

**BRIEF STATEMENTS OF ANNUAL FINANCIAL RESULTS FOR THE YEAR ENDED MARCH 2007  
AND FORECASTS FOR THE YEAR ENDING MARCH 2008**



April 27, 2007

Name of the Listed Company: **Japan Tobacco Inc.** (Stock Code: 2914)  
Listed Stock Exchanges: Tokyo, Osaka, Nagoya, Fukuoka, and Sapporo Stock Exchanges  
URL: <http://www.jti.co.jp/>  
Representative: Hiroshi Kimura, President, Chief Executive Officer and Representative Director  
Contact: Masakazu Shimizu, Chief Communications Officer  
Telephone: (81)3- 3582 - 3111  
Date of General Meeting of Shareholders: June 22, 2007  
Date of Submission of Securities Report: June 22, 2007  
Starting date of the dividend payments: June 25, 2007

Amounts are rounded down to the nearest JPY 1 million.

**1. RESULTS FOR THE FISCAL YEAR (from April 1,2006 to March 31, 2007)**

**1). CONSOLIDATED FINANCIAL RESULTS**

Those figures in "%" show increased/decreased ratio compared with the previous fiscal term.

	Net Sales		Operating Income		Recurring Profit		Net Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Years ended								
March 31, 2007	4,769,387	2.8	331,991	8.2	312,044	4.8	210,772	4.6
March 31, 2006	4,637,657	△ 0.6	306,946	12.3	297,842	10.2	201,542	222.0

	Net Income per Share		Diluted Net	Return on Equity	Recurring Profit	Operating Income
	yen	%	Income per Share	Capital	on Total Assets	on Net Sales
Years ended						
March 31, 2007	22,001.10	-	-	11.3	9.7	7.0
March 31, 2006	105,084.78	-	-	12.4	9.9	6.6

Reference: Equity in earnings of associated companies: the fiscal year ended March 31, 2007: 25 million yen/ the fiscal year ended March 31, 2006: 158 million yen

Note: Each share of common stock was split into five shares on April 1, 2006.

**2). CONSOLIDATED FINANCIAL POSITION**

	Total Assets	Net Assets	Ratio of	Net Assets
	Millions of yen	Millions of yen	Equity Capital	per Share
Years ended				yen
March 31, 2007	3,364,663	2,024,615	58.3	204,617.68
March 31, 2006	3,037,378	1,762,511	58.0	919,780.33

Reference: Equity Capital: the fiscal year ended March 31, 2007: 1,960,253 million yen/ the fiscal year ended March 31, 2006: - million yen

Note: 1. Each share of common stock was split into five shares on April 1, 2006.

2. The figures for the year ended March 31, 2006 are those of "Shareholders' Equity," "Ratio of Shareholders' Equity" and "Shareholders' Equity per Share," as previously reported.

**3). CASH FLOW RESULTS**

	Cash Flow from	Cash Flow from	Cash Flow from	Cash and Cash Equivalents,
	Operating Activities	Investing Activities	Financing Activities	End of the Year
Years ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
March 31, 2007	435,958	△ 149,692	△ 32,634	1,179,522
March 31, 2006	150,342	△ 26,357	△ 48,134	920,141

**2. DIVIDENDS**

	Dividends per Share			Total Dividend Payment (Annual)	Payout Ratio (Consolidated)	Dividend on Net Assets (Consolidated)
	Inerim	Year-end	Total (Annual)			
Years ended	yen	yen	yen	Millions of yen	%	%
March 31, 2006	7,000.00	9,000.00	16,000.00	30,656	15.2	1.9
March 31, 2007	1,800.00	2,200.00	4,000.00	38,320	18.2	2.1
Year ending March 2008 (Forecast)	2,200.00	2,200.00	4,400.00		22.7	

Note: Each share of common stock was split into five shares on April 1, 2006.

Those figures in "%" show increased/decreased ratio compared with the previous fiscal term.

**3. FORECASTS FOR THE BUSINESS RESULTS FOR THE YEAR ENDING MARCH 31, 2008**

	Net Sales		Operating Income		Recurring Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ending March 2008	4,890,000	2.5	312,000	△ 6.0	282,000	△ 9.6

	Net Income		Net Income per Share
	Millions of yen	%	yen
Year ending March 2008	186,000	△ 11.8	19,415.29

Note: Forecasts for the interim results are not issued.

#### 4. OTHERS

1). CHANGES IN THE SIGNIFICANT SUBSIDIARIES (ACCOMPANYING CHANGES IN SCOPE OF THE CONSOLIDATION): None

2). CHANGES IN ACCOUNTING POLICY, PROCEDURE, AND PRESENTATION IN PREPARATION OF THE CONSOLIDATED FINANCIAL REPORTS: (Described in the "BASIS OF CONSOLIDATED FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES")

2)-1. CHANGES ACCOMPANYING REVISIONS OF ACCOUNTING STANDARDS, ETC.: Applicable

2)-2. CHANGES OTHER THAN THE ABOVE: None

Note: For details, please see "BASIS OF CONSOLIDATED FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES."

3). OUTSTANDING SHARES (COMMON SHARES)

3)-1. OUTSTANDING SHARES AT THE END OF THE FISCAL YEARS (INCLUDING TREASURY SHARES):

the fiscal year ended March 31, 2007: 10,000,000 shares, the fiscal year ended March 31, 2006: 2,000,000 shares

3)-2. TREASURY SHARES AT THE END OF THE FISCAL YEARS:

the fiscal year ended March 31, 2007: 419,920 shares, the fiscal year ended March 31, 2006: 83,984 shares

Note: 1. As for the number of shares on which the net income per share (consolidated) is based, please see the "Per Share Information" on page 22.  
2. Each share of common stock was split into five shares on April 1, 2006.

#### 【Reference】 SUMMARY OF NON-CONSOLIDATED RESULTS

##### 1. RESULTS FOR THE FISCAL YEAR (from April 1, 2006 to March 31, 2007)

Those figures in "%" show increased/decreased ratio compared with the previous fiscal term.

##### 1). NON-CONSOLIDATED FINANCIAL RESULTS

Years ended	Net Sales		Operating Income		Recurring Profit		Net Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2007	2,330,453	△ 1.7	211,388	9.8	189,730	△ 1.6	132,456	4.9
March 31, 2006	2,370,645	△ 11.7	192,493	1.5	192,830	△ 0.7	126,268	367.1

Years ended	Net Income per Share	Diluted Net Income per Share
	yen	yen
March 31, 2007	13,826.19	-
March 31, 2006	65,839.28	-

##### 2). NON-CONSOLIDATED FINANCIAL POSITION

Years ended	Total Assets	Net Assets	Ratio of Equity Capital	Net Assets per Share
	Millions of yen	Millions of yen	%	yen
March 31, 2007	2,561,865	1,753,067	68.4	182,990.92
March 31, 2006	2,410,096	1,643,098	68.2	857,497.63

Reference: Equity Capital: the fiscal year ended March 31, 2007: 1,753,067 million yen/ the fiscal year ended March 31, 2006: - million yen

Note: 1. Each share of common stock was split into five shares on April 1, 2006.

2. The figures for the year ended March 31, 2006 are those of "Shareholders' Equity," "Ratio of Shareholders' Equity" and "Shareholders' Equity per Share," as previously reported.

Note: The forecast described above is based on the assumption judged to be reasonable as of the data of issuing this statement and the actual results may substantially differ from the forecast above. Please see "NOTE REGARDING FORWARD-LOOKING STATEMENTS" on page 11 before reading the forecast above. Completing the acquisition of Gallaher Group Plc on April 18, 2007, JT has allocated financial costs associated with the cash offer made to Gallaher. The forecast for consolidated financial results for the year ending March 2008 does not factor in the Gallaher business. Forecasts including the business will be disclosed once they have been determined.

## **1. Business Results**

### **(1) Analysis of Consolidated Business Results**

#### **(Financial Results for the year that ended March 2007)**

##### **1) Overview of Financial Results**

###### **Business Results for the year that ended March 31, 2007**

For the year that ended March 31, 2007, the Japanese economy observed a gradual recovery trend mainly due to improved corporate profits and increased business investments in spite of slow improvement in personal consumption in the second half of the year. Internationally, the U.S. economy slowed, with growth in Asia, mainly China, remaining steady, while in Europe, the situation is improving.

The JT Group has been putting forth strong efforts to overcome current challenges in the market and achieve sustainable growth for the future through consistent implementation of measures in accordance with the medium term management plan "JT2008," formulated in May 2006.

##### **Net Sales**

Net sales reached 4,769.3 billion yen for the year that ended March 31, 2007, an increase of 131.7 billion yen (up 2.8%) compared with the corresponding figure for the previous year, primarily due to the increased unit price following the amendment of retail prices, accompanied by the increased tobacco excise taxes and an increase in sales volume in the international tobacco business which more than offset the decreased sales volume in the domestic tobacco business.

(Billions of yen unless specifically stated otherwise)

	Year that ended:		Increase / Decrease(△)	
	March 31, 2006	March 31, 2007		
Consolidated	4,637.6	4,769.3	131.7	2.8%
Domestic Tobacco	3,405.2	3,416.2	10.9	0.3%
International Tobacco	881.1	999.6	118.4	13.4%
Pharmaceutical	49.2	45.4	△3.8	△7.7%
Foods	278.3	286.5	8.1	2.9%
Others	23.5	21.4	△2.1	△8.9%

\*Figures above represent external sales.

##### **Operating Income**

Operating income reached 331.9 billion yen for the year that ended March 31, 2007, an increase of 25.0 billion yen (up 8.2%) compared with the corresponding figure for the previous year, primarily due to an increase in unit prices and cost reduction in the domestic tobacco business and profit growth in the international tobacco business.

(Billions of yen unless specifically stated otherwise)

	Year that ended:		Increase / Decrease(△)	
	March 31, 2006	March 31, 2007		
Consolidated	306.9	331.9	25.0	8.2%
Domestic Tobacco	220.0	245.3	25.2	11.5%
International Tobacco	71.0	81.0	10.0	14.2%
Pharmaceutical	△5.0	△11.2	△6.1	-
Foods	6.3	6.7	0.3	6.0%
Others	8.6	9.3	0.6	7.6%
Elimination/Corporate	5.8	0.6		

## **Recurring Profit**

Recurring profit reached 312.0 billion yen for the year that ended March 31, 2007, an increase of 14.2 billion yen (up 4.8%) compared with the corresponding figure for the previous year, despite the loss of non-operating income, primarily due to the allocation of financial costs associated with the cash offer made to Gallaher Group Plc.

## **Net Income**

Net income was 210.7 billion yen for the year that ended March 31, 2007, an increase of 9.2 billion yen (up 4.6%) compared with the corresponding figure for the previous year, primarily due to a decrease in losses achieved from sales of company assets including equipment, manufacturing plants, properties, etc.

## **2) Financial Results by Business Segment**

### **Domestic Tobacco Business**

The domestic tobacco business is positioned as a core source of profits for the entire JT Group. As the business environment grows increasingly fierce, with the enactment of the increased tobacco excise taxes in July 2006, and rising competition with rival companies led by a decline in aggregate domestic tobacco demand, JT will continue its efforts to ensure product share in the market, and increase productivity through innovation and the strengthening of existing brands as well as the successful launch of new products in growing segments.

The “Blue Wind” symbol was adopted as the design for five box-type products in the Mild Seven in May 2006. In addition, designs for nine products, which utilized soft packaging or belonged to the 1-mg tar segment were changed in December 2006 in an effort to unify the brand imaging among JT products. JT launched nine products from seven brands, including seven D-spec products (products adopting JT’s proprietary reduced odor technology that suppress odors caused by cigarettes), as part of a successful launch in the growing market segment, and carried out efficient and effective sales promotion activities, including the sales area expansion for four products from four brands which had previously been sold in limited areas, to nationwide coverage, in response to increased consumer demand.

(Table 1)

Products launched in October 2006

<b>Products</b>	<b>Price/Quantity</b>	<b>Tar/Nicotine</b>	<b>Initial Sales Area</b>	<b>Remarks</b>
Cabin One Tasty 100’s Box	300 yen/ 20 cigarettes	1mg/0.1mg	42 prefectures excluding Miyagi, Kanagawa, Aichi, Kyoto and Fukuoka	
Camel Menthol Box	320 yen/ 20 cigarettes	8mg/0.7mg	Miyagi	Menthol product D-spec product
Sakura	350 yen/ 20 cigarettes	7mg/0.6mg	Kanagawa	D-spec product
Peace Infinity	350 yen/ 20 cigarettes	8mg/0.7mg	Kyoto	D-spec product
Salem Ice Blue(*)	320 yen/ 20 cigarettes	8mg/0.6mg	Fukuoka	Menthol product D-spec product

\*This product is to be ended when the existing stock is cleared.

Products launched in December 2006

<b>Products</b>	<b>Price/Quantity</b>	<b>Tar/Nicotine</b>	<b>Initial Sales Area</b>	<b>Remarks</b>
Mild Seven Super Lights 100’s Box	300 yen/ 20 cigarettes	6mg/0.5mg	Hokkaido	

Products launched in January 2007

Products	Price/Quantity	Tar/Nicotine	Initial Sales Area	Remarks
D-spec H Side Slide Box	320 yen/ 20 cigarettes	12mg/0.9mg	Tokyo, Kanagawa, Chiba, Saitama and Fukuoka	D-spec product
D-spec R Side Slide Box	320 yen/ 20 cigarettes	5mg/0.5mg		D-spec product
D-spec C Side Slide Box	320 yen/ 20 cigarettes	7mg/0.6mg		Menthol product D-spec product

(Table 2)

Products expanded to nationwide coverage in April 2006

Products	Price/Quantity	Tar/Nicotine	Remarks
Seven Stars Revo Ultra Lights Menthol Box	320 yen/ 20 cigarettes	3mg/0.2mg	Menthol product D-spec product

Products expanded to nationwide coverage in December 2006

Products	Price/Quantity	Tar/Nicotine	Remarks
Cabin One Tasty 100's Box	300 yen/ 20 cigarettes	1mg/0.1mg	

Products expanded to nationwide coverage in February 2007

Products	Price/Quantity	Tar/Nicotine	Remarks
Mild Seven Super Lights 100's Box	300 yen/ 20 cigarettes	6mg/0.5mg	

Products expanded to nationwide coverage in March 2007

Products	Price/Quantity	Tar/Nicotine	Remarks
Camel Menthol Box	320 yen/ 20 cigarettes	8mg/0.7mg	Menthol product D-spec product

Domestic tobacco sales volume for the year that ended March 31, 2007, was 174.9 billion cigarettes (Note), a decrease of 14.5 billion cigarettes (down 7.7%) compared with the corresponding figure for the previous year, due to the termination of the licensing agreement with Philip Morris International for Marlboro products in Japan at the end of April 2005, and the amendment of retail prices, accompanied by the increased tobacco excise taxes in July 2006. JT's domestic market share represented 64.8 percent in the year that ended March 31, 2007, a decrease of 1.6 percentage points compared with the corresponding figure for the previous year, while net sales excluding tax (per thousand cigarettes) reached 3,990 yen, an increase of 126 yen compared with the corresponding figure for the previous year.

Net sales reached 3,416.2 billion yen for the year that ended March 31, 2007, an increase of 10.9 billion yen (up 0.3%) compared with the corresponding figure for the previous year, primarily due to the increased unit price following the amendment of retail prices, accompanied by the increased tobacco excise taxes which more than offset the decreased sales volume in the domestic tobacco business. Operating income reached 245.3 billion yen for the year that ended March 31, 2007, an increase of 25.2 billion yen (up 11.5%) compared with the corresponding figure for the previous year, as increased unit prices, reduced costs and the reversal of devaluation losses on leaf tobacco contributed to overcoming of the decline in sales volume.

(Note) In addition to the above figure, the domestic tobacco business sold 3.4 billion cigarettes during the year that ended March 31, 2007, taking into account sales from duty-free shops in Japan and in additional sales in the China, Hong Kong, and Macao markets, which are covered by JT's China Division.

## **International Tobacco Business**

The international tobacco business represents the driving force for profit growth for the entire JT Group, at the center of which is JT International S.A., a subsidiary of JT, aimed at increasing sales volume, while focusing on the Global Flagship Brand (GFB), which include “Camel,” “Winston,” “Mild Seven” and “Salem.”

Sales volume was 240.1 billion cigarettes for the year that ended March 31, 2007, an increase of 19.8 billion cigarettes (up 9.0%) compared with the corresponding figure for the previous year, primarily due to favorable upturn in GFB sales, a major area of focus for the JT Group for profit growth. Total sales volume for GFBs was 149.1 billion cigarettes for the year that ended March 31, 2007, an increase of 15.3 billion cigarettes (up 11.4%) compared with the corresponding figure for the previous year. This was primarily due to an increase in sales of “Camel” in Italy and France, “Winston” in Russia, Spain, Iran, Turkey, Ukraine and “Mild Seven” in Russia.

Net sales reached 999.6 billion yen and operating income accounted for 81.0 billion yen, an increase of 118.4 billion yen (up 13.4%) and 10.0 billion yen (up 14.2%), respectively, compared with the corresponding figure for the previous year. This was primarily due to an increase in sales volume, mainly in the GFBs.

(Note)

1. For the purpose of this document, US\$ 1.00 was converted to 110.26 yen and 116.38 yen for the year that ended March 31, 2006, and March 31, 2007, respectively.
2. With respect to the international tobacco business results, the results for the period from January 2006 to December 2006 are reflected in this report.

JT has been taking the necessary steps to avoid an unreasonable Notice of Assessment to its subsidiaries located in Canada and in Russia, which continue to operate. The JT Group will continue to operate its businesses in compliance with the laws and business practices in their respective countries, and continue to take all possible measures, including legal options, to prevent any infractions of the law and/or such Notice of Assessments.

(Additional information regarding Gallaher Group Plc)

Receiving the final court approval, JT completed the acquisition of Gallaher Group Plc by means of a scheme of arrangement on April 18, 2007, whose procedure starting was announced on December 15, 2006.

For details, please refer to the “subsequent events.”

## **Pharmaceutical Business**

With respect to the pharmaceutical business, JT has been increasing efforts to maximize business value in a timely and efficient manner, to position the business division as a driving force for future growth. JT’s pharmaceutical business has been firmly focused on advancing its clinical compounds to the higher stages of clinical study, and further enhancing its R&D pipeline, while seeking out strategic opportunities for the licensing in and out of its products.

Following the introduction of its anti-hyperuricemia drug (JTT-552) into the clinical trial stage, JT currently has seven drugs in the clinical development pipeline. JT entered into license-out agreements with GlaxoSmithKline Inc. for a new chemical compound in its pre-clinical trial stage in April 2006, and with MedImmune, Inc. for an antibody drug candidate in its pre-clinical trial stage in December 2006.

Royalty revenue from “Viracept,” an HIV treatment drug jointly developed with Agouron Pharmaceuticals, Inc. (a subsidiary of Pfizer Inc.), and sold primarily in the United States, Europe and Japan, declined as a result of intensifying competition in the pharmaceutical industry.

Torii Pharmaceutical Co., Ltd. (Torii), a subsidiary of JT, showed a decrease in net sales despite increased sales of “Antebate,” a protease inhibitor, and “Truvada,” an HIV treatment drug. The decline is primarily due to a sales decrease of the company’s main products including “Futhan,” an injectable proteolytic enzyme inhibitor, and “Stronger Neo-Minophagen C,” an agent for liver disease/antiallergic agent, due to several factors, including drug price revisions implemented in April 2006.

Net sales reached 45.4 billion yen for the year that ended March 31, 2007, a decrease of 3.8 billion yen (down 7.7%) compared with the corresponding figure for the previous year. This was primarily due to the decline in net sales for Torii, and the negative impact caused by the absence of a one-time sales income related to the licensing of “JTK-303” to Gilead Sciences recorded in the previous year, despite several positive factors in this reporting cycle, including one-time sales incomes through licensing agreements with GlaxoSmithKline and MedImmune, Inc. In addition to these factors, there was an increase in R&D expenses. Accordingly, operating loss reached 11.2 billion yen while 5.0 billion yen of operating loss was recorded for the previous year.

In November 2006, Toray Industries, Inc. (Toray) filed for a new drug application for its antipruritus drug developed by Toray which it had agreed with JT and Torii to co-develop and market in the domestic market in March 2005. In September 2006, the three companies agreed to co-develop and market the drug for the treatment of hepatic disease in the domestic market.

### **Foods Business**

Positioning the foods business as one of the key components to the JT Group’s success, JT is focusing on the three main areas including its beverage business, processed foods business (which includes frozen processed foods, bakery, chilled processed foods and processed preserved foods), and seasonings business with the aim of establishing a competitive advantage in the market and a solid business foundation as a general foods manufacturer.

JT has been steadily expanding its beverage business primarily through the vending machine operation provided by Japan Beverage Inc., a subsidiary of JT, and the active development and introduction of new and unique products, while focusing mainly on its core brand “Roots.”

Regarding JT’s processed foods business, the company aims to continue to expand and enrich its product line of commercial frozen foods, including its “Obento Dai-Ninki!” and “Imadoki-Wazen” lines, in order to expand its scale of operation and strengthen earning capacity.

JT’s seasonings business, JT is striving to enhance its business base through the development and introduction of High IG yeast extract, which was developed through JT’s exclusive technology.

Net sales were 286.5 billion yen for the year that ended March 31, 2007, an increase of 8.1 billion yen (up 2.9%) compared with the corresponding figure for the previous year, primarily due to the expansion of vending machine sales channels and the steady rise in sales of “Roots” in the beverage business, and the expansion of operating scale in the processed foods business, primarily in the frozen processed foods and chilled processed foods’ divisions. Operating income was 6.7 billion yen for the year that ended March 31, 2007, an increase of 0.3 billion yen (up 6.0%) compared with the corresponding figure for the previous year.

### **Other Businesses**

Net sales for JT’s other businesses were 21.4 billion yen for the year that ended March 31, 2007, a decrease of 2.1 billion yen (down 8.9%) compared with the corresponding figure for the previous year, primarily due to the decline in the number of consolidated subsidiaries following the transfer of their shares. Operating income was 9.3 billion yen for the year that ended March 31, 2007, an increase of 0.6 billion yen (up 7.6%) compared with the corresponding figure for the previous year, resulting from an increase in the real estate rental revenue.

### **3) Financial Results by Geographic Area**

#### **Japan**

Net sales in Japan were 3,718.4 billion yen for the year that ended March 31, 2007, an increase of 8.4 billion yen (up 0.2%) compared with the corresponding figure for the previous year, primarily due to the increased unit price following the amendment of retail prices, accompanied by the increased tobacco excise taxes despite a decrease in sales volume in the domestic tobacco business. Operating income was 248.4 billion yen, an increase of 20.3 billion yen (up 8.9%) compared with the corresponding figure for the previous year, primarily due to a unit price increase in the domestic tobacco business and cost reduction.

#### **Western Europe**

Net sales in western Europe were 353.8 billion yen for the year that ended March 31, 2007, an increase of 15.2 billion yen (up 4.5%) compared with the corresponding figure for the previous year, due to the favorable changes in foreign currency exchange rates used in the conversion of overseas sales into yen despite effects from the increased tobacco excise taxes in Spain. Operating loss was 18.8 billion yen, an increase of 17.9 billion yen primarily due to effects from the increased tobacco excise taxes in Spain and the transfer of the business results of the international tobacco business in the Japanese market to the domestic tobacco business from May 2005, while 0.8 billion yen of operating loss was recorded for the previous year.

#### **Others**

Net sales in other areas were 697.1 billion yen for the year that ended March 31, 2007, an increase of 108.0 billion yen (up 18.3%) compared with the corresponding figure for the previous year, primarily due to strong sales in Russia, Iran, Turkey and Ukraine. Operating income was 101.5 billion yen, an increase of 28.6 billion yen (up 39.4%) compared with the corresponding figure for the previous year.

### **(Forecast of consolidated business results for the fiscal year ending March 2008)**

Completing the acquisition of Gallaher Group Plc on April 18, 2007, JT has allocated financial costs associated with the cash offer made to Gallaher. The forecast for consolidated financial results for the year ending March 2008 does not factor in the Gallaher business, as the integration plan is now in development. Forecasts including the business will be disclosed once they have been determined.

The domestic tobacco business is positioned as the core source of profits of the JT Group and will continue to work in order to maintain and promote the brand equity. JT expects the international tobacco business to be a driving force for the further profit growth of the Group. With respect to the pharmaceutical business, JT is making efforts to advance firmly its clinical compounds to higher phases of clinical study and enhance further the R&D pipeline. The foods business is aimed at establishing a competitive advantage for a solid business foundation as a general foods manufacturer.

Forecast for the fiscal year ending March 2008 is as follows:

(Billions of yen)

	Forecast (For the year ending March 31, 2008)	Actual Result (For the year that ended March 31, 2007)
Net Sales	4,890.0	4,769.3
Operating Income	312.0	331.9
Recurring Profit	282.0	312.0
Net Income	186.0	210.7

\* Additional projections for the year ending March 31, 2007

The domestic tobacco business	Forecast (For the year ending March 31, 2008)	Actual Result (For the year that ended March 31, 2007)
Sales volume	168.0 billion cigarettes	174.9 billion cigarettes

The international tobacco business	Forecast (For the year ending March 31, 2008)	Actual Result (For the year that ended March 31, 2007)
Sales volume	258.0 billion cigarettes	240.1 billion cigarettes
Exchange rate (US 1.00 dollar)	115.00 yen	116.38 yen

(Note) The above figures are based on judgments, evaluations, factual understandings, policies and other factors made in accordance with information available to the management. They are also based upon certain assumptions required to formulate forward-looking statements as well as information already confirmed to be factual. Actual figures may differ from those forecasted, depending on uncertainties inherent in such forecasts, as well as possible changes in the Company's operations and economic environment, including domestic and foreign stock markets. Please refer to the Notes Regarding Forward-Looking Statements below, before using the information provided in our forward-looking statements.

## **(2) Qualitative Information Regarding Changes of Consolidated Financial Position**

Cash and cash equivalents as at the end of the year ended March 31, 2007 accounted for 1,179.5 billion yen, an increase of 259.3 billion yen compared with the corresponding figure for the previous year.

### **Cash Flow from Operating Activities**

Net cash provided by operating activities for the year that ended March 31, 2007, accounted for 435.9 billion yen compared to 150.3 billion yen, as reported for the previous year. This was primarily due to an increase in tobacco excise taxes payable as the current annual period end was financial institutions' non-working day, a decrease in the cash-out associated with the voluntary retirement program as well as the stable cash flow generated by the tobacco business.

### **Cash Flow from Investing Activities**

Net cash used in investing activities accounted for 149.6 billion yen for the year that ended March 31, 2007, while 26.3 billion yen of net cash used was reported for the previous year. This was primarily due to the increase in the purchase of investment securities despite the increase in proceeds from sales and redemption of securities.

### **Cash Flow from Financing Activities**

Net cash used in financing activities for the year that ended March 31, 2007, accounted for 32.6 billion yen, while 48.1 billion yen net cash used was reported for the previous year. This was primarily due to the increased dividend payments exceeding the effect of increased revenue following a rise in short-term borrowings by subsidiaries.

Please see below for trend of Cash Flow index.

	Year that ended:				
	March 31, 2003	March 31, 2004	March 31, 2005	March 31, 2006	March 31, 2007
Ratio of equity capital	54.9%	49.8%	50.2%	58.0%	58.3%
Ratio of equity capital (based on market value)	47.8%	50.2%	79.8%	136.3%	172.1%
Interest bearing debt / Operating cash flow	164.5%	114.0%	92.0%	144.1%	50.3%
Interest coverage ratio	29.3x	41.1x	48.7x	26.0x	62.8x

(Note) Ratio of equity capital: Equity capital / Total assets

Ratio of equity capital (based on market value): Total market value of shares / Total assets

Interest coverage ratio: Operating cash flow / Interest payment

\* Each index is calculated based on consolidated financial figures.

The figures for the year that ended March 31, 2006 are calculated considering ex rights by the stock split.

\* Total market value of shares is calculated as follows:

Closing Stock Price at the end of the fiscal term

× Total number of issued shares at the end of the fiscal term (including treasury stock)

\* For Operating Cash Flow, figure of “Cash flow from operating activities” in the

“Consolidated Statements of Cash Flows” is used. Interest-bearing debt means the total of all debt on which interest is paid on the Consolidated Balance Sheets.

### **(3) Dividend Policy**

JT believes that the growth of our corporate value in the medium- to long- term through continual earning growth driven by active business investment is fundamentals for increasing its shareholders' benefits.

Its basic dividend policy is to generate competitive returns for shareholders in the capital market, in consideration of the implementation status of its mid-term growth strategies and the outlook for its consolidated business performance. JT will strive to increase the dividend level on a continual basis, with the target of 20 percent for consolidated payout ratio in the immediate future.

As to retained earnings, JT will use them to invest in businesses now and in the future and acquire external resources and will enrich them in preparation for the purchase of its own shares and other options to broaden its business possibilities.

The year-end dividend is expected to be 2,200 yen per share. Accordingly, dividend per share for this fiscal year will be 4,000 yen including the interim dividend of 1,800 yen.

Forecast dividend for the year ending March 2008 is 4,400 yen per share, including the interim dividend of 2,200 yen.

## **2. Summary of Japan Tobacco Inc. and its Group Companies**

There is no significant change from the information disclosed in Securities Report for the year that ended March 2006 (as of June 23, 2006). The Report is available at the Financial Services Agency's website.

## **3. Management Policy**

There is no significant change from the information disclosed in semi-annual Brief Statement for the year that ended March 2007, which was announced on October 31, 2006. The Statement is available at the website of JT or Tokyo Stock Exchange. (English version; [http://www.jti.co.jp/JTI\\_E/IR/tanshin.html](http://www.jti.co.jp/JTI_E/IR/tanshin.html))

Regarding the acquisition of Gallaher Group Plc which was completed in April 2007, JT plans to establish a Group-wide infrastructure to maximize the synergies of the business integration at the earliest stage.

## **NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This material contains forward-looking statements about our industry, business, plans and objectives, financial condition and results of operations that are based on our current expectations, assumptions, estimates and projections. These statements discuss future expectations, identify strategies, discuss market trends, contain projections of results of operations or of our financial condition, or state other forward-looking information. These forward-looking statements are subject to various known and unknown risks, uncertainties and other factors that could cause our actual results to differ materially from those suggested by any forward-looking statement. We assume no duty or obligation to update any forward-looking statement or to advise of any change in the assumptions and factors on which they are based.

Risks, uncertainties or other factors that could cause actual results to differ materially from those expressed in any forward-looking statement include, without limitation:

- (1) health concerns relating to the use of tobacco products;
- (2) legal or regulatory developments and changes, including, without limitation, tax increases and restrictions on the sale, marketing and usage of tobacco products, and governmental investigations and privately imposed smoking restrictions;
- (3) litigation in Japan and elsewhere;
- (4) our ability to further diversify our business beyond the tobacco industry;
- (5) our ability to successfully expand internationally and make investments outside of Japan;
- (6) competition and changing consumer preferences;
- (7) the impact of any acquisitions or similar transactions;
- (8) local and global economic conditions; and
- (9) fluctuations in foreign exchange rates and the costs of raw materials.

## CONSOLIDATED BALANCE SHEETS

Japan Tobacco Inc. and Consolidated Subsidiaries  
as of March 31, 2006 and March 31, 2007

	<i>as of March 31, 2006</i>	<i>as of March 31, 2007</i>	<i>Increase / Decrease</i>
<b>ASSETS</b>	<i>Millions of yen</i>	<i>Millions of yen</i>	<i>Millions of yen</i>
<b>CURRENT ASSETS:</b>	<b>1,608,154</b>	<b>1,840,808</b>	<b>232,653</b>
Cash and deposits	322,715	555,653	232,937
Trade notes and accounts receivable	134,182	149,384	15,201
Marketable securities	576,967	578,066	1,098
Inventories	406,832	417,276	10,443
Deferred tax assets	32,324	18,171	△ 14,152
Other current assets	136,907	123,794	△ 13,112
Allowance for doubtful accounts	△ 1,776	△ 1,539	236
<b>FIXED ASSETS:</b>	<b>1,429,180</b>	<b>1,523,855</b>	<b>94,674</b>
<b>Property, plant and equipment:</b>	<b>596,544</b>	<b>600,435</b>	<b>3,891</b>
Buildings and structures	238,049	229,019	△ 9,030
Machinery, equipment and vehicles	144,604	152,900	8,296
Tools	53,502	58,486	4,983
Land	138,671	131,817	△ 6,853
Construction in progress	21,715	28,211	6,496
<b>Intangible assets:</b>	<b>579,519</b>	<b>542,880</b>	<b>△ 36,638</b>
Goodwill	355,183	360,681	5,498
Trademarks	190,587	154,980	△ 35,606
Other	33,748	27,218	△ 6,530
<b>Investments and other assets:</b>	<b>253,117</b>	<b>380,538</b>	<b>127,421</b>
Investment securities	108,027	262,616	154,589
Long-term loans	887	808	△ 78
Deferred tax assets	102,902	75,456	△ 27,445
Other assets	43,124	43,255	131
Allowance for doubtful accounts	△ 1,292	△ 1,230	61
Allowance for loss on investments	△ 531	△ 368	163
<b>DEFERRED ASSETS</b>	<b>44</b>	<b>-</b>	<b>△ 44</b>
<b>TOTAL ASSETS</b>	<b>3,037,378</b>	<b>3,364,663</b>	<b>327,284</b>

## CONSOLIDATED BALANCE SHEETS

Japan Tobacco Inc. and Consolidated Subsidiaries  
as of March 31, 2006 and March 31, 2007

	<i>as of March 31, 2006</i>	<i>as of March 31, 2007</i>	<i>Increase / Decrease</i>
<b>LIABILITIES</b>	<i>Millions of yen</i>	<i>Millions of yen</i>	<i>Millions of yen</i>
<b>CURRENT LIABILITIES:</b>	<b>626,355</b>	<b>813,196</b>	<b>186,841</b>
Trade notes and accounts payable	137,454	129,764	△ 7,689
Short-term bank loans	33,292	53,706	20,414
Current portion of long-term borrowings	18,203	10,549	△ 7,653
Other payable	119,674	93,567	△ 26,107
National tobacco excise taxes payable	68,184	134,573	66,388
National tobacco special excise taxes payable	12,793	21,991	9,197
Local tobacco excise taxes payable	95,181	181,374	86,193
Income taxes payable	31,992	60,108	28,115
Deferred tax liabilities	3,563	2,246	△ 1,317
Accrued employees' bonuses	27,610	29,312	1,701
Other allowances	1,869	1,997	127
Other current liabilities	76,533	94,003	17,469
<b>NON-CURRENT LIABILITIES:</b>	<b>590,950</b>	<b>526,851</b>	<b>△ 64,099</b>
Bonds	150,000	150,000	-
Long-term borrowings	15,111	5,012	△ 10,099
Deferred tax liabilities	46,178	43,435	△ 2,742
Liabilities for retirement benefits	293,425	282,377	△ 11,048
Liabilities for retirement benefits for directors and corporate auditors	899	1,017	118
Non-current other payable	54,876	11,755	△ 43,120
Other non-current liabilities	30,459	33,252	2,793
<b>TOTAL LIABILITIES</b>	<b>1,217,305</b>	<b>1,340,047</b>	<b>122,741</b>
<b>MINORITY INTERESTS:</b>			
MINORITY INTERESTS	57,561	-	△ 57,561
<b>SHAREHOLDERS' EQUITY:</b>			
COMMON STOCK	100,000	-	△ 100,000
CAPITAL SURPLUS	736,400	-	△ 736,400
RETAINED EARNINGS	972,511	-	△ 972,511
NET UNREALIZED GAINS ON INVESTMENT			
SECURITIES	35,531	-	△ 35,531
FOREIGN CURRENCY TRANSLATION			
ADJUSTMENTS	△ 7,353	-	7,353
TREASURY STOCK	△ 74,578	-	74,578
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>1,762,511</b>	<b>-</b>	<b>△ 1,762,511</b>
<b>TOTAL LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY</b>	<b>3,037,378</b>	<b>-</b>	<b>△ 3,037,378</b>

## CONSOLIDATED BALANCE SHEETS

Japan Tobacco Inc. and Consolidated Subsidiaries  
as of March 31, 2006 and March 31, 2007

	<i>as of March 31, 2006</i>	<i>as of March 31, 2007</i>	<i>Increase / Decrease</i>
<b>NET ASSETS</b>	<i>Millions of yen</i>	<i>Millions of yen</i>	<i>Millions of yen</i>
<b>SHAREHOLDERS' EQUITY:</b>	-	<b>1,920,159</b>	<b>1,920,159</b>
Common stock	-	<b>100,000</b>	<b>100,000</b>
Capital surplus	-	<b>736,400</b>	<b>736,400</b>
Retained earnings	-	<b>1,158,337</b>	<b>1,158,337</b>
Treasury stock	-	<b>△ 74,578</b>	<b>△ 74,578</b>
<b>VALUATION AND TRANSLATION ADJUSTMENTS:</b>	-	<b>40,094</b>	<b>40,094</b>
Net unrealized gains on investment securities	-	<b>33,329</b>	<b>33,329</b>
Net deferred gains on hedging instruments	-	<b>14,580</b>	<b>14,580</b>
Pension liability adjustment of consolidated overseas subsidiaries		<b>△ 15,560</b>	<b>△ 15,560</b>
Foreign currency translation adjustments	-	<b>7,745</b>	<b>7,745</b>
<b>MINORITY INTERESTS</b>	-	<b>64,362</b>	<b>64,362</b>
<b>TOTAL NET ASSETS</b>	-	<b>2,024,615</b>	<b>2,024,615</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	-	<b>3,364,663</b>	<b>3,364,663</b>

## CONSOLIDATED STATEMENTS OF INCOME

Japan Tobacco Inc. and Consolidated Subsidiaries

Years ended March 31, 2006 and 2007

	For the year ended		Increase/ Decrease	Comparison to previous year
	March 31, 2006	March 31, 2007		
	Millions of yen	Millions of yen	Millions of yen	%
<b>NET SALES</b>	<b>4,637,657</b>	<b>4,769,387</b>	<b>131,730</b>	<b>2.8</b>
<b>COST OF SALES</b>	<b>3,734,073</b>	<b>3,844,768</b>	<b>110,694</b>	<b>3.0</b>
<b>Gross profit</b>	<b>903,583</b>	<b>924,619</b>	<b>21,035</b>	<b>2.3</b>
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>	<b>596,636</b>	<b>592,628</b>	<b>△ 4,008</b>	<b>△ 0.7</b>
<b>Operating income</b>	<b>306,946</b>	<b>331,991</b>	<b>25,044</b>	<b>8.2</b>
<b>NON-OPERATING INCOME:</b>	<b>12,655</b>	<b>16,033</b>	<b>3,377</b>	<b>26.7</b>
Interest income	4,300	10,384	6,083	
Dividend income	1,608	1,718	109	
Other	6,745	3,930	△ 2,815	
<b>NON-OPERATING EXPENSES:</b>	<b>21,759</b>	<b>35,980</b>	<b>14,220</b>	<b>65.4</b>
Interest expense	5,775	6,939	1,163	
Foreign exchange loss	2,892	14,464	11,572	
Financial support for domestic leaf tobacco growers	863	3,504	2,641	
Periodic mutual assistance association cost	3,074	2,713	△ 361	
Other	9,153	8,357	△ 796	
<b>Recurring profit</b>	<b>297,842</b>	<b>312,044</b>	<b>14,202</b>	<b>4.8</b>
<b>EXTRAORDINARY PROFIT:</b>	<b>65,453</b>	<b>50,854</b>	<b>△ 14,598</b>	<b>△ 22.3</b>
Gain on sale of property, plant and equipment	60,036	47,506	△ 12,530	
Other	5,416	3,348	△ 2,067	
<b>EXTRAORDINARY LOSS:</b>	<b>62,302</b>	<b>25,703</b>	<b>△ 36,598</b>	<b>△ 58.7</b>
Loss on sale of property, plant and equipment	24,875	3,151	△ 21,723	
Loss on disposal of property, plant and equipment	12,279	10,402	△ 1,876	
Impairment loss	11,438	2,712	△ 8,726	
Business restructuring costs	8,009	-	△ 8,009	
Introduction costs for vending machines with adult identification functions	158	5,746	5,587	
Other	5,539	3,690	△ 1,849	
<b>INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS</b>	<b>300,993</b>	<b>337,195</b>	<b>36,202</b>	<b>12.0</b>
INCOME TAXES-CURRENT	49,686	84,480	34,794	70.0
INCOME TAXES-DEFERRED	45,209	36,923	△ 8,285	△ 18.3
MINORITY INTERESTS	4,555	5,018	463	10.2
<b>NET INCOME</b>	<b>201,542</b>	<b>210,772</b>	<b>9,230</b>	<b>4.6</b>

## CONSOLIDATED STATEMENT OF CAPITAL SURPLUS AND RETAINED EARNINGS

Japan Tobacco Inc. and Consolidated Subsidiaries

Year ended March 31, 2006

For the year ended  
March 31,  
2006

Millions of yen

### CAPITAL SURPLUS:

Capital surplus, beginning of year	736,400
Capital surplus, end of year	736,400

### RETAINED EARNINGS:

Retained earnings, beginning of year	805,927
<b>Increase:</b>	<b>201,542</b>
Net income for the year	201,542
<b>Decrease:</b>	<b>34,957</b>
Cash dividends paid	28,740
Bonuses to directors and corporate auditors	236
(Bonuses to corporate auditors)	(30)
Minimum pension liability adjustment*	5,981
<b>Retained earnings, end of year</b>	<b>972,511</b>

\*Adjustment to appropriate minimum pension liability by consolidated overseas subsidiaries applying accounting principles generally accepted in the United States of America ("U.S. GAAP")

## CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Japan Tobacco Inc. and Consolidated Subsidiaries

For the year ended March 31, 2007

Millions of yen

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2006	100,000	736,400	972,511	△ 74,578	<b>1,734,333</b>
Changes of items during the accounting period					
Cash dividend paid (Note1)			△ 17,244		△ 17,244
Cash dividend paid			△ 17,244		△ 17,244
Bonuses to directors and corporate auditors (Note1)			△ 196		△ 196
Net income			210,772		<b>210,772</b>
Adjustment to retained earnings for change in the number of equity method affiliates			△ 79		△ 79
Net changes of items other than shareholders' equity (Note2)			9,818		<b>9,818</b>
Total changes of items during the accounting period	-	-	185,825	-	<b>185,825</b>
Balance as of March 31, 2007	100,000	736,400	1,158,337	△ 74,578	<b>1,920,159</b>

Millions of yen

	Valuation and translation adjustments					Minority interests	Total net assets
	Net unrealized gains on investment securities	Net deferred gains on hedging instruments	Pension liability adjustment of consolidated overseas subsidiaries (Note2)	Foreign currency translation adjustments	Total valuation and translation adjustments		
Balance as of March 31, 2006	35,531	-	-	△ 7,353	<b>28,178</b>	57,561	<b>1,820,073</b>
Changes of items during the accounting period							
Cash dividend paid (Note1)							△ 17,244
Cash dividend paid							△ 17,244
Bonuses to directors and corporate auditors							△ 196
Net income							<b>210,772</b>
Adjustment to retained earnings for change in the number of equity method affiliates							△ 79
Net changes of items other than shareholders' equity (Note2)	△ 2,202	14,580	△ 15,560	15,098	<b>11,915</b>	6,800	<b>28,534</b>
Total changes of items during the accounting period	△ 2,202	14,580	△ 15,560	15,098	<b>11,915</b>	6,800	<b>204,542</b>
Balance as of March 31, 2007	33,329	14,580	△ 15,560	7,745	<b>40,094</b>	64,362	<b>2,024,615</b>

Note:

- Cash dividend paid and bonuses to directors and corporate auditors are items that were approved at the general shareholders' meeting in June 2006.
- As described in "CHANGE IN ACCOUNTING POLICY" in the "BASIS OF CONSOLIDATED FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES," , "Pension liability adjustment of consolidated overseas subsidiaries" is unfunded obligation recognized by consolidated overseas subsidiaries applying U.S.GAAP. The amount reversed of minimum pension liability by consolidated overseas subsidiaries applying U.S.GAAP was recorded in "Net changes of items other than shareholders' equity" of retained earnings.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Japan Tobacco Inc. and Consolidated Subsidiaries

Years ended March 31, 2006 and 2007

	<i>For the year ended</i>		<i>Increase/ Decrease</i>
	<i>March 31, 2006</i>	<i>March 31, 2007</i>	
	<i>Millions of yen</i>	<i>Millions of yen</i>	<i>Millions of yen</i>
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes and minority interests	300,993	337,195	36,202
Depreciation and amortization	124,854	130,105	5,250
Impairment loss	11,438	2,712	△ 8,726
Net gain on sale and disposal of property, plant and equipment	△ 30,018	△ 39,284	△ 9,265
Amortization of goodwill	1,590	2,537	947
Decrease in liabilities for retirement benefits	△ 6,591	△ 21,163	△ 14,572
Interest income and dividend income	△ 5,909	△ 12,103	△ 6,193
Interest expense	5,775	6,939	1,163
(Increase) decrease in trade notes and accounts receivable	765	△ 9,476	△ 10,241
(Increase) decrease in inventories	44,091	△ 6,171	△ 50,262
Increase (decrease) in trade notes and accounts payable	20,260	△ 12,877	△ 33,137
Decrease in other payable	△ 125,688	△ 22,087	103,601
Increase (decrease) in tobacco excise taxes payable	△ 13,972	160,020	173,993
Decrease in non-current other payable	△ 87,376	△ 43,141	44,235
Other, net	△ 31,052	14,359	45,412
<b>Sub-total</b>	<b>209,158</b>	<b>487,566</b>	<b>278,407</b>
Interest and dividend received	5,910	12,071	6,160
Interest paid	△ 5,712	△ 6,493	△ 781
Income taxes paid	△ 59,014	△ 57,185	1,829
<b>Net cash provided by operating activities</b>	<b>150,342</b>	<b>435,958</b>	<b>285,615</b>
<b>INVESTING ACTIVITIES:</b>			
Purchases of marketable securities	△ 145,933	△ 330,715	△ 184,781
Proceeds from sale and redemption of marketable securities	121,700	386,189	264,488
Purchases of property, plant and equipment	△ 82,850	△ 96,717	△ 13,866
Proceeds from sale of property, plant and equipment	82,146	57,093	△ 25,053
Purchases of intangible assets	△ 8,966	△ 7,927	1,038
Purchases of investment securities	△ 2,733	△ 158,385	△ 155,651
Proceeds from sale and redemption of investment securities	4,341	5,345	1,003
Purchases of shares of newly consolidated subsidiaries, net of cash acquired	△ 1,400	△ 4,085	△ 2,684
Disbursement from sale of shares of former consolidated subsidiaries, net of cash held	△ 143	△ 387	△ 243
Other, net	7,480	△ 101	△ 7,582
<b>Net cash used in investing activities</b>	<b>△ 26,357</b>	<b>△ 149,692</b>	<b>△ 123,334</b>
<b>FINANCING ACTIVITIES:</b>			
Net increase in short-term bank loans	1,552	18,571	17,019
Repayment of long-term borrowings	△ 19,473	△ 19,840	△ 366
Repayment of bonds	-	4,927	4,927
Dividends paid	△ 28,740	△ 34,488	△ 5,748
Dividends paid to minority shareholders	△ 1,467	△ 1,474	△ 6
Other, net	△ 5	△ 330	△ 325
<b>Net cash used in financing activities</b>	<b>△ 48,134</b>	<b>△ 32,634</b>	<b>15,500</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>15,204</b>	<b>5,749</b>	<b>△ 9,455</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>91,054</b>	<b>259,380</b>	<b>168,325</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>829,087</b>	<b>920,141</b>	<b>91,054</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>920,141</b>	<b>1,179,522</b>	<b>259,380</b>

## **BASIS OF CONSOLIDATED FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **CHANGE IN ACCOUNTING POLICY**

(Accounting Standards for Bonuses to Directors)

For the fiscal year that ended March 31, 2007, JT applied “Accounting Standards for Bonuses to Directors” (Accounting Standards Board of Japan (ASBJ) Statement No. 4, November 29, 2005). This application has no material impact on operating income, recurring profit, and income before income taxes and minority interests.

(Accounting Policies regarding Disclosure of Net Assets of Balance Sheets)

For the fiscal year that ended March 31, 2007, JT applied “Accounting Standards for Presentation of Net Assets in the Balance Sheets” (ASBJ Statement No.5, December 9, 2005) and “Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheets” (ASBJ Guidance No.8, December 9, 2005). The amount corresponding to total shareholders’ equity as previously reported would be 1,945,673 million yen. Net assets in the Balance Sheets for the fiscal year are presented according to the revised disclosure regulations of the consolidated financial statements.

(Accounting Policies regarding Retirement Benefits of Consolidated Overseas Subsidiaries)

As for JT’s consolidated overseas subsidiaries, if the liability for retirement benefits already recognized fell below the unfunded accumulated benefit obligation, an additional minimum liability was conventionally recognized. However, from the fiscal year that ended March 31, 2007, according to FASB Statement 158 “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132 (R),” the accounting policies were changed to state the difference of retirement benefits obligation and fair value of plan assets on consolidated balance sheets as assets/liabilities, and to state unrecognized net actuarial loss and prior service cost, net of applicable taxes, on a part of valuation and translation adjustments of net assets as pension liability adjustment of consolidated overseas subsidiaries. The change has no impact on profits for the consolidated fiscal year that ended March 31, 2007.

Except for the changes in accounting policies above, no significant change has been made since the latest Securities Report (as of June 23, 2006).

## SEGMENT INFORMATION

### 1. OPERATIONS BY INDUSTRY SEGMENT

(For the year ended March 31, 2006)

Millions of yen

	Domestic Tobacco	International Tobacco	Pharmaceuticals	Foods	Others	Total	Elimination/Corporate	Consolidated
1. Sales and operating income (loss)								
Sales								
(1) Sales to customers	3,405,281	881,187	49,256	278,378	23,552	4,637,657	-	4,637,657
(2) Intersegment sales	41,553	36,913	-	122	25,212	103,803	(103,803)	-
Total	3,446,835	918,101	49,256	278,501	48,765	4,741,460	(103,803)	4,637,657
Operating expenses	3,226,740	847,071	54,313	272,175	40,091	4,440,392	(109,682)	4,330,710
Operating income (loss)	220,095	71,030	△ 5,057	6,325	8,673	301,067	5,879	306,946
2. Assets, depreciation and amortization, and capital expenditure								
Assets	1,131,750	994,834	117,902	141,476	194,400	2,580,365	457,013	3,037,378
Depreciation and amortization	84,570	23,061	3,253	5,041	13,466	129,394	(4,539)	124,854
Impairment loss	991	183	-	69	-	1,244	10,194	11,438
Capital expenditure	75,027	24,995	2,107	4,576	19,318	126,024	(27,096)	98,927

(For the year ended March 31, 2007)

Millions of yen

	Domestic Tobacco	International Tobacco	Pharmaceuticals	Foods	Others	Total	Elimination/Corporate	Consolidated
1. Sales and operating income (loss)								
Sales								
(1) Sales to customers	3,416,273	999,658	45,452	286,554	21,448	4,769,387	-	4,769,387
(2) Intersegment sales	45,005	26,354	-	109	25,876	97,346	(97,346)	-
Total	3,461,278	1,026,013	45,452	286,663	47,325	4,866,733	(97,346)	4,769,387
Operating expenses	3,215,891	944,928	56,659	279,958	37,993	4,535,430	(98,034)	4,437,396
Operating income (loss)	245,387	81,085	△ 11,206	6,704	9,331	331,302	688	331,991
2. Assets, depreciation and amortization, and capital expenditure								
Assets	1,180,395	1,275,044	106,164	158,817	249,603	2,970,026	394,636	3,364,663
Depreciation and amortization	79,964	31,583	3,009	3,893	12,254	130,705	(600)	130,105
Impairment loss	709	112	-	44	-	865	1,846	2,712
Capital expenditure	55,242	32,017	3,045	4,866	8,054	103,226	(1,079)	102,147

#### NOTE:

- Operations by industry segment are categorized based on types of products, characteristics and markets
- Main products or services under each category are as follows:
  - Domestic Tobacco Tobacco products\*  
\*These include tobacco products sold at duty-free shops in Japan, as well as at markets in China, Hong Kong and Macao, which are covered by the China Division
  - International Tobacco Tobacco products
  - Pharmaceuticals Prescription drugs
  - Foods Beverages and processed foods
  - Others Rent of real estate, leasing, engineering and others
- Unallocated assets included in Elimination/Corporate consist mainly of surplus funds of the Company such as cash, bank and time deposits as well as marketable securities, long-term investments (a portion of investment securities), assets used for fundamental research and unused land.  
The amounts of these assets as of March 31, 2006 and 2007 are 583,491 million yen and 584,863 million yen, respectively.
- Amortization of goodwill by segment, which was included in selling, general and administrative expenses was as follows:

Millions of yen

	Domestic Tobacco	International Tobacco	Pharmaceuticals	Foods	Others	Consolidated
For the year ended March 31, 2006	1,088	-	-	501	-	1,590
For the year ended March 31, 2007	1,117	-	-	1,419	-	2,537

- The domestic tobacco segment includes the sales by TS Network Co., Ltd., JT's subsidiary. TS Network Co., Ltd. distributes the tobacco products and conducts wholesale etc. of imported tobacco products.  
Net sales of imported tobacco products via TS Network Co., Ltd. for the year March 31, 2006 and 2007 were 1,160,744 million yen and 1,216,248 million yen, respectively
- With respect to the international tobacco business, the result for the period from January 1, 2006 to December 31, 2006 is reported as the result for the year ended March 31, 2007. International consolidated subsidiaries, with the core operation by JT International S.A., set the closing date at December 31 for the accounting period

## 2. OPERATIONS BY GEOGRAPHIC SEGMENT

(For the year ended March 31, 2006)

Millions of yen

	Japan	Western Europe	Others	Total	Elimination/ Corporate	Consolidated
1. Sales and operating income (loss)						
Sales						
(1) Sales to customers	3,709,964	338,606	589,086	4,637,657	-	4,637,657
(2) Intersegment sales	42,368	153,513	18,943	214,825	(214,825)	-
Total	3,752,332	492,119	608,029	4,852,482	(214,825)	4,637,657
Operating expenses	3,524,195	492,966	535,164	4,552,326	(221,616)	4,330,710
Operating income (loss)	228,137	△ 846	72,865	300,155	6,790	306,946
2. Assets	1,446,957	760,455	276,327	2,483,740	553,638	3,037,378

(For the year ended March 31, 2007)

Millions of yen

	Japan	Western Europe	Others	Total	Elimination/ Corporate	Consolidated
1. Sales and operating income (loss)						
Sales						
(1) Sales to customers	3,718,450	353,830	697,106	4,769,387	-	4,769,387
(2) Intersegment sales	47,350	156,414	23,330	227,095	(227,095)	-
Total	3,765,800	510,245	720,436	4,996,482	(227,095)	4,769,387
Operating expenses	3,517,318	529,055	618,885	4,665,258	(227,862)	4,437,396
Operating income (loss)	248,482	△ 18,810	101,551	331,223	767	331,991
2. Assets	1,487,678	1,023,182	304,630	2,815,491	549,171	3,364,663

### NOTE:

- Operations by geographic area are categorized based on geographical approximation.
- Main countries and areas included in each category other than Japan
  - Western Europe Switzerland, France, and Germany
  - Others Canada, Russia, and Malaysia
- Unallocated assets included in Elimination / Corporate are the same as those described in Note 3 of 1. OPERATIONS BY INDUSTRY SEGMENT.

## 3. OVERSEAS SALES

(For the year ended March 31, 2006)

Millions of yen

	Total
1) Overseas sales	935,198
2) Consolidated sales	4,637,657
3) Percentage of overseas sales to consolidated sales (%)	20.2

(For the year ended March 31, 2007)

Millions of yen

	Total
1) Overseas sales	1,056,762
2) Consolidated sales	4,769,387
3) Percentage of overseas sales to consolidated sales (%)	22.2

### NOTE:

Overseas sales are sales of the Company and consolidated subsidiaries in countries and areas other than Japan.

## PER SHARE INFORMATION

Year that ended March 31, 2006	Year that ended March 31, 2007
Net assets per share 919,780.33 yen Net income per share 105,084.78 yen	Net assets per share 204,617.68 yen Net income per share 22,001.10 yen
There is no figure disclosed for the diluted net income per share, as no such securities causing dilution exist.	There is no figure disclosed for the diluted net income per share, as no such securities causing dilution exist.  Each share of common stock was split into five shares on April 1, 2006. The shareholders' equity and net income per share are as follows.
	(Year that ended March 31, 2006)
	Net assets per share 183,956.07 yen Net income per share 21,016.96 yen
	There is no figure disclosed for the diluted net income per share, as no such securities causing dilution exist.

## SUBSEQUENT EVENTS

On April 18, 2007, JT acquired the issued shares of Gallaher Group Plc (the “Gallaher”) located in UK, through JTI (UK) MANAGEMENT LTD, a wholly owned subsidiary of JT, by way of a Scheme of Arrangement under the Company Act in UK. The business combination is applied the purchase method, by which JT is the acquiring company and the Gallaher is the acquired company. Accordingly, Gallaher became a wholly owned subsidiary of JT.

1. The followings are the name of the acquired company, business contents, main reasons for business combination, the date of business combination, the legal form of the business combination, and ratio of voting rights acquired.

(1) The name of acquired company: Gallaher Group Plc

(2) Business contents: Manufacturing and selling of tobacco products

(3) Main reasons for business combination

Through the acquisition of the Gallaher, JT could expand its business and enjoy the economy of scale, build well-balanced and competitive brand portfolio in each market and price segmentation, strengthen technology/distribution infrastructures, and synergize business growth expected of the business combination with effective business operations.

(4) Date of business combination: April 18, 2007

(5) Legal form of the business combination: The issued shares were acquired for cash.

(6) Ratio of voting rights acquired: 100%

2. Acquisition costs: Approximately 7.5 billions of sterling pounds

3. Amounts of goodwill and assets/liabilities assumed at the date of business combination: Identification and fair-value measurements of assets/liabilities assumed at the date of business combination are undergoing, therefore, amounts of goodwill and assets/liabilities assumed at the date of business combination are unconfirmed.

4. Others

Summary of balance sheets of the Gallaher as of December 31, 2006, based on the IFRS (International Financial Reporting Standards) is as follows;

(Millions of sterling pounds)

Current assets	1,525
Non-current assets	2,408
Current liabilities	1,457
Non-current liabilities	2,124
Net assets	352

Please note that the amount of assets/liabilities above indicates the business scale of the acquired company as references, and the figures do not indicate the exact amount of assets/liabilities assumed as of the date of business combination.

JTI (UK) MANAGEMENT LTD, a wholly owned subsidiary of JT, concluded and executed the loan agreement for the purpose of fund raising to acquire the issued shares of the Gallaher.

1. Borrowing by JT

- (1) Lender : Mizuho Bank Ltd.
- (2) Borrowing Amount : JPY 450.0 billion
- (3) Repayment : Bullet
- (4) Interest Rate : 0.80% and 0.84%
- (5) Borrowing Date : April 25, 2007
- (6) Term : 1 month and 3 months

2. Borrowing by JTI (UK) MANAGEMENT LTD

- (1) Lender: 18 syndicated banks, Merrill Lynch International and Merrill Lynch Japan Securities Co., Ltd. being Arrangers and The Bank of Tokyo-Mitsubishi UFJ, Ltd. being Agent Bank
- (2) Borrowing Amount : GBP 1.9 billion
- (3) Repayment : Bullet
- (4) Interest Rate : LIBOR + 0.1375%
- (5) Borrowing Date : April 26, 2007
- (6) Term : 2 months

Notes for Lease Transactions, Related Party Transactions, Income Taxes, Securities, Derivatives, Retirement Benefits are omitted considering the significance in the Brief Statement.