounts and fair values at March 31, 2011 (the closing date of the fiscal year) and their differences are as follows.

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

(Millions of yen)

	Consolidated balance sheet amount	Fair value	Difference
1) Cash and deposits	117,458	117,458	-
2) Notes and accounts receivable-trade	301,829		
Allowance for doubtful accounts (*1)	(2,362)		
	299,466	299,466	-
3) Short-term investment securities and investment securities			
Available-for-sale securities	194,164	194,164	-
Total assets	611,090	611,090	-
1) Notes and accounts payable-trade	170,820	170,820	-
2) Short-term loans payable	70,059	70,059	-
3) Accounts payable-other	67,129	67,129	-
4) National tobacco excise taxes payable	202,234	202,234	-
5) National tobacco special excise taxes payable	8,150	8,150	-
6) Local tobacco excise taxes payable	102,168	102,168	-
7) Income taxes payable	65,651	65,651	-
8) Consumption taxes payable	69,825	69,825	-
9) Bonds payable	452,225	462,475	10,250
10) Long-term loans payable	173,905	174,302	396
Total liabilities	1,382,170	1,392,817	10,647
Derivative transactions (*2)	3,950	3,950	-

(*1) The allowance for doubtful accounts are deducted from notes and accounts receivable-trade to which they relate.

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

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

Assets

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

3) Short-term investment securities and investment securities

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

Notes concerning securities by purpose of holding are as follows.

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

(Millions of yen)

	Type	Consolidated balance sheet amount	Acquisition cost or amortized cost	Difference
Available-for-sale securities which consolidated balance sheet amounts exceed their acquisition costs or amortized costs	(1) Equity securities	21,444	10,546	10,898
	(2) Bonds	6,438	6,380	58
	(3) Other	24	17	6
	Subtotal	27,908	16,944	10,963
Available-for-sale securities which consolidated balance sheet amounts do not exceed their acquisition costs or amortized costs	(1) Equity securities	8,939	11,587	(2,648)
	(2) Bonds	17,888	17,940	(51)
	(3) Other	139,429	139,429	–
	Subtotal	166,256	168,956	(2,699)
Total		194,164	185,901	8,263

Liabilities

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

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

9) Bonds payable

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

10) Long-term loans payable

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

Derivative transactions

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

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

a. Derivatives to which hedge accounting is not applied

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

(a) Derivatives related to currencies

(Millions of yen)

Category	Type	Contract/ notional amount	Over one year	Fair value	Gain (loss) on valuation
Non-market transactions	Foreign currency forward contracts:				
	Buying	204,215	–	2,944	2,944
	Selling	85,173	–	(1,237)	(1,237)
	Currency swaps:				
	Selling	1,781	1,781	(82)	(82)
	Currency options				
	Buying	6,111	–	120	(151)
Total		297,282	1,781	1,745	1,473

(b) Derivatives related to interest rates

(Millions of yen)

Category	Type	Contract/ notional amount	Over one year	Fair value	Gain (loss) on valuation
Non-market transactions	Interest rate swaps:				
	Fixed rate receipt and floating rate payment	31,576	31,576	2,191	2,191
	Interest rate caps:				
	Buying	31,576	31,576	13	(513)
Total		63,152	63,152	2,205	1,677

b. Derivatives to which hedge accounting is applied

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

(a) Derivatives related to interest rates

(Millions of yen)

Category	Type	Main hedged item	Contract/ notional amount		Fair value	Gain (loss) on valuation
				Over one year		
Exceptional treatment of interest rate swaps	Interest rate swaps: Floating rate receipt and fixed rate payment	Long-term loans payable	357	197	(*1)	

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

(b) Derivatives related to interest rates and currency

(Millions of yen)

Category	Type	Main hedged item	Contract/ notional amount		Fair value	Gain (loss) on valuation
				Over one year		
Accounting that incorporates interest rate and currency swaps into underlying accounting items	Interest rate and currency swaps Floating rate receipt and fixed rate payment Buying	Long-term loans payable	30,000	30,000	(*2)	

(*2) Interest rate and currency swaps that qualify for the accounting that incorporates the swaps into underlying accounting items (accounting by applying foreign exchange rate stipulated in the contracts, exceptional treatment) are accounted for with the long-term loans payable that are the hedged items, and the fair value of interest rate and currency swaps is included in that of long -term loans payable.

7. Investment and rental property

(1) Matters regarding investment and rental property

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

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

Consolidated balance sheet amounts and fair values of investment and rental properties at March 31, 2011 are as follows.

(Millions of yen)

Usage	Consolidated balance sheet amount	Fair value
Office building	37,035	124,706
Residence	4,303	24,037
Others	13,880	59,523
Total	55,219	208,267

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

2. The fair value of investment properties at March 31, 2011 is principally measured based on the real-estate appraisal assessed by the external real-estate appraiser. The others are measured by the JT Group based on the assessed value of taxable fixed asset. However, unless the appraisal or indicators that are regarded to reflect the fair value of the investment properties appropriately change significantly since the date of acquisition or the date of the latest appraisal, the JT Group measures the fair value of the investment properties based on such appraisal or indicators.

8. Per share information

(1) Net assets per share: ¥159,039.71

(2) Net income per share: ¥15,141.31

(3) Diluted net income per share: ¥15,136.79

9. Retirement benefits

(1) Retirement benefits

i) Overview of the adopted retirement benefit pension plans

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

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

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

ii) Projected retirement benefit obligations

a.	Projected benefit obligations	(¥486,862) million
b.	Fair value of plan assets	¥307,113 million
c.	Funded status (a+b)	(¥179,748) million
d.	Unrecognized actuarial net loss	¥100,671 million
e.	Unrecognized prior service cost	¥3,533 million
f.	Net amount recognized (c+d+e)	(¥75,544) million
g.	Pension liability adjustment of foreign consolidated subsidiaries (Note 2)	(¥34,685) million
h.	Prepaid pension cost	¥22,807 million
i.	Other current liabilities (Note 3)	(¥2,434) million
j.	Provision for retirement benefits (f+g-h-i) (Note 4)	(¥130,601) million

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

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

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

4. As described in “1. Notes to significant preparation policy of consolidated financial statements, (4) Accounting policies, v) Policy for significant reserve allowances, c. Provision for retirement benefits,” the reserve for mutual assistance pension benefits is calculated separately from “j. Provision for retirement benefits” above and included in “Provision for retirement benefits.” The amount thereof was ¥100,999 million.

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

a) Funded status of the entire plan as of March 31, 2010:

Fair value of plan assets	¥403,992 million
Benefit obligations	¥458,224 million
Deficit	(¥54,232) million

b) Proportion of the domestic consolidated subsidiaries companies’ contributions to the entire plan as of March 31, 2011: 1.3%

iii) Net periodic retirement benefit cost

a.	Service cost (Note 1)	¥11,126 million
b.	Interest cost	¥17,928 million
c.	Expected return on plan assets	(¥13,883) million
d.	Recognized actuarial net loss (Note 2)	¥2,903 million
e.	Amortization of prior service cost (Note 2)	¥1,639 million
f.	Net periodic retirement benefit cost (a+b+c+d+e)	¥19,714 million

(Notes) 1. Retirement benefit cost for the consolidated subsidiaries which apply the simplified method is included in "a. Service cost."

2. Additional retirement benefits amount to ¥2,872 million and are recorded in "Extraordinary loss."

3. In addition to the above, a total of ¥5,812 million was recorded as necessary amounts relating to the defined contribution plan.

iv) Assumptions used for computation of projected retirement benefit obligations

(Domestic retirement benefit pension plans)

a.	Periodic allocation standard for projected retirement benefit obligation:	Principally, straight-line method
b.	Discount rate:	Principally, 1.7%
c.	Expected rate of return on plan assets:	Principally, 2.5%
d.	Period over which prior service cost is amortized:	Principally, 10 years
e.	Period over which actuarial gains or losses are amortized:	Principally, 10 years

(Overseas retirement benefit pension plans)

a.	Periodic allocation standard for projected retirement benefit obligation:	Principally, plan's benefit formula.
b.	Discount rate:	Principally, 2.8 to 5.4%
c.	Expected rate of return on plan assets:	Principally, 4.3% to 5.7%
d.	Period over which prior service cost is amortized:	Principally, 7 to 10 years
e.	Period over which actuarial gains or losses are amortized:	Principally, 7 to 15 years

(2) Mutual assistance pension benefits

The following are details relating to the calculation of obligations relating to mutual assistance pension benefit as described in "1. Notes to significant preparation policy of consolidated financial statements, (4) Accounting policies, v) Policy for significant reserve allowances, c. Provision for retirement benefits."

i) Obligations relating to mutual assistance pension benefits

a.	Benefit obligations (Note 1)	(¥97,576) million
b.	Unrecognized actuarial (gain) loss (Note 2)	(¥3,422) million
c.	Liabilities recognized (a+b) (Note 3)	(¥100,999) million

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

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

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

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

a.	Interest cost	¥1,595 million
b.	Recognized actuarial (gain)loss (Note 1)	(¥210) million
c.	Net periodic costs (a+b)	¥1,384 million

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

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

a.	Discount rate:	1.2%
b.	Period over which actuarial gains or losses are amortized:	10 years

10. Additional information

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

(1) Parties to the lawsuit

Plaintiff Government of Ontario (Canada)

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

(2) Content of the complaint

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

3. Amount of the claim

CAD50.0 billion (approximately ¥4,283.0 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, the Government of New Brunswick and the Government of Newfoundland and Labrador claiming the recovery of health care costs; however, the amounts of claims have not been specified in these lawsuits.

11. Significant subsequent events

JT decided by resolution at a meeting of the Board of Directors held on April 27, 2011, to approve the proposal of the management board of Austria Tabak Gmbh, a consolidated subsidiary of JT, to close the Hainburg factory followed by a restructuring of the central office in Vienna.

The effects of the events on the consolidated financial statements are currently undetermined.

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

Non-Consolidated Balance Sheet

(As of March 31, 2011)

(Millions of yen)

Account title	Amount	Account title	Amount
ASSETS		**LIABILITIES**	
Current assets	**420,441**	**Current liabilities**	**551,697**
Cash and deposits	291	Accounts payable–trade	10,525
Accounts receivable–trade	55,919	Current portion of bonds	40,000
Short-term investment securities	139,400	Current portion of long-term loans payable	20,200
Merchandise and finished goods	8,437		
Semi-finished goods	102,958	Lease obligations	3,327
Work in process	2,031	Accounts payable–other	44,272
Raw materials and supplies	41,140	National tobacco excise taxes payable	52,703
Advance payments–trade	483	National tobacco special excise taxes payable	8,150
Prepaid expenses	5,206		
Deferred tax assets	12,457	Local tobacco excise taxes payable	61,868
Short-term loans receivable from subsidiaries and affiliates	30,965	Income taxes payable	33,888
		Consumption taxes payable	23,010
Other	21,569	Deposits in cash management system	232,174
Allowance for doubtful accounts	(422)	Provision for bonuses	11,753
		Other	9,822
Noncurrent assets	**2,458,912**	**Noncurrent liabilities**	**473,255**
Property, plant and equipment	**316,050**	Bonds payable	239,998
Buildings	116,494	Long-term loans payable	50,160
Structures	3,225	Lease obligations	6,096
Machinery and equipment	75,412	Provision for retirement benefits	163,963
Vehicles	1,480	Asset retirement obligations	397
Tools, furniture and fixtures	20,510	Lease and guarantee deposits received	7,254
Land	91,721	Long-term accounts payable-other	5,385
Construction in progress	7,206	**Total Liabilities**	**1,024,952**
		NET ASSETS	
Intangible assets	**16,975**	**Shareholders' equity**	**1,847,751**
Patent right	221	**Capital stock**	**100,000**
Right of trademark	4,905	**Capital surplus**	**736,409**
Software	11,553	Legal capital surplus	736,400
Other	294	Other capital surplus	9
		Retained earnings	**1,105,915**
Investments and other assets	**2,125,886**	Legal retained earnings	18,776
Investment securities	27,804	Other retained earnings	1,087,138
Stocks of subsidiaries and affiliates	2,018,926	Reserve for reduction entry	37,127
Investments in capital of subsidiaries and affiliates	782	Special account for reduction entry	1,882
		General reserve	955,300
Long-term loans receivable	310	Retained earnings brought forward	92,829
Long-term loans receivable from subsidiaries and affiliates	14,450	**Treasury stock**	**(94,573)**
		Valuation and translation adjustments	**5,886**
Long-term prepaid expenses	7,157	Valuation difference on available-for-sale securities	5,886
Deferred tax assets	39,698		
Other	17,335	**Subscription rights to shares**	**763**
Allowance for doubtful accounts	(578)	**Total net assets**	**1,854,401**
Total Assets	**2,879,353**	**Total Liabilities and Net Assets**	**2,879,353**

Non-Consolidated Statement of Income

(Fiscal year ended March 31, 2011)

(Millions of yen)

Account title	Amount	
Net sales		2,066,340
Cost of sales		1,607,374
Gross profit		**458,966**
Selling, general and administrative expenses		273,543
Operating income		**185,422**
Non-operating income		
Interest income	517	
Dividend income	4,880	
Other	3,550	8,948
Non-operating expenses		
Interest expense	1,848	
Interest on bonds	3,158	
Foreign exchange losses	1,466	
Financial support for domestic leaf tobacco growers	1,491	
Periodic mutual assistance association cost	1,384	
Other	2,201	11,552
Ordinary income		**182,818**
Extraordinary income		
Gain on sales of noncurrent assets	8,169	
Gain on sales of investment securities	1,381	
Other	82	9,634
Extraordinary loss		
Loss on sales of noncurrent assets	715	
Loss on retirement of noncurrent assets	4,210	
Impairment loss	1,974	
Loss on valuation of stocks of subsidiaries and affiliates	74,942	
Loss on the Great East Japan Earthquake	8,667	
Other	3,353	93,864
Income before income taxes		**98,588**
Income taxes–current	62,031	
Income taxes–deferred	4,341	66,372
Net income		**32,216**

Non-Consolidated Statement of Changes in Net Assets

(Fiscal year ended March 31, 2011)

(Millions of yen)

	Shareholders' equity											
		Capital surplus			Retained earnings							
						Other retained earnings						
	Capital stock	Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Reserve for reduction entry	Special account for reduction entry	General reserve	Retained earnings brought forward	Total retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2010	100,000	736,400	6	736,406	18,776	38,320	4,254	955,300	112,612	1,129,263	(74,575)	1,891,095
Changes of items during the period												
Provision of reserve for reduction entry						4,969			(4,969)	-		-
Reversal of reserve for reduction entry						(6,161)			6,161	-		-
Provision of reserve for special account for reduction entry							1,882		(1,882)	-		-
Reversal of reserve for special account for reduction entry							(4,254)		4,254	-		-
Dividends from surplus									(55,564)	(55,564)		(55,564)
Net income									32,216	32,216		32,216
Purchase of treasury stock										-	(19,999)	(19,999)
Disposal of treasury stock			2	2						-	1	4
Net changes of items other than shareholders' equity												
Total changes of items during the period	-	-	2	2	-	(1,192)	(2,372)	-	(19,783)	(23,348)	(19,998)	(43,344)
Balance as of March 31, 2011	100,000	736,400	9	736,409	18,776	37,127	1,882	955,300	92,829	1,105,915	(94,573)	1,847,751

(Millions of yen)

	Valuation and translation adjustments		Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance as of March 31, 2010	10,099	10,099	564	1,901,759
Changes of items during the period				
Provision of reserve for reduction entry				-
Reversal of reserve for reduction entry				-
Provision of reserve for special account for reduction entry				-
Reversal of reserve for special account for reduction entry				-
Dividends from surplus				(55,564)
Net income				32,216
Purchase of treasury stock				(19,999)
Disposal of treasury stock				4
Net changes of items other than shareholders’ equity	(4,212)	(4,212)	198	(4,014)
Total changes of items during the period	(4,212)	(4,212)	198	(47,358)
Balance as of March 31, 2011	5,886	5,886	763	1,854,401

1. Notes to significant accounting policies

(1) Valuation standard and method for securities

Stocks of subsidiaries and affiliates:

Stated at cost determined by the moving-average method.

Available-for-sale securities:

Securities with a fair value:

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

Securities without a fair value:

Stated at cost determined by the moving-average method.

(2) Valuation standard and method for derivatives

Stated based on the fair value method.

(3) Valuation standard and method for inventories

Stated at cost determined by the average cost method.

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

(4) Depreciation methods for depreciable assets

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

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

The main useful lives are as follows.

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

ii) Intangible assets (excluding lease assets)

Straight-line method

The main useful lives are as follows.

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

iii) Lease assets

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

(5) Policy for reserve allowances

i) Allowance for doubtful accounts

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

ii) Provision for bonuses

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

iii) Provision for retirement benefits

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

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

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

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

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

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

(7) Hedge accounting method

Deferral hedge accounting is applied.

Transactions under foreign currency forward contracts are translated into Japanese yen at the foreign exchange rate stipulated in the contracts where requirements are met. For interest rate and currency swaps, if they satisfy the requirements for treatment that incorporates swaps into underlying accounting items (accounting by applying foreign exchange rate stipulated in the contracts, exceptional treatment), they are accounted for by incorporating swaps into underlying accounting items.

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

(9) Changes in significant accounting policies

Accounting Standard for Asset Retirement Obligations

Effective from April 1, 2010, JT applied the “Accounting Standard for Asset Retirement Obligations” (ASBJ Statement No. 18, March 31, 2008) and the “Guidance on Accounting Standard for Asset Retirement Obligations” (ASBJ Guidance No. 21, March 31, 2008).

The impact of the application of this new accounting standard on operating income, ordinary income and income before income taxes during this fiscal year is immaterial.

(10) Changes in methods of presentation

i) In the previous fiscal year, "Foreign exchange losses" (¥1,168 million recorded in the previous fiscal year) was included in "Other" in "Non-operating expenses" of the non-consolidated statement of income; however, it is now presented separately due to its increased materiality.

ii) In the previous fiscal year, "Gain on sales of investment securities" (¥23 million recorded in the previous fiscal year) was included in "Other" in "Extraordinary income" of the non-consolidated statement of income; however, it is now presented separately due to its increased materiality.

iii) In the previous fiscal year, "Business restructuring costs" (¥1,844 million recorded in this fiscal year) was presented separately in "Extraordinary loss" of the non-consolidated statement of income; however, in this fiscal year, it is included in "Other" in "Extraordinary loss" due to its decreased materiality.

iv) In the previous fiscal year, "Expense for disposal of PCB-containing wastes" (¥11 million recorded in this fiscal year) was presented separately in "Extraordinary loss" of the non-consolidated statement of income; however, in this fiscal year, it is included in "Other" in "Extraordinary loss" due to its decreased materiality.

2. Notes to non-consolidated balance sheet

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

Short-term receivables:	¥37,493 million
Short-term payables:	¥20,323 million
Long-term payables:	¥12,830 million

(2) Accumulated depreciation of property, plant and equipment: ¥623,536 million

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

Amount of liabilities relating to collateral:	Yen straight bonds	¥279,998 million

(4) Guarantee obligations

Guaranteed party	Guarantee amount (Millions of yen)	Type of guarantee obligation	
JTI (UK) Finance PLC	192,562	Bond guarantee, guarantee denominated in foreign currencies	¥192,562 million (EUR 1,352 million) (GBP 252 million)
JT International Holding B.V.	124,626	Loan guarantee, guarantee denominated in foreign currencies	¥124,626 million (EUR 510 million) (GBP 455 million) (CAD 44 million)
JTI Ireland Limited	22,787	Loan guarantee, guarantee denominated in foreign currencies	¥22,787 million (EUR 194 million)
JT International Hellas A.E.B.E.	20,497	Loan guarantee, guarantee denominated in foreign currencies	¥20,497 million (EUR 174 million)
JT International Germany GmbH	14,253	Loan Guarantee, guarantee denominated in foreign currencies	¥14,253 million (EUR 121 million)
JT International S.A.	13,197	Loan Guarantee, guarantee denominated in foreign currencies	¥13,197 million (EUR 54 million) (CHF 53 million) (USD 23 million)
Others (47 companies)	70,743	Loan Guarantee	
Total	458,667		

(5) Payables to Directors and Auditors

Long-term payables	¥89 million

(6) **“**Deposits in cash management system” are funds entrusted in the cash management system for domestic Group companies.

3. Notes to non-consolidated statement of income

(1) Amount of transactions with subsidiaries and affiliates

Net sales:	¥123,862 million
Purchase of goods:	¥82,277 million
Selling, general and administrative expenses:	¥64,952 million
Amount of non-operating transactions:	¥32,083 million

(2) Total research and development expenses are ¥41,956 million, all of which were recorded as general and administrative expenses.

(3) “Loss on valuation of stocks of subsidiaries and affiliates” in extraordinary loss represents an impairment loss on the stock of JT’s subsidiary, TableMark Co., Ltd.

(4) “Loss on the Great East Japan Earthquake” in extraordinary loss refers to items such as loss on destruction of manufacturing facilities and inventories, which mainly JT and those group companies in the Tohoku region of northeast Japan hold, have suffered damage from the Great East Japan Earthquake occurred on March 11, 2011.

JT group had originally arranged accident insurances which cover the facilities and inventories that suffered damage from the earthquake.

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

Class and total number of treasury stock

(Thousands of shares)

	Number of shares as of March 31, 2010	Increase in this fiscal year ended March 31, 2011	Decrease in this fiscal year ended March 31 2011	Number of shares as of March 31, 2011
Treasury stock				
Common stock	419	58	0	478
Total	419	58	0	478

5. Tax effect accounting

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

Deferred tax assets	
Provision for retirement benefits	¥25,406 million
Obligations pertaining to mutual assistance pension benefits	¥40,753 million
Impairment loss on noncurrent assets	¥941 million
Provision for bonuses	¥4,742 million
Loss on valuation of stocks of subsidiaries and affiliates	¥31,259 million
Other	¥17,641 million
Subtotal	¥120,744 million
Less: valuation allowance	(¥33,406) million
Total	¥87,337 million
Deferred tax liabilities	
Reserve for reduction entry	(¥25,114) million
Other	(¥10,066) million
Total	(¥35,181) million
Net deferred tax assets	¥52,156 million

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

Normal effective statutory tax rate	40.35%
(Adjustment)	
Expenses not deductible permanently such as entertainment expenses	0.77%
Income not taxable permanently such as dividends income	(1.74)%
Tax credit on experiment and research expenses	(3.01)%
Valuation allowance	30.88%
Other	0.07%
Actual effective tax rate	67.32%

6. Related party transaction

Subsidiaries and Affiliates

Type	Name	Ownership ratio of voting rights	Relation with related parties	Description of transaction	Transaction amount: Lending of funds	Transaction amount: Receipt of repayment of funds	Item	End-of-period balance
					millions of yen	millions of yen		million yen
Subsidiary	JT International Holding B.V.	Indirect ownership 100%	Lending of funds, etc.	Lending of funds (Note 1)	547,545	713,327	Short-term loans receivable	-
Subsidiary	TableMark Co., Ltd.	Direct ownership 100%	Lending of funds, etc.	Lending of funds (Note 1)	12,700	6,560	Short-term loans receivable	29,985
							Long-term loans receivable	12,955

Type	Name	Ownership ratio of voting rights	Relation with related parties	Description of transaction	Transaction amount	Item	End-of-period balance
					millions of yen		millions of yen
Subsidiary	TS Network Co., Ltd.	Direct ownership 74.5%	Deposits received for cash management system	Receipt of surplus funds (Notes 2, 3)	-	Deposits for cash management system	128,188
Subsidiary	JTI (UK) Finance PLC	Indirect ownership 100%	Guarantee obligations	Guarantee obligations (Note 4)	192,562	-	-
Subsidiary	JT International Holding B.V.	Indirect ownership 100%	Guarantee obligations	Guarantee obligations (Note 4)	124,626	-	-

Transaction conditions and policy on determination of transaction conditions

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

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

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

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

7. Per share information

(1) Net assets per share: **¥194,679.73**

(2) Net income per share: **¥3,365.00**

(3) Diluted net income per share: **¥3,364.00**

8. Retirement benefits

(1) Retirement benefits

i) Overview of the adopted retirement benefit pension plans

JT has defined payment plans, including an unfunded severance indemnity plan and a cash balance pension plan. It also has a defined contribution plan.

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

ii) Projected retirement benefit obligations

a.	Projected benefit obligations	(¥190,439) million
b.	Fair value of plan assets	¥77,073 million
c.	Funded status (a+b)	(¥113,366) million
d.	Unrecognized actuarial gains	¥62,388 million
e.	Unrecognized prior service cost	¥3,650 million
f.	Net amount recognized (c+d+e)	(¥47,327) million
g.	Prepaid pension cost	¥15,637 million
h.	Provision for retirement benefits (f-g) (Note)	(¥62,964) million

(Note) As described in "1. Notes to significant accounting policies, (5) Policy for reserve allowances, iii) Provision for retirement benefits," the reserve for mutual assistance pension benefits is calculated separately from "h." Provision for retirement benefits" above and included in "Provision for retirement benefits." The amount thereof is ¥100,999 million.

iii) Net periodic retirement benefit cost

a.	Service cost	¥4,239 million
b.	Interest cost	¥3,507 million
c.	Expected return on plan assets	(¥2,034) million
d.	Recognized actuarial (gain)loss	¥664 million
e.	Amortization of prior service cost	¥1,226 million
f.	Net periodic retirement benefit cost (a+b+c+d+e)	¥7,603 million

(Notes) 1. Additional retirement benefits amount to ¥841 million and are recorded in "Extraordinary loss."

2. In addition to the above, a total of ¥1,805 million was recorded as necessary amounts relating to the defined contribution plan.

iv) Assumptions used for computation of projected retirement benefit obligations

a.	Periodic allocation standard for projected retirement benefit obligation:	straight-line method
b.	Discount rate:	1.7%
c.	Expected rate of return on plan assets:	2.5%
d.	Period over which prior service cost is amortized:	10 years
e.	Period over which actuarial gains or losses are amortized:	10 years

(2) Mutual assistance pension benefits

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

i) Obligations relating to mutual assistance pension benefits

a.	Benefit obligations (Note 1):	(¥97,576) million
b.	Unrecognized actuarial (gain)loss (Note 2):	(¥3,422) million
c.	Liabilities recognized (a+b) (Note 3):	(¥100,999) million

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

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

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

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

a.	Interest cost:	¥1,595 million
b.	Recognized actuarial (gain)loss (Note 1):	(¥210) million
c.	Net periodic costs (a+b):	¥1,384 million

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

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

a.	Discount rate:	1.2%
b.	Period over which actuarial gains or losses are amortized:	10 years

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

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

INDEPENDENT AUDITORS' REPORT

May 12, 2011

To the Board of Directors of
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC

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

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

Designated Limited Liability Partner,
Engagement Partner,
Certified Public Accountant:Koji Ishikawa(Seal)

Pursuant to the fourth paragraph of Article 444 of the Companies Act, we have audited the consolidated financial statements, namely, the consolidated balance sheet as of March 31, 2011 of Japan Tobacco Inc. (the “Company”), and the related consolidated statements of income and changes in net assets, and the related notes for the 26 th fiscal year from April 1, 2010 to March 31, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and consolidated subsidiaries as of March 31, 2011, and the results of their operations for the year then ended in conformity with accounting principles generally accepted in Japan.

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

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

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

INDEPENDENT AUDITORS' REPORT

May 12, 2011

To the Board of Directors of
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC

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

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

Designated Limited Liability Partner,
Engagement Partner,
Certified Public Accountant:Koji Ishikawa(Seal)

Pursuant to the first item, second paragraph of Article 436 of the Companies Act, we have audited the financial statements, namely, the balance sheet as of March 31, 2011 of Japan Tobacco Inc. (the "Company"), and the related statements of income and changes in net assets, and the related notes for the 26 th fiscal year from April 1, 2010 to March 31, 2011, and the accompanying supplemental schedules. These financial statements and the accompanying supplemental schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the accompanying supplemental schedules based on our audit.

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

In our opinion, the financial statements and the accompanying supplemental schedules referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2011, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in Japan.

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

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